



**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2009 and 2008**

**TSX: MXY**



# Auditors' Report

Grant Thornton LLP  
Suite 1600, Grant Thornton  
Place  
333 Seymour Street  
Vancouver, BC  
V6B 0A4  
T (604) 687-2711  
F (604) 685-6569  
www.GrantThornton.ca

## **To the Shareholders of Magma Energy Corp. (the "Company")**

We have audited the consolidated balance sheets of Magma Energy Corp. as at June 30, 2009 and 2008 and the consolidated statements of operations, comprehensive loss, cash flows and changes in shareholders' equity for the year ended June 30, 2009 and the period from inception (January 22, 2008) to June 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Magma Energy Corp. as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the year ended June 30, 2009 and the period from inception (January 22, 2008) to June 30, 2008 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada  
August 25, 2009, except as to Note 15(d)  
which is as of August 31, 2009

"Grant Thornton, LLP"  
Chartered Accountants

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

(expressed in US dollars)

	June 30, 2009	June 30, 2008
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,482,693	\$ 12,708,947
Receivables	334,150	124,066
Prepaid expenses	530,860	9,580
	5,347,703	12,842,593
Plant and equipment (Note 4)	21,326,216	48,905
Geothermal properties (Note 5)	16,026,416	17,472
Deferred share issue costs (Note 15(a))	847,717	-
Other assets (Note 6)	231,477	-
	\$ 43,779,529	\$ 12,908,970
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,600,018	\$ 185,653
Loan payable (Note 7(a))	-	535,348
	2,600,018	721,001
Deferred revenue (Note 8)	1,981,836	-
	4,581,854	721,001
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	45,058,217	12,993,484
Accumulated other comprehensive loss	(739,646)	(144,175)
Deficit	(5,120,896)	(661,340)
	39,197,675	12,187,969
	\$ 43,779,529	\$ 12,908,970

Subsequent events (Note 15)

APPROVED BY THE DIRECTORS

“Ross Beaty”

Director

“Robert Pirooz”

Director

*See accompanying notes to the consolidated financial statements*

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

(expressed in US dollars)

	<b>For the Year Ended June 30, 2009</b>	<b>For the Period from Inception (January 22, 2008) to June 30, 2008</b>
Revenues		
Energy sales	\$ 3,963,167	\$ -
Portfolio energy credit sales	521,963	-
	4,485,130	
Direct cost of energy production	3,003,285	-
Gross profit	1,481,845	-
Expenses		
General and administrative	1,524,452	130,647
Financing costs (Note 7(b))	863,532	-
Property investigations	740,316	485,413
Amortization	662,366	9,136
Professional fees	589,173	31,784
Accretion (Note 8)	390,955	-
Travel	139,001	27,075
Depletion	55,874	-
	4,965,669	684,055
Other income		
Foreign exchange gain (loss)	(13,782)	8,843
Interest and other income	125,608	13,872
Geothermal property costs written-off (Note 5)	(1,087,558)	-
	(975,732)	22,715
Loss for the period	\$ (4,459,556)	\$ (661,340)
<b>Basic and diluted loss per share</b>	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares</b>	<b>145,432,189</b>	<b>47,343,065</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(expressed in US dollars)

Comprehensive loss		
Loss for the period	\$ (4,459,556)	\$ (661,340)
Unrealized foreign exchange translation loss	(595,471)	(144,175)
<b>Comprehensive loss for the period</b>	<b>\$ (5,055,027)</b>	<b>\$ (805,515)</b>

*See accompanying notes to the consolidated financial statements*

**MAGMA ENERGY CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(expressed in US dollars)

	<b>For the Year Ended June 30, 2009</b>	<b>For the Period from Inception (January 22, 2008) to June 30, 2008</b>
Cash provided from (used in):		
Operating activities		
Loss for the period	\$ (4,459,556)	\$ (661,340)
Items not involving cash:		
Amortization	662,366	9,136
Depletion	55,874	-
Deferred revenue (Note 8)	(616,900)	-
Accretion	390,955	-
Geothermal property costs written-off (Note 5)	1,087,558	-
Net changes in non-cash working capital items:		
Receivables	78,182	(125,694)
Prepaid expenses	(520,981)	(9,707)
Accounts payable and accrued liabilities	2,004,008	188,088
	(1,318,494)	(599,517)
Financing activities		
Loan payable	10,362,692	542,370
Repayment of loan payable	(10,873,878)	-
Deferred share issue costs	(844,668)	-
Shares issued for cash, net of issue costs	32,064,733	12,993,484
	30,708,879	13,535,854
Investing activities		
Payment of purchase price for acquisition of Soda Lake business (Note 3)	(17,000,000)	-
Payment of transaction costs for acquisition of Soda Lake business (Note 3)	(556,726)	-
Expenditures on plant and equipment	(5,050,340)	(58,683)
Expenditures on geothermal properties	(15,396,112)	(17,701)
Purchase of other assets	(224,962)	-
	(38,228,140)	(76,384)
Effect of foreign exchange on cash	611,501	(151,006)
Increase (decrease) in cash and cash equivalents	(8,226,254)	12,708,947
Cash and cash equivalents, beginning of period	12,708,947	-
Cash and cash equivalents, end of period	\$ 4,482,693	\$ 12,708,947
Supplemental information relating to cash flows:		
There were no non-cash financing and investing activities during the fiscal periods ended June 30, 2009 and 2008.		
Other cash flow information:		
Interest paid	\$ 330,648	\$ -

*See accompanying notes to the consolidated financial statements*

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

(expressed in US dollars)

	Common Shares		Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
	Number	Amount			
Common shares issued on incorporation	1	\$ 1	\$ -	\$ -	1
Common shares issued, net of issue costs (Note 9(c))	132,146,667	12,993,483	-	-	12,993,483
Foreign exchange translation	-	-	(144,175)	-	(144,175)
Loss for the period	-	-	-	(661,340)	(661,340)
Balance, June 30, 2008	132,146,668	12,993,484	(144,175)	(661,340)	12,187,969
Common shares issued, net of issue costs (Note 9(c))	31,145,000	32,064,733	-	-	32,064,733
Foreign exchange translation	-	-	(595,471)	-	(595,471)
Loss for the year	-	-	-	(4,459,556)	(4,459,556)
Balance, June 30, 2009	163,291,668	\$ 45,058,217	\$ (739,646)	\$ (5,120,896)	\$ 39,197,675

*See accompanying notes to the consolidated financial statements*

# MAGMA ENERGY CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(expressed in US dollars)

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### 1. NATURE 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 June 30, 2009 the Company owns one operating plant, the Soda Lake Plant, located in Nevada, USA, and exploration properties in North, South and Central America as disclosed in Note 5.

The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity or debt financing or the attainment of profitable operations to meet the Company's liabilities as they become payable. These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue 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

#### (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

June 30, 2009

(expressed in US dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, valuation of future income tax assets and valuation of geothermal properties and asset retirement obligations.

**(c) Cash and cash equivalents**

Cash includes all cash on hand and term deposits with original maturities of three months or less when acquired or that are redeemable prior to maturity on demand, without penalty. Term deposits are classified as held for trading.

**(d) Plant and equipment**

Plant and equipment are stated at cost, net of accumulated amortization. Major additions to the plant, including betterments, are capitalized and repairs and maintenance costs are expensed. Amortization on the plant is provided on a straight-line basis over 20 years.

Amortization is provided on the declining balance basis on automotive equipment at 30% per annum, office equipment at 20% per annum and on computer equipment at 55% per annum.

**(e) Geothermal properties**

The Company capitalizes all costs related to investments in geothermal property interests on a property by property basis. Such costs include acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of the resources has been determined and geothermal property interests are either developed, the property sold or the rights are allowed to lapse.

Capitalized costs are reviewed, on a property by property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount estimated by quantifiable evidence of an economic resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount less than the deferred costs, the property is written down to its fair value to recognize the impairment.

From time to time the Company may acquire or dispose of a geothermal property interest pursuant to the terms of an option agreement. Where the options are exercisable entirely at the discretion of the Company or the optionee, the amounts payable or receivable are recorded as property costs or recoveries when the payments are made or received.

Capitalized costs are depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the concessions allowed to lapse.

Depletion on geothermal properties in production is provided on a straight-line basis over 40 years.

Although the Company has taken steps to verify the title to geothermal properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

June 30, 2009

(expressed in US dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Environmental protection practices and asset retirement obligations**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest.

The Company conducts its geothermal exploration and development activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow.

The Company's obligation to restore the site underlying its geothermal power plant at Soda Lake (Note 3) is contingent upon the cessation of operations at that location. The Company intends to continue operating this site indefinitely and has the unilateral right to renew all underlying land leases necessary to allow it to do so.

As at June 30, 2009 and 2008, the Company has not recognized any amounts in connection with asset retirement obligations.

**(g) Financial instruments**

CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", requires that all financial assets (except those classified as loans and receivables or held-to-maturity), and derivative financial instruments must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at amortized cost. Investments classified as held-for-trading are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses included in earnings for the period. Investments classified as available-for-sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

The Company has classified cash and cash equivalents as held-for-trading, receivables as loans and receivables, and accounts payable and accrued liabilities and loan payable as other financial liabilities.

CICA Handbook Sections 3862 and 3863 revise and enhance disclosure requirements, and carry forward unchanged presentation requirements (under CICA 3861), for financial instruments. These sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (Note 11).

**June 30, 2009**

(expressed in US dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Comprehensive income**

CICA Handbook Section 1530, "Comprehensive Income", establishes standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, in a statement of comprehensive income. Comprehensive income is the change in the Company's net assets arising from transactions, events and circumstances not related to the Company's shareholders and includes items that would not normally be included in net earnings or losses such as unrealized gains or losses on available-for-sale investments. CICA 3251, "Equity", establishes standards for the presentation of equity and changes in equity as a result of the new requirements in CICA 1530.

**(i) Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses carried forward to future years.

Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent it is considered not likely that future income tax assets will be realized.

**(j) Capital disclosures**

CICA Handbook Section 1535, "Capital Disclosures" establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements and (iv) if it has not complied, the consequences of such non-compliance (Note 12).

**(k) Capital stock issued for other than cash**

Capital stock issued for other than cash is valued at the price at which the stock traded on the principal stock exchange on which the stock trades at the time the agreement to issue the stock is made or, if such issuance is at the option of the Company, at the time the Company determines to issue such stock.

**(l) Stock-based compensation**

The Company follows the recommendations of CICA Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*". This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. This standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method. As of June 30, 2009 and 2008 no such awards had been made.

**June 30, 2009**

(expressed in US dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Foreign currency translation**

The functional currency of the Company and each of its subsidiaries is the Canadian dollar ("C\$"). As the operations of foreign subsidiaries are regarded as being integrated with the parent company, the temporal method of translation has been applied. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect on the balance sheet date while non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the time of each transaction. Gains and losses from these translations are included in the results from operations.

The reporting currency selected for the presentation of these consolidated financial statements is the U.S. dollar. For presentation purposes, consolidated assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Consolidated revenues and expenses are translated into U.S. dollars at rates in effect at the time of the underlying transactions. Gains and losses arising from translation of the consolidated financial statements into U.S. dollars are reported as a separate component of shareholders' equity within accumulated other comprehensive loss.

**(n) Amounts per share**

Amounts per share are calculated using the weighted average number of shares outstanding. The Company uses the treasury stock method to calculate fully diluted earnings per share.

**(o) Revenue recognition**

Energy sales are recognized at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system.

Sales of portfolio energy credits are recognized in revenue when pervasive evidence of an arrangement for sale exists, the sale or price is fixed or determinable, title of ownership and risks of reward and loss have passed to the purchaser and collectability is reasonably assured.

**(p) Goodwill and intangible assets**

Under the purchase method, the cost of business acquisitions is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase cost over the net fair value of identified tangible and intangible assets and liabilities represents goodwill that is allocated to the business unit acquired.

In January 2008, the CICA issued Handbook Section 3064, "*Goodwill and Intangible Assets*", which replaces Section 3062, "*Goodwill and Other Intangible Assets*". The new standard provides guidance on the recognition of acquired or internally developed intangible assets in accordance with the definition of an asset and clarifies the application of the matching principle to revenues and expenses. The new standard also requires certain pre-production and start-up costs to be expensed as incurred. This standard becomes effective for interim and annual financial statements from January 1, 2009 with early adoption recommended. The Company early adopted this new standard on July 1, 2008.

**MAGMA ENERGY CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2009

(expressed in US dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) Future accounting changes**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, the AcSB announced that publicly accountable enterprises must apply IFRS to interim and annual financial statements for fiscal periods beginning on or after January 1, 2011. As these requirements are required to be applied retrospectively, adoption of IFRS for the Company’s year ending June 30, 2012 will require the restatement for comparative purposes of amounts reported by the Company for interim periods ending September 30, 2010 and later and for its year ending June 30, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**3. ACQUISITION**

On October 3, 2008 the Company acquired 100% of the ownership interests and outstanding shares in three entities that collectively own the Soda Lake geothermal power plant located near Fallon, Nevada. The three entities, collectively the “Soda Lake entities”, acquired were:

Amor IX LLC  
SLLP  
SLRP

Consideration for the purchase was \$17,556,726, net of cash acquired. 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 consolidated financial statements of the Company include the operating results of the Soda Lake entities commencing on the date of their acquisition.

The allocation of the purchase price is summarized below:

Accounts receivable	\$	326,666
Plant and equipment		18,399,974
Resource rights		1,664,400
Other assets		10,451
Current liabilities		(459,765)
Deferred revenue		(2,385,000)
	\$	17,556,726
Consideration paid in cash, net of cash acquired	\$	17,556,726

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

June 30, 2009

(expressed in US dollars)

**4. PLANT AND EQUIPMENT**

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
	<u>\$ 22,033,394</u>	<u>\$ 707,178</u>	<u>\$ 21,326,216</u>

  

June 30, 2008	Cost	Accumulated Amortization	Net Book Value
Automotive	\$ 38,972	\$ 5,846	\$ 33,126
Furniture and equipment	18,951	3,172	15,779
	<u>\$ 57,923</u>	<u>\$ 9,018</u>	<u>\$ 48,905</u>

**MAGMA ENERGY CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2009

(expressed in US dollars)

**5. GEOTHERMAL PROPERTIES**

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

Property	Balance, June 30, 2008	Acquisition Costs	Deferred Exploration Costs	Depletion	Costs Written-off	Balance, June 30, 2009
<b>Geothermal properties in production</b>						
<b>USA</b>						
Soda Lake	\$ -	\$ 1,547,739	\$ 174,873	\$ (58,040)	-	\$ 1,664,572
<b>Geothermal properties under development</b>						
<b>USA</b>						
<b>Nevada</b>						
McCoy	-	6,584,621	133,619	-	-	6,718,240
Desert Queen	914	1,423,971	242,242	-	-	1,667,127
Columbus						
Marsh		750,079	3,259			753,338
Beowawe	-	392,317	10,010	-	-	402,327
Panther						
Canyon	-	159,711	88,553	-	-	248,264
Quartz						
Mountain	-	27,647	3,026	-	-	30,673
Whitehorse	-	816,201	6,822	-	-	823,023
<b>Utah</b>						
Thermo	-	489,812	30,949	-	-	520,761
<b>Oregon</b>						
Glass Buttes	-	100,202	41,785	-	-	141,987
<b>CHILE</b>						
Maule	-	318,464	2,351,555	-	-	2,670,019
Carrán	-	437,044	649,778	-	(1,086,822)	-
<b>PERU</b>						
Huaynaputina	-	12,359	25,228	-	-	37,587
Casiri	-	12,359	25,328	-	-	37,687
Sabancaya	-	12,359	25,506	-	-	37,865
Ccollo	-	12,359	25,505	-	-	37,864
Tiscani	-	12,359	27,109	-	-	39,468
<b>ARGENTINA</b>						
Coranzuli	8,279	-	88,737	-	-	97,016
Tuzgle-						
Tocomar	8,279	-	90,319	-	-	98,598
<b>NICARAGUA</b>						
Ometepe	-	531	205	-	(736)	-
	\$ 17,472	\$ 13,110,134	\$ 4,044,408	\$ (58,040)	\$ (1,087,558)	\$ 16,026,416

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

June 30, 2009

(expressed in US dollars)

**5. GEOTHERMAL PROPERTIES (continued)**

At June 30, 2008, the Company's expenditures on geothermal properties are as follows.

Property	Balance, January 22, 2008	Acquisition Costs	Deferred Exploration Costs	Depletion	Balance, June 30, 2008
<b>Geothermal properties under development</b>					
<b>USA</b>					
<b>Nevada</b>					
Desert Queen	\$ -	\$ 914	\$ -	\$ -	\$ 914
<b>ARGENTINA</b>					
Coranzuli	-	8,279	-	-	8,279
Tuzgle-Tocomar	-	8,279	-	-	8,279
	\$ -	\$ 17,472	\$ -	\$ -	\$ 17,472

The Company owns 100% of its geothermal properties in the USA and Argentina and owns 100% of the mining rights on the properties in Peru. The geothermal properties in Chile were acquired pursuant to the agreement disclosed in Note 5(b).

**(a) USA**

- (i) In August 2008, the Company acquired a 100% interest in twelve geothermal leases located in Nevada in consideration of cash payments in the aggregate of approximately \$10.2 million. The twelve leases comprise six exploration properties as follows:

McCoy	14,692 acres
Desert Queen	3,854 acres
Columbus Marsh	2,560 acres
Beowawe	1,735 acres
Panther Canyon	11,157 acres
Quartz Mountain	2,560 acres

- (ii) In August 2008, the Company also acquired a 100% interest in the Thermo Property located in Utah consisting of one geothermal lease of 1,761 acres. The geothermal lease is subject to a 1.5% overriding royalty to be applied to the gross proceeds derived from the sale of electricity generated from the lease, upon commencement of commercial production.
- (iii) In September 2008, the Company acquired one additional geothermal lease for the Desert Queen property consisting of 657 acres.
- (iv) In December 2008, the Company acquired a 100% interest in the Glass Buttes Property located in Oregon consisting of two geothermal leases of approximately 8,914 acres in total.
- (v) In January 2009, the Company acquired a 100% interest in the Whitehorse Property located in Nevada, consisting of two geothermal leases of 3,853 acres in total. Of the total purchase price, a balance of \$381,651 is payable in February 2010.

**June 30, 2009**

(expressed in US dollars)

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**5. GEOTHERMAL PROPERTIES (continued)**

- (vi) In February 2009, the Company entered into a lease agreement whereby the Company was granted the right to explore, prospect and develop geothermal resources on 3,222 acres of property located within and adjacent to the Desert Queen property. The term of the lease is for five years commencing on January 1, 2009 with annual rental payments ranging from \$20 to \$35 an acre for years two to five. A royalty, of 3% of gross proceeds for the first two years of the agreement, 4% during the third and fourth years and 5% 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 rent and royalty payments, if any, due before the termination date. Should production commence within the five year lease period, the lease will remain in effect as long as production continues.
  
- (vii) In April 2009, the Company entered into a lease agreement whereby the Company was granted the right to explore, prospect and develop geothermal resources on 3,199 acres of property located within and adjacent to the Desert Queen property. The term of the lease is for five years commencing on April 28, 2009 and extendible 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 \$25 per acre commencing upon execution of the lease agreement, \$30 per acre on the first anniversary date and \$35 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 of 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.

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) Maule and Carrán, Chile**

On May 28, 2008 the Company entered into a non-binding Memorandum of Understanding and on September 24, 2008 entered into a formal agreement, to acquire four geothermal exploration concessions from the University of Chile.

Three of the concessions, consisting of 131,400 acres comprising the Carrán Property, are located in the Puyehue area, approximately 760 km south of Santiago. The fourth, consisting of 98,800 acres comprising the Maule Property, is located in the Laguna Del Maule area, approximately 290 km south of Santiago.

**MAGMA ENERGY CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2009

(expressed in US dollars)

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**5. GEOTHERMAL PROPERTIES (continued)**

In order to complete the acquisition of these four concessions, the Company is required to make the following payments:

<u>Amount</u>	<u>Due Date</u>
\$ 600,000	September 25, 2008 (paid)
400,000	Upon an exploitation concession being granted to the Company on any one of the Carrán exploration concessions
<u>\$ 1,000,000</u>	

Under the terms of the formal agreement, the Company is also required to contribute \$200,000 (\$100,000 paid) to the University of Chile over a period of two years to finance projects of mutual interest in the geothermal field.

In July 2009, the Company terminated its right to acquire the Carrán Property and, accordingly, wrote-off \$1,086,822 of costs incurred on the property as at June 30, 2009. With this termination, the remaining \$400,000 payment is no longer owing.

**(c) Peru**

The Company acquired a 100% interest in the mining rights to five exploration concessions located in southern Peru.

**(d) Argentina**

The Company owns a 100% interest in six geothermal concessions located in Jujuy and Salta provinces in Argentina.

**(e) Ometepe, Nicaragua**

On June 17, 2008 the Company entered into a letter agreement with Polaris Geothermal Inc. ("Polaris") to develop a new geothermal power project on the island of Ometepe, Nicaragua, to acquire an existing diesel power electricity generator plant on the island by purchasing a 100% interest in Empresa Generadora de Ometepe SA ("EGOMSA") and to jointly pursue the acquisition of a geothermal concession known as Mombacho, located in Nicaragua. Due to restrictions imposed by the Nicaraguan government on acquiring a concession on Ometepe Island, the agreement was terminated. A total of \$736 of costs incurred on this project were written-off at June 30, 2009.

**6. OTHER ASSETS**

Other assets consist of performance bonds in the aggregate of \$110,372 pledged to various regulatory authorities in the state of Nevada, USA and in Peru on the Soda Lake geothermal leases and the Peruvian claims, respectively, and \$121,105 of costs incurred in connection with the acquisition of an interest in a producing geothermal company located in Iceland (Note 15(d)).

**June 30, 2009**

(expressed in US dollars)

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**7. RELATED PARTY TRANSACTIONS**

- (a) At June 30, 2008 the Company owed C\$545,895 to a director for advances made to the Company to finance its start-up operations. The loan was unsecured and without interest or terms of repayment. The loan was repaid in full in August 2008 with funds advanced to the Company under a credit facility (Note 7(b)).
- (b) 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 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 commencing on November 30, 2008. 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.

On August 25, 2008 the Company received an advance of C\$12,000,000. The funds were used for the acquisition of additional geothermal properties, repayment of the loan from the director (Note 7(a)) and for general working capital purposes.

The requirement to pay interest on a monthly basis was waived by the director. In January 2009, the advance was repaid in full together with interest, standby and drawdown fees totaling \$863,532.

No additional advances have been received under this credit facility.

**8. DEFERRED REVENUE**

The Soda Lake geothermal power plant has a power purchase agreement with NV Energy to sell all electricity produced by the plant under established contract rates for the first 30 years of operations ending in 2021. The power purchase agreement provides for both energy and capacity payments on a 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 (Note 3), 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 agreement, 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 agreement 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**

June 30, 2009

(expressed in US dollars)

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

An unlimited number of common shares without par value.

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

	Number of Shares		Amount
Issued for cash			
Upon incorporation	1	\$	1
Private placements, net of issue costs			
- founders' shares (Note 9(c)(i))	110,500,000		107,843
- seed shares (Note 9(c)(ii))	21,646,667		12,885,640
Balance, June 30, 2008	132,146,668		12,993,484
Issued for cash, net of issue costs			
Private placements (Notes 9 (c)(iii) and 9(c)(iv))	31,145,000		32,064,733
Balance, June 30, 2009	163,291,668	\$	45,058,217

**(c) Private placements**

- (i) In April 2008, the Company issued 110,500,000 common shares at a price of C\$0.001 per share for proceeds of \$107,843.

The holders of the founders' shares are subject to certain restrictions on the sale of these shares pursuant to the terms of lock-up and other agreements.

- (ii) In June 2008, the Company issued 21,646,667 common shares at C\$0.60 per share for proceeds of \$12,885,640, net of issue costs of \$4,733.

- (iii) In January 2009, the Company completed a private placement and issued 23,145,000 common shares at a price of C\$1.25 per share for proceeds of \$23,144,839, net of issue costs of \$114,918.

- (iv) In September 2008, the Company issued 5,000,000 special warrants for proceeds of \$8,919,894, net of issue costs of \$475,190. Each special warrant entitled the holder to acquire one common share for each special warrant held, subject to adjustment for an initial public offering, or other financing completed prior to the closing of an initial public offering, completed at prices greater to or less than C\$2.00 per share. In January 2009, the Company completed a private placement at a price of C\$1.25 per share (note 9(c)(iii)) and accordingly, in February 2009, the Company issued 8,000,000 common shares in exchange for the 5,000,000 special warrants.

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

June 30, 2009

(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 (Note 3) 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 nine months ended June 30, 2009, one customer accounted for 100% of revenues.

	June 30, 2009			June 30, 2008
	Geothermal Exploration	Production and Sales	Total	Geothermal Exploration
<b>CANADA</b>				
Current assets	\$ 4,356,473	\$ -	\$ 4,356,473	\$ 12,842,593
Property, plant and equipment	102,527	-	102,527	48,905
Deferred share issue costs	847,717	-	847,717	-
Other assets	121,105	-	121,105	-
	5,427,822	-	5,427,822	12,891,498
<b>USA</b>				
Current assets	364,456	481,879	846,335	-
Plant and equipment	144,956	21,051,565	21,196,521	-
Geothermal properties	11,305,740	1,664,572	12,970,312	914
Other assets	50,000	10,451	60,451	-
	11,865,152	23,208,467	35,073,619	914
<b>CHILE</b>				
Current assets	119,853	-	119,853	-
Plant and equipment	27,168	-	27,168	-
Geothermal properties	2,670,019	-	2,670,019	-
	2,817,040	-	2,817,040	-
<b>PERU</b>				
Current assets	17,279	-	17,279	-
Geothermal properties	190,471	-	190,471	-
Other assets	49,921	-	49,921	-
	257,671	-	257,671	-
<b>ARGENTINA</b>				
Current assets	7,763	-	7,763	-
Geothermal properties	195,614	-	195,614	16,558
	203,377	-	203,377	16,558
Total assets	\$ 20,571,062	\$ 23,208,467	\$ 43,779,529	\$ 12,908,970
Capital expenditures	\$ 14,691,223	\$ 22,716,137	\$ 37,407,360	\$ 66,377

**MAGMA ENERGY CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2009

(expressed in US dollars)

**10. SEGMENTED DISCLOSURE (continued)**

<b>For the Year Ended June 30, 2009</b>	Geothermal Exploration	Production and Sales	Total
Revenue			
Energy sales	\$ -	\$ 3,963,167	\$ 3,963,167
Portfolio energy credit sales	-	521,963	521,963
		4,485,130	4,485,130
Direct cost of energy production	-	(3,003,285)	(3,003,285)
Gross profit	-	1,481,845	1,481,845
Expenses			
General and administrative	(1,524,452)	-	(1,524,452)
Financing costs	(863,532)	-	(863,532)
Property investigations	(740,316)	-	(740,316)
Amortization	(55,167)	(607,199)	(662,366)
Professional fees	(589,173)	-	(589,173)
Accretion	-	(390,955)	(390,955)
Travel	(139,001)	-	(139,001)
Depletion	-	(55,874)	(55,874)
Foreign exchange loss	(13,782)	-	(13,782)
Interest and other income	123,260	2,348	125,608
Geothermal property costs written-off	(1,087,558)	-	(1,087,558)
Income (loss) for the period	\$ (4,889,721)	\$ 430,165	\$ (4,459,556)

Of the portfolio energy credits sold, approximately 92% were generated by the Soda Lake entities in periods prior to their acquisition by the Company.

<b>For the Period from Inception (January 22, 2008) to June 30, 2008</b>	Geothermal Exploration	Production and Sales	Total
Expenses			
Property investigations	\$ (485,413)	\$ -	\$ (485,413)
General and administrative	(130,647)	-	(130,647)
Professional fees	(31,784)	-	(31,784)
Travel	(27,075)	-	(27,075)
Amortization	(9,136)	-	(9,136)
Foreign exchange gain	8,843	-	8,843
Interest and other income	13,872	-	13,872
Loss for the period	\$ (661,340)	\$ -	\$ (661,340)

**June 30, 2009**

(expressed in US dollars)

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**11. MANAGEMENT OF FINANCIAL RISKS**

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

**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 June 30, 2009 and 2008, 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 \$4,482,693 at June 30, 2009 and \$12,708,947 at June 30, 2008 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 June 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 \$43,000 and \$113,000, respectively, in the Company's interest income.

June 30, 2009

(expressed in US dollars)

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**11. MANAGEMENT OF FINANCIAL RISKS (continued)**

**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 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 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	\$	83,427
Fiscal 2011		40,195
Fiscal 2012		34,389
Fiscal 2013		20,060
<hr/>		
Total lease commitments	\$	178,071

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

June 30, 2009

(expressed in US dollars)

**13. COMMITMENTS AND CONTINGENCIES (continued)**

(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 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. Submissions have been completed by both parties and a decision is pending. Management is unable to conclude that an unfavorable outcome in this matter is either probable or remote, and management 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.

(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. SLRP has filed an answer to the Complaint. Management of SLRP is unable to conclude that an unfavorable outcome in this matter is either probable or remote, and management 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.

**14. INCOME TAXES**

At June 30, 2009 and 2008, the Company has losses of approximately \$2,865,000 and \$467,000 respectively, expiring in various years to 2029 and available to offset future taxable income in Canada, as well as losses and certain expenditures available to offset future taxable income in the U.S.A. and Chile.

The tax losses expire as follows:

	Canada	U.S.A.	Chile
2028	\$ 467,000	\$ -	\$ -
2029	2,865,000	1,363,000	-
Without expiry	-	-	1,010,000
	<u>\$ 3,332,000</u>	<u>\$ 1,363,000</u>	<u>\$ 1,010,000</u>

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

June 30, 2009

(expressed in US dollars)

**14. INCOME TAXES (continued)**

Reconciliation of income tax computed at statutory rates to the reported income tax provision is as follows:

	June 30, 2009	June 30, 2008
	30.5%	31.5%
Income tax benefit computed at Canadian statutory rates	\$ 1,343,000	\$ 206,000
Foreign tax rates different from statutory rate	(152,000)	3,000
Other differences	(164,000)	(29,000)
Change in valuation allowance	(1,027,000)	(180,000)
	\$ -	\$ -

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. Significant components of the Company's future tax assets and liabilities, after applying substantively enacted corporate income tax rates, are as follows:

	June 30, 2009	June 30, 2008
Future income tax assets		
Temporary differences in plant and equipment	\$ 9,000	\$ 2,000
Temporary differences in deferred revenue	679,000	-
Temporary differences in share issue costs	117,000	-
Net tax losses carried forward	1,573,000	177,000
	2,378,000	179,000
Valuation allowance for future income tax assets	(1,353,000)	(179,000)
Future income tax assets, net	1,025,000	-
Future income tax liabilities		
Temporary differences in geothermal properties	(1,025,000)	-
Future income tax liabilities, net	\$ -	\$ -

**15. SUBSEQUENT EVENTS**

- (a) 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 for proceeds of approximately \$79,600,000, net of commissions and other estimated costs of approximately \$6,200,000 relating to the issue. 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 and received additional proceeds of approximately \$8,800,000, net of commissions and other costs of approximately \$564,000.

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

**June 30, 2009**

(expressed in US dollars)

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**15. SUBSEQUENT EVENTS (continued)**

- (b) On July 7, 2009, concurrent with the closing of the public financing (Note 15(a)), the Company granted stock options to directors, employees and consultants for the acquisition of up to 2,140,000 common shares exercisable at a price of C\$1.50 per share on or before July 7, 2014. The options vest over a three year period commencing with one-third upon the date of grant.

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 1.23%, expected dividend yield of nil, volatility factor of 52%, expected forfeiture rate of 5% and expected life of 2.5 years. Under these assumptions, the fair value of these stock options granted was approximately \$900,000.

- (c) In July 2009, the Company acquired an additional seventeen geothermal leases located in Nevada in consideration of cash payments in the aggregate of \$2,559,227.

- (d) 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 million) payable upon closing of the transaction and a further 2.16% interest in consideration of 625 million ISK (approximately \$5 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 \$98.3 million), of which 3.7 billion ISK (approximately \$29.5 million) will be paid in cash and the remainder of 8.7 billion ISK (approximately \$68.8 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.