



Interim Consolidated Financial Statements
March 31, 2011 and 2010
(expressed in US dollars)

Magma Energy Corp.

Interim Consolidated Balance Sheets

(expressed in thousands of United States dollars)

	Note	March 31, 2011 (Unaudited)	June 30, 2010 (audited)
Assets			
Current assets			
Cash and cash equivalents		\$ 19,843	\$ 25,343
Restricted cash	6	28,300	-
Accounts receivable		11,688	728
Convertible debenture	7	2,063	-
Embedded derivatives	14	4,334	-
Inventories		3,110	-
Prepaid expenses		353	483
		<u>69,691</u>	<u>26,554</u>
Plant and equipment	8	472,595	35,371
Geothermal properties	9	48,062	32,128
Other intangible assets	4	32,711	-
Investments subject to significant influence	19	16,569	103,828
Bonds receivable	13	4,445	-
Embedded derivatives	14	28,155	-
Long-term receivable		4,113	-
Future income tax	17	235	-
Other assets		105	822
		<u>\$ 676,681</u>	<u>\$ 198,703</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 17,105	\$ 5,105
Current portion of long-term debts and capital lease obligations	10	46,408	23
Currency and interest rate swaps		2,374	-
		<u>65,887</u>	<u>5,128</u>
Long-term debts and capital lease obligations	10	293,233	49,396
Currency and interest rate swaps		6,761	-
Below market contracts - HS Orka	4	37,315	-
Future income tax	17	31,172	-
Deferred revenue		2,474	2,109
		<u>436,842</u>	<u>56,633</u>
Shareholders' Equity			
Share capital	11	223,008	153,403
Contributed surplus		1,324	974
Accumulated other comprehensive income		27,400	10,110
Deficit		(15,328)	(22,417)
Non-controlling interest		3,435	-
		<u>239,839</u>	<u>142,070</u>
		<u>\$ 676,681</u>	<u>\$ 198,703</u>

Commitments (16)

Subsequent Events (20)

Approved on behalf of the Board of Directors

“Ross Beaty”
Ross Beaty
(Director)

“Donald Shumka”
Donald Shumka
(Director)

The accompanying notes are an integral part of the consolidated financial statements

Magma Energy Corp.

Interim Consolidated Statements of Operations (Unaudited)

(expressed in thousands of United States dollars, except per share amounts)

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
Revenues				
Energy sales	\$ 18,748	\$ 1,295	\$ 45,543	\$ 3,709
Production and cost of sales	9,986	878	24,919	2,538
Depreciation	3,575	269	9,142	743
Gross profit	5,187	148	11,482	428
Expenses				
General and administrative	2,719	1,028	6,324	2,923
Professional fees	632	467	1,950	851
Amortization	190	52	394	132
Property investigations	327	307	1,019	1,106
Investor relations	111	181	469	441
Depletion and accretion	125	76	321	309
	4,104	2,111	10,477	5,762
Other income (expenses)				
Equity income	-	3,602	7,753	1,676
Change in fair value of long-term debt	(7,633)	(2,652)	(15,447)	(1,565)
Change in fair value of derivatives	22,950	-	32,639	-
Interest and other financing costs	(3,142)	(249)	(9,399)	(299)
Interest and other income	400	49	1,418	303
Foreign exchange gain (loss)	90	1,157	6,279	(1,939)
Loss on remeasurement of equity interest in HS Orka	-	-	(4,918)	-
Gain on purchase	-	-	3,999	-
Geothermal property costs written-off	-	-	(170)	(527)
Other expense	-	(500)	-	(500)
	12,665	1,407	22,154	(2,851)
Income (loss) before income taxes	13,748	(556)	23,159	(8,185)
Future income taxes recovery (expense)	(4,725)	698	(9,919)	412
Income (loss) for the period	\$ 9,023	\$ 142	\$ 13,240	\$ (7,773)
Attributable to:				
Company	\$ 8,754	\$ 142	\$ 13,387	\$ (7,773)
Non-controlling interests	269	-	(147)	-
	\$ 9,023	\$ 142	\$ 13,240	\$ (7,773)
Weighted average shares outstanding (thousands)				
Basic	313,966	248,555	294,452	241,887
Diluted	313,966	248,555	305,770	241,887
Earnings (loss) per common share				
Basic	0.03	0.00	0.05	(0.03)
Diluted	0.03	0.00	0.04	(0.03)

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Magma Energy Corp.

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in thousands of United States dollars)

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
Operating activities				
Income (loss) for the period	\$ 9,023	\$ 142	\$ 13,240	\$ (7,773)
Items not affecting cash				
Amortization, depletion and accretion	3,890	397	9,857	1,184
Amortization of below market contracts - HS Orka	(894)	-	(1,815)	-
Equity income	-	(3,602)	(7,753)	(1,676)
Non-cash interest and other financing costs	1,313	-	1,313	-
Change in fair value of long-term debt	7,633	2,652	15,447	1,565
Change in fair value of derivatives	(22,950)	-	(32,639)	-
Unrealized foreign exchange	(90)	(1,695)	4,426	(2,077)
Future income taxes (recovery) expense	4,725	(698)	9,919	(412)
Gain on bargain purchase	-	-	(3,999)	-
Loss on remeasurement of equity interest in HS Orka	-	-	4,918	-
Other	63	164	463	843
Increase (decrease) in non-cash working capital items	(784)	662	1,059	313
Cash generated by (used in) operating activities	1,929	(1,978)	14,436	(8,033)
Financing activities				
Proceeds on sale of bonds	5,456	-	10,793	-
New borrowings	2,029	82	47,746	82
Restricted cash	-	-	(28,300)	-
Repayment of loans payable	(4,630)	-	(11,846)	-
Shares issued for cash, net of issue costs	-	49	41,255	109,092
Cash generated by financing activities	2,855	131	59,648	109,174
Investing activities				
Cash used to purchase HS Orka hf, net of cash acquired	-	(7,218)	(56,341)	(56,300)
Purchase of plant and equipment	(1,584)	(2,244)	(11,417)	(9,726)
Expenditures on geothermal properties	(1,591)	(2,811)	(12,424)	(9,283)
Convertible debenture	(2,029)	-	(2,029)	-
Other	-	(772)	384	(741)
Cash used in investing activities	(5,204)	(13,045)	(81,827)	(76,050)
Effect of foreign exchange on cash	(6)	1,728	2,243	10,943
Increase (decrease) in cash and cash equivalents	(426)	(13,164)	(5,500)	36,034
Cash and cash equivalents - beginning of period	20,269	53,681	25,343	4,483
Cash and cash equivalents - end of period	\$ 19,843	\$ 40,517	\$ 19,843	\$ 40,517
Other cash flow information:				
Interest received	\$ 202	\$ -	\$ 505	\$ -
Interest paid	\$ 1,798	\$ -	\$ 4,436	\$ -

The accompanying notes are an integral part of the consolidated financial statements

Magma Energy Corp.

Interim Consolidated Statements of Comprehensive Income (Unaudited)

(expressed in thousands of United States dollars)

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
Income (loss) for the period	\$ 9,023	\$ 142	\$ 13,240	\$ (7,773)
Other comprehensive income				
Translation adjustment on foreign operations	1,590	2,806	17,290	16,105
Comprehensive income for the period	\$ 10,613	\$ 2,948	\$ 30,530	\$ 8,332

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Magma Energy Corp.

Interim Consolidated Statements of Shareholders' Equity (Unaudited)

(expressed in thousands of United States dollars, except number of shares)

	Common Shares		Contributed Surplus	Accumulated other comprehensive income (loss)		Non - controlling Interest	Total shareholders' equity
	Number of shares	Amount		Deficit			
Balance, June 30, 2009	163,291,668	\$ 45,058	\$ -	\$ (739)	\$ (5,121)	\$ -	\$ 39,198
Issued for cash:							
Common shares issued	85,286,306	115,758	-	-	-	-	115,758
Share issue costs	-	(7,510)	-	-	-	-	(7,510)
Stock-based compensation	-	-	770	-	-	-	770
Value of options exercised	-	14	(14)	-	-	-	-
Foreign exchange translation	-	-	-	16,105	-	-	16,105
Loss for the period	-	-	-	-	(7,773)	-	(7,773)
Balance, March 31, 2010	248,577,974	153,320	756	15,366	(12,894)	-	156,548
Value assigned to options granted	-	-	218	-	-	-	218
Stock-based compensation	60,000	83	-	-	-	-	83
Share of capital transaction of HS Orka	-	-	-	-	(850)	-	(850)
Foreign exchange translation	-	-	-	(5,256)	-	-	(5,256)
Loss for the period	-	-	-	-	(8,673)	-	(8,673)
Balance, June 30, 2010	248,637,974	153,403	974	10,110	(22,417)	-	142,070
Issued for cash:							
Equity offering (note 11)	40,334,628	43,597	-	-	-	-	43,597
Share issue costs (note 11)	-	(2,395)	-	-	-	-	(2,395)
Subscriptions receipts converted to shares (note 4)	24,808,569	28,148	-	-	-	-	28,148
Value assigned to options granted	-	-	350	-	-	-	350
Stock-based compensation	185,000	255	-	-	-	-	255
Foreign exchange translation	-	-	-	17,290	-	-	17,290
Income (loss) for the period	-	-	-	-	13,387	(147)	13,240
Acquisition of non-controlling interest (note 5)	-	-	-	-	(8,286)	-	(8,286)
Share of capital transaction of HS Orka	-	-	-	-	1,988	-	1,988
Non-controlling interest	-	-	-	-	-	3,582	3,582
Balance, March 31, 2011	313,966,171	\$ 223,008	\$ 1,324	\$ 27,400	\$ (15,328)	\$ 3,435	\$ 239,839

The accompanying notes are an integral part of the consolidated financial statements

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

1 NATURE OF OPERATIONS

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

Magma Energy Corp. and its subsidiary companies (collectively “the Company”) are engaged in the operation, development, exploration and acquisition of geothermal energy projects. The Company owns one operating plant, the Soda Lake Plant, in Nevada, USA, two operating plants in Iceland and exploration properties in North and South America as disclosed in Note 9.

Continuance of the Company’s operations is dependent upon continuing to achieve profitable operations. 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 properties represent net costs to date, less amounts amortized and/or written-off and does not represent current or future values.

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) Basis of presentation

These consolidated financial statements are presented in United States dollars, 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, 2010, with the exception of those, 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, 2010.

The consolidated financial statements include the accounts of the Company and the following directly or indirectly wholly-owned subsidiaries:

- Magma Energy (U.S.) Corp
- HS Orka hf (“HS Orka”)
- Magma Energy Chile Limitada
- Magma Energia Geotermica S.A.
- Isla Verde Energia S.A.
- Magma Energy Sweden A.B.
- Magma Energy Iceland EHF.
- Magma Energy Italia S.R.L.
- Soda Lake Holdings I, LLC
- Soda Lake Holdings II, LLC
- Amor IX LLC

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

Soda Lake Limited Partnership (“SLLP”)
Soda Lake Resources Partnership (“SLRP”)
Magma Energia Argentina S.A.
Compania de Energia Limitada
Magma Energy Servicios Ltda.

All inter-company transactions and balances have been eliminated on consolidation.

Certain reclassifications of prior year balances have been made to conform to the current period presentation. These reclassifications have had no impact on previously reported total current assets, total assets and working capital position, and do not affect previously reported cash flows from investing and financing activities.

b) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Significant areas where management's judgment is applied are depreciation, the assessment of asset impairment, stock-based compensation, the future price of aluminum, financial instruments, future income tax assets and liabilities and associated reserves, tax positions, geothermal properties and asset retirement obligations. Actual results could differ from those estimates.

c) Business combinations

CICA Handbook Sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements”, and 1602 “Non-Controlling Interests”, replace CICA Handbook Sections 1581 and 1600. The new standards revise guidance on the determination of the carrying amount of assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. These standards are effective for any business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with early adoption permitted. The Company has elected to early adopt these standards effective July 1, 2010.

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities that meet the conditions for recognition under Section 1582 are recognized at their fair value at the acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with Section 3475 “Disposal of Long-lived Assets and Discontinued Operations”, which are recognized and measured at fair value less cost to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets and liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets and liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss as a bargain purchase.

Under Section 1602 “Non-controlling Interest”, transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. As a result no gain or loss on such changes is recognized. Also, no

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

change in the carrying amounts of assets (including goodwill) or liabilities is recognised as a result of such transaction.

d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

e) Plant and Equipment

Operating assets are stated at cost, net of accumulated amortization and accumulated impairment losses. The major categories include power plants, boreholes, electrical systems, hot water and cold water distribution systems, housing and other operating assets. Major additions to operating assets including betterments, are capitalized and repairs and maintenance are expensed. Amortization is provided on a straight-line basis over the estimated useful lives of the plant assets. Power plants are 20 - 40 years, boreholes are 20 years, electrical systems are 50 years, hot water and cold water distribution systems are 50 years, housing is 50 years, and other operating assets vary from 5 to 20 years. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs.

f) Foreign currency translation

The functional currency of the Company and each of its subsidiaries, except HS Orka, is the Canadian dollar (“C\$”). As the operations of the foreign subsidiaries, other than HS Orka, 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 functional currency of HS Orka is the Icelandic Kroner (“ISK”) and HS Orka is regarded as being self-sustaining. As a result, the current rate method of translation has been applied. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect on the balance sheet, revenues and expenses are translated using exchange rates in effect at the time of each transaction. Gains and losses from these translations are recognized in other comprehensive income.

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 income (loss.)

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

g) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

h) Other derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value in the balance sheet and changes in fair value are recognized through profit or loss.

3 CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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.

Effective July 1, 2011, the Company’s primary basis of accounting will change to IFRS.

4 BUSINESS COMBINATION

On August 17, 2010, the Company obtained control of HS Orka, the largest privately owned energy company in Iceland, by acquiring an additional 38.03% of the shares and voting interests in HS Orka. As a result, the Company’s equity interest in HS Orka increased from 46.18% to 84.21%.

Obtaining control of HS Orka will advance the Company’s objective of becoming one of the leading primary geothermal power companies in the world.

In the nine months ended March 31, 2011, HS Orka contributed revenue of \$41.7 million and net profit of \$31.5 million. If the acquisition had occurred on July 1, 2010, management estimates that consolidated revenue would have been \$49.3 million, and consolidated net profit for the period would have been \$37.9 million primarily due to the gain on change in fair value of embedded derivatives. In determining these amounts management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on July 1, 2010.

The following summarizes the consideration transferred and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

(a) Consideration transferred:

Cash	\$	60,469
Equity instruments (24,808,569 subscription receipts)		28,148
	\$	88,617

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

The fair value of the subscription receipts was based on the listed closing share price of Magma Energy Corp on August 17, 2010 of C\$1.17.

Each subscription receipt was converted into one common share of Magma Energy Corp on December 20, 2010 for payment of no additional consideration.

Cash	\$	5,275
Receivables		7,596
Inventory		2,873
Plant and equipment		414,751
Other intangible assets (incl: geothermal properties, development costs, etc.)		31,630
Bonds		17,936
Investments		14,286
Other assets		3,786
Net future income tax liabilities		(19,793)
Accounts payable and accrued liabilities		(10,155)
Long-term debt		(177,145)
Below market contracts - HS Orka		(37,449)
Derivatives		(10,057)
	\$	243,534

The fair values have been determined on a provisional basis pending completion of the valuations.

Total consideration transferred	\$	88,617
Non-controlling interests, based on their proportionate interest in the fair value of the assets and liabilities of the acquiree		38,454
Fair value of previously held interest in the acquiree		112,464
Less fair value of net identifiable assets of the acquiree		(243,534)
Gain on purchase	\$	(3,999)

The gain on purchase resulted due to a portion of the shares being acquired at a price of ISK 3.00 per share which was significantly lower than the average price paid for the other shares.

The remeasurement to fair value of the Company's existing 46.18 % interest in HS Orka resulted in a loss of \$4.9 million, which has been recognized in other income in the consolidated statement of operations.

Non-controlling interest has been measured at fair value.

5 ACQUISITION OF NON-CONTROLLING INTERESTS

On September 3, 2010, the Company acquired an additional 14.32 % interest in HS Orka by assuming a bond with a principal value of ISK 6.3 billion (approximately \$52.5 million) repayable in 2016 with interest at 3.5% per annum. The principal amount is indexed based on movement in aluminum prices on the London Metal Exchange. The Company now holds a 98.53 % interest in HS Orka. The fair value of the bond of \$43.2 million has been determined on a provisional basis pending completion of the valuations.

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

The carrying amount of HS Orka's net assets in the consolidated financial statements on the date of acquisition was \$243.5 million. The Company recognized a decrease in the non-controlling interest of \$34.9 million and a decrease in retained earnings of \$8.3 million.

The following summarizes the effect of the changes in the Company's ownership interest in HS Orka.

Ownership interest at September 2, 2010 (84.21% ownership interest)	\$	204,205
Effect of increase in ownership interest (14.32% increase)		34,874
Share of comprehensive income		(545)
Ownership interest at September 3, 2010 (98.53% ownership interest)	\$	238,534

6 RESTRICTED CASH

During the quarter ended December 31, 2010 the Company obtained a short term loan fully secured by a cash funded letter of credit of \$28.3 million. The loan is repayable in May 2011 (see Note 10 Long-term Debt and Capital Lease Obligations).

7 CONVERTIBLE DEBENTURE

During the current quarter the Company subscribed for a \$10 million unsecured convertible debenture from Plutonic Power Corp ("Plutonic"). These proceeds will be used by Plutonic to fund working capital and repayment of an \$8 million promissory note held by GE Energy Financial Services Holding Company. The convertible debenture bears interest at the rate of 8% per annum on drawn amounts, will mature on August 31, 2011 and will be convertible into Plutonic shares at any time at the option of Magma at a conversion price of \$2.90 per Plutonic share. In certain circumstances, Magma can put any undrawn amount of the convertible debenture to Plutonic prior to conversion. At March 31, 2011 \$2 million had been drawn on this debenture. The convertible debenture has been designated as held-for-trading and is carried at fair value. GAAP requires held-for-trading financial instruments be recorded at fair value with future adjustments to be recognized in current period profit or loss.

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

8 PLANT AND EQUIPMENT

	March 31, 2011			June 30, 2010		
	Cost	Accum. Amort.	Net Book Value	Cost	Accum. Amort.	Net Book Value
Plant and plant equipment	\$ 44,848	\$ (2,860)	\$ 41,988	\$ 35,942	\$ (1,712)	\$ 34,230
Automotive	249	(162)	87	227	(132)	95
Furniture and equipment	1,755	(694)	1,061	1,261	(311)	950
	46,852	(3,716)	43,136	37,430	(2,155)	35,275
Plant and plant equipment - HS Orka (see note 4)	433,643	(4,268)	429,375	-	-	-
Assets held under capital leases						
Automotive	111	(27)	84	101	(5)	96
	\$ 480,606	\$ (8,011)	\$ 472,595	\$ 37,531	\$ (2,160)	\$ 35,371

Included in total plant and plant equipment is a total of \$55.0 million (June 30, 2010 - \$14.6 million) 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 has not yet been put into service.

9 GEOTHERMAL PROPERTIES

As at March 31, 2011 the Company holds geothermal properties, or the rights to acquire geothermal properties, in the United States of America (USA), Argentina, Chile, Peru and Iceland.

At March 31, 2011, the Company's expenditures on geothermal properties in North and South America are as follows:

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

	Balance June 30, 2010	Acquisition Costs	Deferred Exploration Costs	Depletion	Effect of Reporting Currency Translation	Cost Written Off	Balance March 31, 2011
Geothermal properties under development							
USA - Nevada							
McCoy	\$ 7,714	\$ -	\$ 182	\$ -	\$ 766	\$ -	\$ 8,662
Desert Queen	3,093	-	152	-	309	-	3,554
Columbus Marsh	831	-	8	-	82	-	921
Beowawe	444	-	5	-	44	-	493
Panther Canyon	316	-	34	-	33	-	383
Baltazor Hot Springs	406	-	20	-	41	-	467
Buffalo Valley	642	-	40	-	65	-	747
Dixie Valley (White Rock Canyon)	1,081	-	9	-	106	-	1,196
Granite Springs	514	-	52	-	54	-	620
Hawthorne	797	-	-	-	80	-	877
USA - Utah							
Thermo	575	-	2	-	57	-	634
USA - Oregon							
Glass Buttes	185	-	-	-	-	(185)	-
Chile							
Maule*	11,582	-	5,389	-	1,302	-	18,273
Pellado*	457	-	3,923	-	339	-	4,719
El Medeno*	-	-	1,209	-	343	-	1,552
Tres Puntas	-	-	53	-	2	-	55
Los Cristales	-	-	30	-	4	-	34
Peru							
Huaynaputina	94	-	30	-	14	-	138
Casiri	99	-	26	-	14	-	139
Sabancaya	95	-	29	-	10	-	134
Ccollo	98	-	32	-	8	-	138
Ticsani	100	-	32	-	8	-	140
San Pedro	12	-	29	-	2	-	43
Crucero	13	-	80	-	25	-	118
Pinchollo	-	-	6	-	-	-	6
Pasto	-	-	36	-	1	-	37
Sara Sara	-	-	32	-	1	-	33
Lariscota	-	-	29	-	1	-	30
Monterrey	-	-	32	-	1	-	33
Yungay	-	-	37	-	1	-	38
	29,148	-	11,538	-	3,713	(185)	44,214
Geothermal property in production							
Soda Lake - USA	2,980	-	533	(33)	368	-	3,848
	\$ 32,128	\$ -	\$ 12,071	\$ (33)	\$ 4,081	\$ (185)	\$ 48,062

* Deferred exploration costs were reclassified in our Chile projects

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

10 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

At March 31, 2011, long-term debt was comprised of the following:

Bonds	\$	112,004
Credit agreement		21,143
Loans payable		178,148
Short term loan		28,269
Capital lease obligations		77
		<u>339,641</u>
Less current portion:		
	Loans payable	46,382
	Capital lease obligations	26
		<u>46,408</u>
Long-term portion	\$	<u>293,233</u>

a) Bonds

On September 3, 2010, the Company acquired an additional 14.32% interest in HS Orka (Note 5) by assuming a bond with a principal value of ISK 6.3 billion (approximately \$52.5 million) repayable in 2016 with interest at 3.5% per annum. The principal amount is indexed based on movement in aluminum prices on the London Metal Exchange. The bonds are secured by the shares of HS Orka acquired in the transaction. The Company has the option on up to four occasions to repay up to 20% of the nominal principal and accrued interest outstanding. Up to two interest payments may be deferred over the term of the bond. Deferred interest payments will be added to the principal amount and interest will be accrued thereon.

The Company also has three bonds issued in fiscal 2010 with an aggregate principal amount of \$70.3 million. The principal amount of these bonds will mature and become due on December 14, 2016. The principal amount is indexed based on movement in aluminum prices on the London Metal Exchange. 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. Up to three interest payments may be deferred over the term of the bond. Deferred interest payments will be added to the principal amount and interest will be accrued thereon. For the purposes of calculating interest payable at the end of each year, any pre-payments of the principal amounts during the preceding twelve month period shall also be adjusted based on the average monthly aluminum price for each month prior to the pre-payment. On December 14, 2010 the first interest payments were deferred. As a result, \$1.1 million of accrued interest was added to the principal balance.

The principal amounts of all the bonds 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 aluminum, as posted by the London Metal Exchange for the first business day of each month, for the prior 12-month period. Interest is payable on each anniversary date of the bonds on the adjusted average principal amounts outstanding during the 12-month period prior to the anniversary date. Deferred interest payments will be added to the principal amount and interest will be accrued thereon. For the purposes of calculating interest payable at the end of each year, any pre-payments of the principal amounts during the preceding twelve month period shall also be adjusted based on the average monthly aluminum price for each month prior to the pre-payment.

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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

Balance, June 30, 2010	\$	49,339
Fair value of additional bond assumed		43,240
Change in fair value		15,447
Foreign exchange loss		3,978
Balance, March 31, 2011	\$	<u>112,004</u>

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

Discount rates	7.80% - 13.39%
Aluminum prices (\$ per tonne)	\$2,585 - \$2,893

b) Credit agreement

During the quarter ended March 31, 2011, the Company expanded its credit agreement to borrow up to C\$30 million with interest at the rate of 8% per annum for a term of 24 months from original loan date of July 5, 2010 (see Note 12 Related Party Transactions).

c) Loans payable

Long-term borrowings assumed with the acquisition of HS Orka.

Amount in Originating Currency	Currency	Interest	Year of Maturity	Balance
30,176	USD	2.49%	2019 - 2023	\$ 30,275
24,305	EUR	2.78%	2019 - 2021	34,661
51,765	SEK	3.38%	2021	8,268
369,963	CHF	2.11%	2019 - 2021	43,447
1,420,442	JPY	1.62%	2019 - 2023	17,205
2,476	GBP	1.12%	2017 - 2019	3,999
11,608	CAD	1.00%	2021 - 2023	12,013
3,218,103	ISK	3.87%	2016 - 2017	28,280
				<u>\$ 178,148</u>

d) Short term loan

During the quarter ended December 31, 2010, the Company obtained a short term loan at LIBOR plus 5% to pay the final amount due for the acquisition of HS Orka (see Note 4 Business Combination). The loan is fully secured by a letter of credit fully funded with cash (see Note 6 Restricted Cash).

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

11 SHAREHOLDERS' EQUITY

(a) Capital stock

At March 31, 2011, the Company had unlimited authorized common shares without par value and 313,966,171 common shares issued and outstanding (June 30, 2010 – 248,637,974).

On July 27, 2010, the Company completed a public share offering and issued 40.3 million common shares at a price of C\$ 1.12 per share for aggregate proceeds of approximately \$43.6 million.

On December 20, 2010, the Company issued 24,808,569 common shares in exchange for the subscription receipts issued in relation to the acquisition of HS Orka (see Note 4 Business Combination).

(b) Stock options

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.

The changes in stock options issued are as follows:

	Nine Months Ended March 31, 2011		Year Ended June 30, 2010	
	Number of options	Weighted average exercise price (C\$/option)	Number of options	Weighted average exercise price (C\$/option)
Outstanding, June 30, 2010	3,276,667	1.55	Outstanding, July 1, 2009	-
Granted	510,000	1.36	Granted	3,340,000
Exercised	-	-	Exercised	(33,333)
Forfeited	(466,667)	1.71	Forfeited	(30,000)
Outstanding, end of period	3,320,000	1.50	Outstanding, end of year	3,276,667
Exercisable, end of period	1,876,653	1.52	Exercisable, end of year	1,069,992

As of March 31, 2011, incentive stock options represent 1.1% (June 30, 2010 – 1.3%) of issued and outstanding common capital. The aggregate intrinsic value of vested share options (the market value less the exercise value) at March 31, 2011 is nil (June 30, 2010 - nil).

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

The following table summarizes information about stock options outstanding and exercisable at March 31, 2011:

Options outstanding			Options exercisable	
Number of Shares	Expiry Date	Exercise Price (C\$/option)	Number of Shares	Exercise Price (C\$/option)
1,810,000	July 7, 2014	1.50	1,206,658	1.50
100,000	December 18, 2014	1.83	66,664	1.83
350,000	February 8, 2015	1.71	233,332	1.71
50,000	February 15, 2015	1.66	33,333	1.66
200,000	May 19, 2015	1.46	66,667	1.46
300,000	June 22, 2015	1.40	99,999	1.40
100,000	July 5, 2015	1.32	33,333	1.32
50,000	Sept 28, 2015	1.21	16,667	1.21
360,000	December 15, 2015	1.39	120,000	1.39
3,320,000		1.50	1,876,653	1.52

During the quarter ended March 31, 2011, no options were granted. The Company amortizes the fair value of stock options on a graded basis over the respective vesting period of the stock options. At March 31, 2011, the non-vested stock option expense not yet recognized was \$0.2 million (June 30, 2010 - \$0.5 million) and this expense is expected to be recognized over the next 2 years.

The allocation of the amortization of the fair value of the stock options is as follows:

	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Consolidated Balance Sheets		
Geothermal properties	\$ 44	\$ 70
Consolidated Statements of Operations		
Production and cost of sales	14	5
General and administrative	223	537
Property investigations	8	89
Investor relations	20	70
	<u>265</u>	<u>701</u>
Total amortization of stock option fair value	\$ 309	\$ 771

The fair value of stock options for all options issued was estimated at the grant date based on the Black-Scholes Option Pricing Model, using the following weighted average assumptions:

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Expected dividend yield (%)	Nil	Nil
Average risk-free interest rate (%)	1.42% - 1.71%	1.23% - 1.31%
Expected life (years)	2.50	2.5
Expected volatility (%)	37% - 41%	42% - 52%
Expected rate of forfeiture	5%	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 estimated 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 RELATED PARTY TRANSACTIONS

During the third quarter, the Company expanded its credit agreement, with the Company's Chairman and Chief Executive Officer, pursuant to which the Company is able to borrow up to C\$30 million. Interest at the rate of 8% per annum, compounded daily, is payable monthly. In addition, a standby fee in the amount of 1% of the credit facility and a drawdown fee in the amount of 1.5% of the amount advanced is payable in cash. As at March 31, 2011, C\$20.5 million of the principal amount has been advanced to the Company. During the quarter interest, standby and drawdown fees totalling \$0.6 million were paid.

13 BONDS RECEIVABLE

The bonds have stated interest rates of 5% plus indexation to the Icelandic Consumer Price Index and mature in 2019. Bonds receivable in non-current assets are classified as held-for-trading. During the quarter the company sold all of its current bonds receivable from HS Veitur hf at book value. These bonds were previously classified as available-for-sale financial assets.

14 EMBEDDED DERIVATIVES

The Company has entered into U.S. dollar-based agreements expiring in 2011, 2019, and 2026 for the sale of power to two of its customers in Iceland. Under these agreements, power is to be sold at contractually determined amounts based in part on the future price of aluminum and are therefore considered to include embedded derivatives.

The fair values of the embedded derivatives are estimated using discounted cash flow models based in part on the forward price of aluminum over the next ten years as quoted by the London Metal Exchange and experts' expectations of future price changes.

15 MANAGEMENT OF FINANCIAL RISKS

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

Credit Risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Over 50% of the Company's revenue is attributable to sales transactions with three customers. The Company has set a credit policy where all new customers are evaluated. Payment history of new customers is checked and credit limits are set. The Company establishes

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

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.

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'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

Currency Risk

The functional currency of the Company and its subsidiaries, except HS Orka, 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 year.

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 U.S. 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 2020, revenue from the Soda Lake facility is not exposed to significant commodity price risk.

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

HS Orka has entered into PPAs for the sale of electrical power whereby the sales price of the power is partially based on the market price of aluminum. Therefore, its revenues and profitability of its operations are significantly exposed to fluctuations in the price of aluminum.

As disclosed in Note 10, the bonds issued as partial consideration for the purchase of HS Orka are subject to adjustments based on the price of aluminum. Therefore, the principal amounts owed on the due date, and the annual interest payments thereon, will fluctuate with the price of aluminum.

A 10% increase or decrease in the price of aluminum at March 31, 2011 would have increased or decreased net income by \$21.2 million.

16 COMMITMENTS

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

Commitments and Contingencies

Fiscal 2011	\$	70
Fiscal 2012		168
Fiscal 2013		95
Fiscal 2014		62
Fiscal 2015		31
Total lease commitments	\$	426

17 INCOME TAXES

Income tax expense is comprised of current and future tax. Current tax and future tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Future income tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Future tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Future tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A future tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Future tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

18 SEGMENTED DISCLOSURES

The Company has two business segments:

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

All revenues were generated from our two producing plants in Iceland and one in the USA during the period ended March 31, 2011, and 100% of the revenues for all the comparative periods were derived from the operating plant in Nevada, USA.

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

18 SEGMENTED DISCLOSURES (Cont'd)

	March 31, 2011			June 30, 2010		
	Geothermal Exploration	Production and Sales	Total	Geothermal Exploration	Production and Sales	Total
CANADA						
Current assets	\$ 33,485	\$ -	\$ 33,485	\$ 14,064	\$ -	\$ 14,064
Property, plant and equipment	247	-	247	256	-	256
	33,732	-	33,732	14,320	-	14,320
USA						
Current assets	491	1,638	2,129	317	1,056	1,373
Property, plant and equipment	147	42,090	42,237	172	34,307	34,479
Geothermal properties	20,051	2,356	22,407	17,615	1,963	19,578
Other assets	82	12	94	82	11	93
	20,771	46,096	66,867	18,186	37,337	55,523
CHILE						
Current assets	571	-	571	1,333	-	1,333
Property, plant and equipment	627	-	627	505	-	505
Geothermal properties	24,630	-	24,630	12,039	-	12,039
Other assets	11	-	11	50	-	50
	25,839	-	25,839	13,927	-	13,927
PERU						
Current assets	6	-	6	80	-	80
Geothermal properties	1,025	-	1,025	511	-	511
Other assets	3	-	3	682	-	682
	1,034	-	1,034	1,273	-	1,273
ARGENTINA						
Current assets	7	-	7	21	-	21
ITALY						
Current assets	43	-	43	16	-	16
SWEDEN						
Current assets	15	-	15	12	-	12
ICELAND						
Current assets	136	33,296	33,432	9,656	-	9,656
Property, plant and equipment	109	429,375	429,484	127	-	127
Intangibles	-	32,711	32,711	-	-	-
Other assets	-	53,517	53,517	-	103,828	103,828
	245	548,899	549,144	9,783	103,828	113,611
Total Assets	\$ 81,686	\$ 594,995	\$ 676,681	\$ 57,538	\$ 141,165	\$ 198,703

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

18 SEGMENTED DISCLOSURES (Cont'd)

	Three months ended March 31, 2011			Three months ended March 31, 2010		
	Geothermal Exploration	Production and Sales	Total	Geothermal Exploration	Production and Sales	Total
Revenue						
Energy sales	\$ -	\$ 18,748	\$ 18,748	\$ -	\$ 1,295	\$ 1,295
Direct cost of energy production	-	(13,561)	(13,561)	-	(1,147)	(1,147)
Gross profit	-	5,187	5,187	-	148	148
Other (income) and expenses						
General and administrative	2,719	-	2,719	1,028	-	1,028
Professional fees	632	-	632	467	-	467
Amortization	190	-	190	52	-	52
Property investigations	327	-	327	307	-	307
Investor relations	111	-	111	181	-	181
Depletion and accretion	-	125	125	-	76	76
Equity income	-	-	-	-	(3,602)	(3,602)
Change in fair value of long-term debt	-	7,633	7,633	-	2,652	2,652
Change in fair value of derivatives	-	(22,950)	(22,950)	-	-	-
Interest and other financing costs	-	3,142	3,142	-	249	249
Interest and other income	(400)	-	(400)	(49)	-	(49)
Foreign exchange (gain) loss	610	(700)	(90)	(758)	(399)	(1,157)
Other expense	-	-	-	-	500	500
Future income tax expense (recovery)	-	4,725	4,725	-	(698)	(698)
	4,189	(8,025)	(3,836)	1,228	(1,222)	6
Income (loss) for the period	\$ (4,189)	\$ 13,212	\$ 9,023	\$ (1,228)	\$ 1,370	\$ 142

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

18 SEGMENTED DISCLOSURES (Cont'd)

	Nine months ended March 31, 2011			Nine months ended March 31, 2010		
	Geothermal Exploration	Production and Sales	Total	Geothermal Exploration	Production and Sales	Total
Revenue						
Energy sales	\$ -	\$ 45,543	\$ 45,543	\$ -	\$ 3,709	\$ 3,709
Direct cost of energy production	-	(34,061)	(34,061)	-	(3,281)	(3,281)
Gross profit	-	11,482	11,482	-	428	428
Other (income) and expenses						
General and administrative	6,324	-	6,324	2,923	-	2,923
Professional fees	1,950	-	1,950	851	-	851
Amortization	394	-	394	132	-	132
Property investigations	1,019	-	1,019	1,106	-	1,106
Investor relations	469	-	469	441	-	441
Depletion and accretion	-	321	321	-	309	309
Equity income	-	(7,753)	(7,753)	-	(1,676)	(1,676)
Change in fair value of long-term debt	-	15,447	15,447	-	1,565	1,565
Change in fair value of derivatives	-	(32,639)	(32,639)	-	-	-
Interest and other financing costs	-	9,399	9,399	-	299	299
Interest and other income	(1,418)	-	(1,418)	(303)	-	(303)
Foreign exchange (gain) loss	(4,767)	(1,512)	(6,279)	2,988	(1,049)	1,939
Loss on remeasurement of equity intererest in HS Orka	-	4,918	4,918	-	-	-
Gain on purchase	-	(3,999)	(3,999)	-	-	-
Geothermal property costs written-off	170	-	170	527	-	527
Other expense	-	-	-	-	500	500
Future income tax expense (recovery)	-	9,919	9,919	-	(412)	(412)
	4,141	(5,899)	(1,758)	8,665	(464)	8,201
Income (loss) for the period	\$ (4,141)	\$ 17,381	\$ 13,240	\$ (8,665)	\$ 892	\$ (7,773)

Magma Energy Corp.

Notes to the Interim Consolidated Financial Statements

March 31, 2011 – (Unaudited)

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

19 INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

	March 31, 2011	June 30, 2010
H.S. Orka	\$ -	\$ 103,828
Blue Lagoon h.f.	16,331	-
Other	238	-
	<u>\$ 16,569</u>	<u>\$ 103,828</u>

During the current quarter, the Company recorded equity loss from Blue Lagoon h.f. of \$nil (\$0.4 million year to date).

20 SUBSEQUENT EVENTS

Subsequent to March 31, 2011, the Company has entered into an agreement to sell a 25% interest of its Icelandic subsidiary HS Orka to a group of Icelandic pension funds. The transaction is subject to a number of conditions, including further due diligence, and is expected to close in May 2011.

The Company and Plutonic Power Corporation ("Plutonic") entered into an arrangement agreement to merge and create Alterra Power Corp. ("Alterra"), a leading renewable power producer. Court approval has been granted and completion of the arrangement is expected to occur on or about May 13, 2011. The financial statements of Alterra in periods post merger will reflect the combined results of both companies.