
Magma Energy Corp. ("Magma" or the "Company") was incorporated on January 22, 2008, pursuant to the *Business Corporations Act* (British Columbia), and effectively commenced operations in February 2008. On July 7, 2009 Magma completed an initial public offering ("IPO") and listed its common shares on the facilities of the Toronto Stock Exchange ("TSX") under the symbol "MXY".

The Company is actively engaged in operating, developing, exploring and acquiring geothermal energy projects in North, South and Central America. Magma's head office is located in Vancouver, Canada.

This management's discussion and analysis ("MD&A") focuses on significant factors that affected Magma and its subsidiaries during the relevant reporting period and to the date of this report. The MD&A supplements, but does not form part of, the audited consolidated financial statements of the Company and the notes thereto for the year ended June 30, 2009 and, consequently, should be read in conjunction with the afore-mentioned financial statements and notes thereto.

All amounts in this MD&A are expressed in United States dollars unless otherwise indicated. References to C\$ are to Canadian dollars.

Forward Looking Information

This MD&A contains certain "forward-looking information" which may include, but is not limited to, statements with respect to future events or future performance, management's expectations regarding the Company's growth, results of operations, estimated future revenues, requirements for additional capital, production costs and revenue, future demand for and prices of electricity, business prospects and opportunities. In addition, statements relating to estimates of recoverable geothermal energy "reserves" or "resources" or energy generation capacities (at either ninety percent probability ("P₉₀") or fifty percent probability ("P₅₀")) are forward-looking information, as they involve implied assessment, based on certain estimates and assumptions, that the geothermal resources and reserves described can be profitably produced in the future. Such forward-looking information reflect management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. A number of known and unknown risks, uncertainties and other factors, may cause the actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current geothermal energy production, development and/or exploration activities and the accuracy of probability simulations prepared to predict prospective geothermal resources; changes in project parameters as plans continue to be refined; possible variations of production rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the geothermal industry; political instability or insurrection or war; labour force availability and turnover; delays in obtaining governmental approvals or in the completion of development or construction activities or in the commencement of operations; as well as those factors discussed in the section entitled "Risk Factors" in this MD&A. These factors should be considered carefully and readers of this MD&A should not place undue reliance on forward-looking information.

Although the forward-looking information contained in this MD&A is based upon what management believes to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. Such forward-looking information is made as of the date of this MD&A and, other than as required by

applicable securities laws, Magma assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances.

Business Overview and Strategy

Magma's mission is to become one of the pre-eminent primary geothermal power companies in the world. Since commencement of operations in February 2008, the Company has made significant progress by acquiring the Soda Lake Operation, 5 advanced-stage exploration properties and 12 early-stage exploration properties in various countries in North, South and Central America. In addition, in July and August 2009, Magma entered into agreements to acquire, in stages, up to a 48.1% interest in HS Orka HF ("HS Orka"), an Icelandic geothermal energy producing company. In July 2009, Magma completed an IPO, raising net proceeds of approximately \$88 million, and listed its common shares on the TSX.

Management's goal is to establish the Company as the pre-eminent leading global mid-tier energy company focused solely on geothermal power. Magma intends to achieve this by increasing its production of geothermal electricity and enhancing its defined geothermal power generating capacity through the advancement of its existing projects, by acquiring new geothermal energy projects and by acquiring interests in companies which own existing projects.

Global electricity consumption, according to the Energy Information Administration, is expected to double, growing at an average rate of 2.7% per year, to an estimated 21.7 trillion kilowatt hours ("kWh") in 2015 and 30.1 trillion kWh in 2030. It is expected that, by 2015, the forecast growth rate of the world's total net electricity consumption will lead to a gap between the required base load capacity and the required installed base load capacity in the world energy market. As a result, prices for long term base load power contracts are expected to steadily rise, while new base load power facilities will need to be constructed to meet world demand. Meeting expected demand for base load power production with safe, clean and reliable sources of energy, however, presents a significant challenge in the world energy market. In this setting, geothermal power production offers a unique combination of benefits.

Geothermal has several advantages over other renewable and traditional sources of energy. These benefits include, but are not limited to, base load reliability, low operating costs combined with the potential for high output capacity, minimal environmental impact, proven technology with long operating life and assets that may be expanded with additional drilling, exploration, plant and equipment upgrades and improved technology.

The geothermal industry, especially in North America, consists of a few very large companies and several small companies. The current economic and market turbulence has caused adverse changes to some of the companies within the industry. As a result, opportunities will arise for Magma to pursue its aggressive growth strategy through further acquisitions. Management of the Company feels that Magma is strategically positioned, with its existing projects, talent at the management, board of director and technical levels, to be able to fulfill its mission.

Geothermal Energy Projects

Significant events, transactions and activities on Magma's geothermal properties which occurred during the year ended June 30, 2009 and to the date of this MD&A are disclosed below. A more complete discussion of the Company's activities, geothermal projects and planned expansion and exploration programs thereon is contained in Magma's prospectus dated July 7, 2009, which may be obtained from www.sedar.com or from Magma's website at www.magmaenergycorp.com. The reader is cautioned that geothermal resources and probabilistic estimates of gross megawatt ("MW") capacity, as disclosed in this MD&A and in the prospectus, have a great amount of uncertainty as to their existence and as to whether they can be accessed in an economically viable manner. It cannot be assumed that all of, or any part of, a geothermal resource will be commercially extracted or that estimates of MW capacity will be achieved.

Operating Project

Soda Lake Operation, Nevada, USA

Magma acquired a 100% interest in the Soda Lake Operation located 11 kilometers northwest of the City of Fallon, Nevada, on October 3, 2008 from Constellation Energy Group, Inc. for a cash payment of \$17,557,906. Prior to this acquisition, Magma had no operating revenues.

The Soda Lake Operation consists of two power producing facilities, SL I and SL II, which came on line in 1987 and 1990, respectively. The original net electricity sales expectation from the two plants was 126,005 MWh annually or 14.1 MW net power averaged over a year. From 2005 to 2008, the Soda Lake Operation produced an average of approximately 8 MW net year-round, with a peak of 11 MW net in the middle of the winter and four MW in the summer. The Soda Lake Operation has never achieved design production output due primarily to declining geothermal resource temperatures and lower than expected brine flow rates. As a result both SL I and SL II are not utilized to their optimum potential and there is opportunity to increase the productivity of the Soda Lake Operation.

Shortly following the acquisition, Magma designed a two phased expansion approach as follows:

- Phase 1 - an initial \$18.2 million drilling/exploration and plant upgrade program to restore the generating capacity back to the original nameplate of 23 MW gross (16 MW net) by drilling new production wells and upgrading and refurbishing the existing power plant equipment; and
- Phase 2 - conditional upon the successful completion of the Phase 1 drilling/exploration program and additional reservoir definition, a further expansion program to increase nameplate capacity to the P₉₀ estimate of the geothermal reservoir's gross generation capacity of 28.8 MW, and potentially up to the P₅₀ estimate of 54.8 MW, by drilling new production and injection wells and adding new surface generation facilities.

The Phase 1 expansion and refurbishment program to 16 MW net is being funded from the net proceeds of the IPO. Any further expansion program will be partially funded from operating revenues, working capital and an existing credit agreement (refer to Related Party Transactions). Additional financing will be obtained through a combination of additional equity financing, debt financing on either a corporate or a project basis, and the utilization of available tax credits and/or energy grants.

Progress on the Phase 1 program to the date of this MD&A includes the completion of two drill holes to depths of 4,468 feet and 8,995 feet respectively. The wells were drilled to provide further information regarding the distribution of heat and permeability of the Soda Lake reservoir. Magma is currently analyzing data from all wells drilled to date at Soda Lake. This work will include an optimization review of the current and reinjection strategy. In addition to drilling activities, Magma has completed a detailed engineering assessment of power plant upgrades and refurbishments that are required in anticipation of the new production wells. Construction awards have been issued for improvements to the existing cooling tower, well-field piping and electrical system upgrades as well as the refurbishment of existing power generating equipment. All plant refurbishment activities are on track for completion by the end of 2009, with the majority of the upgrades scheduled to occur during the annual plant shutdowns in September and October.

The Soda Lake Operation sells all of its current electricity output to NV Energy Company ("NV Energy") under two 30-year purchase power agreements ("PPAs") that terminate in 2021. Magma has commenced discussions with NV Energy and one other party to negotiate an improvement in the pricing under the current PPAs and for the planned increase in electricity output from the plant expansion. There is no guarantee that these negotiations will prove successful. However, given Magma's plans to expand and increase the output of the Soda Lake Operation, management is of the opinion that a successful re-

negotiation of the existing agreements and/or a new agreement on more favourable terms may be achieved.

Exploration Projects

From March 2008 through April 2009, Magma acquired a portfolio of geothermal exploration properties, which is currently comprised of five advanced-stage exploration properties and 12 early-stage exploration properties located in the U.S.A., Chile, Argentina and Peru. These properties were acquired from a variety of sources, including through U.S. Bureau of Land Management ("BLM") lease auctions and sales, a purchase from the University of Chile, applications for new geothermal exploration authorizations from the Government of Peru and purchases from third party leaseholders and landowners.

Magma's five advanced-stage properties are the Maule Property located in Chile, the McCoy, Panther Canyon and Desert Queen Properties located in Nevada and the Thermo Property located in Utah. Exploration programs have been planned for each of the five advanced-stage exploration properties, including permitting, magnetotelluric, resistivity, gravity and magnetic surveys, reflection seismology and drilling slim holes, having an estimated total cost of up to \$30,000,000.

Additional exploration programs have been planned for Magma's 12 early-stage exploration properties, including geochemical and geophysical mapping, hydrology, stream and spring chemistry, acquisition of geophysical and seismic data, gravity, magnetics and electrical field surveys, temperature gradient drilling and drilling slim holes, having an estimated total cost of up to \$7,000,000. The properties are as follows:

- Beowawe, Nevada
- Columbus Marsh, Nevada
- Quartz Mountain, Nevada
- Whitehorse, Nevada
- Glass Buttes, Oregon
- Tuzle-Tocomar, Argentina
- Coranzuli, Argentina
- Sabancaya, Peru
- Huaynaputina, Peru
- Tiscani, Peru
- Collo, Peru
- Casiri, Peru

The planned exploration programs on the above properties will be funded from the net proceeds of the IPO. Magma has also applied for grants under the *American Recovery and Reinvestment Act of 2009* for some of the work planned for its US properties. Future exploration work beyond the currently planned programs will be financed through a combination of additional equity financing, operating revenues, working capital, tax and other incentives and the existing credit agreement.

All of the currently planned exploration program expenditures are discretionary and there are no expenditure commitments on any of Magma's properties. To date, the work planned for the exploration properties, with the exception of the program at the Maule property, has not yet commenced.

Maule, Chile

Magma had the right to acquire a 100% interest in the Carrán & Maule exploration concessions from the University of Chile for cash payments totalling \$1,000,000 (\$600,000 paid) with additional payments totalling \$200,000 (\$100,000 paid) to be contributed to the University of Chile to finance geothermal projects of mutual interest. In July 2009, the Company terminated its right to acquire the Carrán property and, accordingly, wrote off all costs incurred on the property at June 30, 2009. With this termination, the

remaining payment of \$400,000 is no longer owing.

In March 2009, Magma completed a \$400,000 magnetotelluric geophysical program on the property which outlined a large anomaly in the vicinity of surface fumaroles sampled by Magma earlier in the year. Based on the encouraging preliminary results, a drill program was initiated to complete a 1,000 metre slim core hole during May and June, 2009.

Drilling was terminated in June 2009 due to adverse weather conditions. Results from the successful completion of this first slim hole saw temperatures exceeding 200°C at a depth of 650 metres below surface. The encouraging results enabled Magma's consultants, Sinclair Knight Mertz ("SKM") to estimate an Inferred Resource of 7,000 petajoules of thermal energy in place, relative to 40°C, that is estimated to be capable of producing 140 MW of electrical generation for 30 years. The resource estimate has been prepared in accordance with the Code for Geothermal Resources and Reserves Reporting ("the Code") 1st Edition: 2008, published by the Australian Geothermal Energy Association. The report was prepared by Dr. Philip James White, who is responsible for its content. Dr. White, a senior geologist with SKM, is a "Competent Person" as defined under the Code, a member of the Society of Economic Geologists and is independent of Magma. The resource estimate report, titled "*Laguna Del Maule Resource Estimate*", dated August 14, 2009 may be obtained from www.sedar.com.

Based on the slim hole results and the resource estimate, in July 2009, Magma submitted a geothermal development plan to the Chilean government for a 50 MW power project on the Maule property. Approval by the Chilean government will enable additional drilling and infrastructure development to begin later in 2009. The approval process is expected to take several months.

Financial Results From Operations

The information provided below highlights the Company's quarterly results for the past 6 quarters since inception on January 22, 2008 to June 30, 2009. The financial information referenced below has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The significant accounting policies are outlined within Note 2 to the audited consolidated financial statements of the Company for the fiscal year ended June 30, 2009. These accounting policies have been followed consistently through the current period.

The functional currency of the Company and each of its subsidiaries, from inception to June 30, 2009, is the Canadian dollar. The reporting currency selected for the presentation of the Company's consolidated financial statements, and the results disclosed below, is the U.S. dollar.

Summary of Unaudited Quarterly Results

Three months ended:	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008
Revenue	\$ 1,256,612	\$ 1,925,999	\$ 1,302,519	\$ -
Direct cost of energy production	612,391	1,444,467	946,427	-
Gross profit	644,221	481,532	356,092	-
Expenses	1,261,567	1,175,455	1,359,255	1,169,392
Other income (expenses)	(1,259,422)	10,664	(66,506)	339,532
Net loss for the period	(1,876,768)	(683,259)	(1,069,669)	(829,860)
Loss per share (basic and diluted)	(0.01)	-	(0.01)	(0.01)



**Management's Discussion and Analysis
For the Year Ended June 30, 2009**

September 14, 2009

Three months ended:	June 30, 2008	March 31, 2008
Revenue	\$ -	\$ -
Expenses	633,433	50,622
Other income (expenses)	4,207	18,508
Net loss for the period	(629,226)	(32,114)
Loss per share (basic and diluted)	(0.01)	-

Selected Annual Financial Information

	For the Year Ended June 30, 2009	For the Period from Inception (January 22, 2008) to June 30, 2008
Total revenues	\$ 4,485,130	\$ -
Net loss	(4,459,556)	(661,340)
Loss per share (basic and diluted)	(0.03)	(0.01)
Total assets	43,779,529	12,908,970
Total current liabilities	2,600,018	721,001
Total long-term liabilities *	1,981,836	-
Total shareholders' equity	39,197,675	12,187,969

* Total long-term liabilities consists of deferred revenue relating to the Soda Lake Operation.

Results of Operations

The Company effectively commenced operations in February 2008 and, therefore, has completed only 6 full quarters of operations. As a result, the expenses incurred during the respective periods ended June 30, 2008 and June 30, 2009 are not reflective of expenses that will be incurred in the future. In addition, Magma had no revenues from operations prior to the acquisition of the Soda Lake Operation on October 3, 2008. Therefore, comparisons of revenues and expenses between quarters may not be meaningful due to the timing and nature of the Company's activities from quarter to quarter.

For the period from inception to June 2008, activities were focused primarily on investigating geothermal projects for potential acquisition and on retaining management and other personnel. Loss for the period of \$661,340 included property investigations expenses of \$485,413 with the remainder spent primarily on general and administration, travel and legal costs. During this period, the Company acquired the Tuzgle-Tocomar and Coranzuli concessions in Argentina and entered into an agreement with the University of Chile to acquire the Carrán and Maule projects in Chile.

Significant property acquisitions commenced in August 2008 with the acquisition of twelve federal leases from the Nevada BLM. These leases comprise six exploration properties as follows:

McCoy	4 leases
Panther Canyon	3 leases
Desert Queen	2 leases
Beowawe	1 lease
Columbus Marsh	1 lease
Quartz Mountain	1 lease

During September to December 2008, the Company added to its exploration property portfolio by acquiring the Thermo and Glass Buttes Properties in Utah and Oregon respectively as well as one additional lease for the Desert Queen Property.

On October 3, 2008, the Company completed a major acquisition with the purchase of the Soda Lake Operation, which is currently Magma's only operating property.

Magma continued its acquisition program by acquiring a 100% interest in the mining rights to the five exploration properties in Peru and in January 2009, purchased the Whitehorse Property in Nevada.

In February and April 2009, Magma entered into two lease agreements for the right to explore, prospect and develop geothermal resources on an aggregate of 6,421 acres of property located within and adjacent to the Desert Queen Property.

Subsequent to the year end, in July 2009, Magma acquired an additional seventeen geothermal leases located in Nevada in consideration of cash payments in the aggregate of \$2,559,227. Magma also entered into agreements to acquire a minority interest in HS Orka (refer to Subsequent Events).

For the quarter ended June 30, 2009, the Company incurred a loss of \$1,876,768 (\$0.01 per share). The Soda Lake Operation generated revenues from energy sales of \$1,256,612 and gross profit of \$644,221. Net income from plant operations, after deducting amortization, accretion and depletion expenses, was \$288,415. Net loss from the Company's geothermal exploration and corporate activities during the fourth quarter was \$2,165,183, which included the write-off of expenditures incurred on the Carrán property of \$1,086,822, general and administrative expenses of \$522,820, property investigations costs of \$269,863 and foreign exchange losses of \$200,297. Fourth quarter activities were focused the drill programs at the Soda Lake Operation and Maule Property, due diligence on HS Orka and on completing the IPO, which closed on July 7, 2009.

For the year ended June 30, 2009, the Company incurred a loss of \$4,459,556 (\$0.03 per share).

Revenues from energy sales totalled \$3,963,167, from the date of the Soda Lake Operation's acquisition by Magma on October 3, 2008 to June 30, 2009. A total of 47,589 MWh was sold during the period. Revenues of \$521,963 were also generated from the sale of portfolio energy credits ("PECs"). Approximately 92% of the PECs sold were generated by the Soda Lake Operation in the period prior to the acquisition by Magma.

Direct cost of production for the period totalled \$3,003,285 and included labour, repairs and maintenance, supplies, and all other operating costs, including plant general and administrative expenses. Gross profit from operations for the period since Magma's acquisition to June 30, 2009 was \$1,481,845. Net income from plant operations, after deducting amortization, accretion and depletion expenses, was \$430,165 (refer to Note 10 of the consolidated financial statements). In February 2009, operations were adversely impacted by the failure of a pump which necessitated replacement, resulting in significantly higher than anticipated costs during the period.

Total expenses incurred by Magma in connection with its geothermal exploration and corporate activities during the year ended June 30, 2009 was \$4,889,721. Significant expenses during the year included general and administrative expenses of \$1,524,452, financing costs of \$863,532, property investigations expenses of \$740,316 and professional fees of \$589,173.

General and administrative expenses included the costs of all administrative and certain management personnel as well as the overhead and administrative costs necessary to operate three offices in Vancouver, Canada, Reno, USA and Santiago, Chile.

Financing costs of \$863,532 consisted of interest and fees on a credit facility extended by a company controlled by Magma's CEO. A total of C\$12,000,000 was advanced under this facility in August 2008. The funds were used to pay for the acquisition of the Nevada properties and in part, for the Soda Lake Operation acquisition. Details of the credit facility are disclosed under "Related Party Transactions" in this MD&A.

Professional fees for legal, audit and accounting, financial and other advisory services totalling \$589,173 were incurred during the year. The services related to legal corporate work for Magma and its subsidiaries, financial advisory, human resources, the fiscal year end audit, tax services and advisory services in connection with the potential acquisition of HS Orka.

Property investigations expenses of \$740,316 were incurred in connection with the continuing search for and evaluation of prospective new project acquisitions.

Other income and expenses consisted of interest income, foreign exchange losses and the write-off of \$1,087,558, of expenditures incurred on the Carrán property (\$1,086,822) and on the Ometepe property (\$736). In early July 2009, Magma terminated its option on the Carrán property after preliminary work indicated that prospects for the property were not promising.

On a cash basis, for the year ended June 30, 2009, the Company spent \$1,318,494 on operating activities and \$38,228,140 on investing activities. Of the amount spent on investing activities, \$17,556,726 (net of cash acquired) was spent to acquire the Soda Lake Operation, \$5,050,340 was spent on plant and equipment and \$15,396,112 was spent for acquisition and exploration costs on the Company's exploration properties. The amount expended on plant and equipment was primarily incurred on the Phase I expansion program on the Soda Lake Operation. Cash received from financing activities totalled \$30,708,879. Financing activities included the completion of two private placements in January and February 2009 for net proceeds of \$32,064,733 and loan repayments, net of loan proceeds received, of \$511,186 (see "Related Party Transactions" for additional disclosure relating to the loans). At June 30, 2009, the Company had cash and cash equivalents of \$4,482,693.

Critical Accounting Policies and Management's Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used in determining the valuation of deferred geothermal property acquisition and exploration costs, the fair values of business acquisitions and financial instruments, asset retirement obligations and future income tax assets. The Company evaluates its estimates on an on-going basis and bases them on various assumptions that are believed to be reasonable under the circumstances. The Company's estimates form the basis for making judgments about the carrying value for assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Should the Company be unable to meet its ongoing obligations, the realizable value of its assets may decline materially from current estimates.

The accounting policies described below are considered by management to be essential to the understanding and reasoning used in the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results.

Going Concern

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 to sell its assets or the attainment of profitable operations to meet the Company's liabilities as they become payable. The Company's financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. The 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.

Geothermal property costs

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 resources has been determined and property interests are either developed, the property sold or the resource rights are allowed to lapse.

During the period, the 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 geological 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 will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

Financial Instruments

The Canadian Institute of Chartered Accountants ("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 as other financial liabilities.

CICA Handbook Sections 3862 and 3863 revise and enhance disclosure requirements, and carry forward unchanged presentation requirements (under CICA Handbook Section 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.

Foreign Currency Translation

The functional currency of the Company and each of its subsidiaries is the Canadian dollar. 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.

New Accounting Policies

The Company adopted the following accounting policies in the 2009 fiscal year, as described below, in accordance with the recommendations of the CICA. The policies were adopted primarily due to the acquisition of the Soda Lake Operation. Prior to this acquisition, the Company had no producing properties.

Plant and equipment

The 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.

Geothermal properties in production

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

Asset retirement obligations

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. An asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. This increase in the capitalized cost is depreciated over the estimated useful life of the related assets. The asset retirement cost 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. Since the fair value of the liability is determined using a present value approach, accretion of the liability due to the passage of time is recognized each period as a charge to expense.

The Company's obligation to restore the site underlying its geothermal power plant at the Soda Lake Operation 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.

At June 30, 2009 the Company did not have any material asset retirement obligations related to either its geothermal exploration properties or the Soda Lake Operation.

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.

Goodwill and intangible assets

Under the purchase method, the cost of business acquisitions is allocated to the assets acquired and liabilities assumed based on the estimated fair value 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 intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. This standard becomes effective for interim and annual financial statements from January 1, 2009 with early adoption recommended. The Company adopted this new standard on July 1, 2008. There were no effects on the Company's balance sheet or statement of operations due to the adoption of this standard.

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 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company as at June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Liquidity and Capital Resources

At June 30, 2009 the Company had cash and cash equivalents of \$4,482,693 and working capital of \$2,747,685. Working capital items, other than cash and cash equivalents, consisted of receivables of \$334,150, prepaid expenses of \$530,860 and accounts payable and accrued liabilities of \$2,600,018.

Working capital is defined as current assets minus current liabilities. Working capital calculations or changes are not measures of financial performance, nor do they have standardized meanings, under Canadian GAAP. Readers are cautioned that this calculation may differ among companies and analysts and therefore may not be directly comparable.

Cash and cash equivalents consist of cash and term deposits that are redeemable prior to maturity on demand. The Company's exposure to credit risk on its C\$ and US\$ cash and term deposits is limited by maintaining such cash and term deposits with a major Canadian bank that has a high-credit quality. A minimal amount of cash is held by banks in the USA and in South America to fund the immediate needs of subsidiaries in those locations.

The Company currently has no long-term debt obligations or off-balance sheet arrangements. The Company has a credit facility of up to C\$20 million, all of which is available for use at the date of this MD&A (refer to Related Party Transactions for additional disclosure on this facility).

To date, the capital requirements of the Company have been met by equity proceeds and short term loans. The Company's continuing operations as intended are dependent on management's ability to raise required funding through future equity issuances, debt financing, asset sales or a combination thereof (refer to "Risks and Uncertainties" below).

Subsequent to the year end, in July 2009, Magma completed an IPO and raised net proceeds of approximately \$88 million. Net proceeds from the IPO will be used to fund the Phase 1 expansion and refurbishment program at the Soda Lake Operation, the currently planned programs on the exploration properties, potential acquisitions and for general working capital purposes.

Management is of the opinion that the Company has sufficient working capital to meet its administrative overhead for the ensuing twelve months as well as to fund the planned exploration programs on its exploration properties. Working capital will also be used to fund Phase 1 of the planned Soda Lake Operation expansion. Funding for the Soda Lake Operation Phase 2 expansion and further exploration and development of the Company's exploration properties will be financed via a combination of additional equity financing, debt or tax and other incentives.

Subsequent to the year end, Magma entered into agreements to acquire a 43.1% interest in HS Orka (refer to Subsequent Events) in consideration of cash payments totalling approximately \$54.5 million and a issuance of a bond for approximately \$68.8 million. The cash payments may be paid from cash on hand and Magma's existing credit facility or from other sources of financing. Management is currently reviewing all of the alternatives available to the Company.

Magma will require substantial additional capital to continue the exploration and development of its geothermal properties beyond the currently planned exploration programs and to fund Phase 2 of the Soda Lake Operation expansion.

Share Capital and Financings

As at June 30, 2009, the Company had 163,291,668 issued and outstanding common shares.

Since its inception on January 22, 2008 to the date of this MD&A, the Company has completed the following financings:

		Number of Shares	Proceeds, net of issue costs
January, 2008	Issued on incorporation	1	\$ 1
April, 2008	Founders shares	110,500,000	107,843
June, 2008	Private placement	21,646,667	12,885,640
September, 2008	Private placement	8,000,000	8,919,894
January, 2009	Private placement	23,145,000	23,144,839
July, 2009	IPO	73,600,334	88,436,532
Balance outstanding		236,892,002	\$ 133,494,749

On July 7, 2009, concurrent with the closing of the IPO, 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.

Related Party Transactions

- (a) At June 30, 2008 the Company owed C\$545,895 to Mr. Ross Beaty, a director and the Company's Chief Executive Officer ("CEO") 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.
- (b) On August 25, 2008 the Company entered into a credit agreement with a private company controlled by Mr. Beaty, 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 earlier 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 Mr. Beaty and for general working capital purposes.

The requirement to pay interest on a monthly basis was waived by Mr. Beaty. In January 2009, the advance of C\$12,000,000 was repaid in full together with interest, standby and drawdown fees totalling \$863,532. No additional advances have been received under this credit facility to the date of this MD&A.

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
Total lease commitments		\$ 178,071

- (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, Soda Lake Limited Partnership and Soda Lake Resource Partnership ("SLRP"), the three entities which collectively own the Soda Lake Operation, 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 on January 9, 2008. The 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 the 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.

Subsequent events

Events occurring subsequent to June 30, 2009 include the closing of the IPO for net proceeds of \$88 million, the granting of stock options to acquire up to 2,140,000 common shares and the acquisition of additional geothermal leases in Nevada; which details are disclosed elsewhere in this MD&A.

In addition, in July 2009, the Company entered into an agreement to acquire a 10.78% interest in 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 17, 2009, the Company was selected as the preferred bidder to acquire an additional 32.32% interest in HS Orka through an auction process carried out by three shareholders of HS Orka. On August 31, 2009 the Company entered into three share sale and purchase agreements for the acquisition. 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 remaining 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 Magma in this transaction.

The closing of the two transactions to acquire an aggregate 43.1% interest in HS Orka with the option to acquire an additional 5% interest are subject to several closing conditions, including obtaining the approval of Canadian regulatory authorities.

Outlook

Geothermal energy is a proven, global, underexploited, base load renewable energy source. As an energy source, it is clean, with minimal land use and minimal carbon and other emissions. It is permanent, deriving energy from the heat of the earth, and is relatively free from exposure to commodity prices and associated risks. Energy generated from geothermal resources is significantly less costly than from other alternative energy sources such as wind and solar and does not rely on new technologies in order to generate, and continue generating, electricity. Magma was formed to take a pre-eminent role in the geothermal industry and to take advantage of the significant opportunities provided by a global marketplace in growing need of energy from renewable resources.

The Company's current focus in western USA gives it significant exposure to Nevada, Oregon and California. The growing need for energy from "green" sources has forced governments at the state level

to mandate that an ever-increasing amount of energy be used from renewable resources. In addition, at both the federal and state levels, governments have recognized the significance of the renewable resource industry and legislated tax incentives and grants for those companies who meet certain compliance criteria.

Magma has entered the geothermal industry in a significant manner by acquiring one operating property, 5 advanced-stage exploration properties and 12 early-stage exploration properties in a short period of time. In the upcoming year, Magma expects to increase its electricity production at its Soda Lake Operation from 8 MW net to 16 MW net and close its purchase of a 43.1% interest in HS Orka. HS Orka is the largest privately owned energy company in Iceland with installed net geothermal power capacity of 175 MW. The acquisition of a 43.1% interest in HS Orka will add 75 MW of net geothermal production to Magma's total production. Given the opportunities available in the industry and its own portfolio of projects, management is optimistic that it will be able to grow the Company significantly and achieve its mission in the near future.

Internal Control Over Financial Reporting

Management has designed, established and is maintaining a system of internal control over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner and in accordance with Canadian GAAP. The Company's system of internal control is designed to address identified risks that threaten the reliability of its external financial reporting. However, due to the inherent limitations in any system of internal control, material misstatements may not be prevented or detected on a timely basis.

Risks and Uncertainties

The risks and uncertainties described in this section are considered by management to be the most important in the context of the Company's business. The risks and uncertainties below are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

Risks Relating to Magma's Business and Industry

New production wells at the Soda Lake Operation may not define sufficient additional and commercially viable geothermal resources to support Magma's planned expansion programs.

The expansion programs for the production of increased power from the Soda Lake Operation are not assured of success and depend on the successful drilling and discovery of additional geothermal resources to economically generate increased power. Substantial exploration and development work is required in order to determine if sufficient additional economically recoverable and sustainable geothermal resources are located on the lands and leases comprising the Soda Lake Operation to support both: the planned initial Phase 1 expansion program to increase the generating capacity of the existing facilities to the original nameplate capacity of 23 MW gross (16 MW net); and the planned Phase 2 expansion program to increase the nameplate capacity of the Soda Lake Operation to the P₉₀ estimate of the geothermal reservoir's gross generation capacity of 28.8 MW, and potentially up to the P₅₀ estimate of 54.8 MW. In particular, this work will require drilling new production wells for the initial Phase 1 expansion program and additional production wells for the subsequent Phase 2 expansion program. Geothermal exploration and development involves a high degree of risk and there is no certainty that dry holes or flow-constrained wells will not be drilled or that sufficient additional economic geothermal reserves will be defined to support the planned expansion programs. The viability of the planned expansion programs at the Soda Lake Operation will depend upon a number of factors which are beyond Magma's control relating to the nature of the geothermal resource defined through drilling these additional production wells, such as heat content (the relevant composition of temperature and pressure), useful life

and operational factors relating to the extraction of fluids from the geothermal resource. If sufficient economically recoverable and sustainable geothermal resources are not defined through drilling, the planned expansion programs at the Soda Lake Operation may be scaled back or not proceed altogether, which would, in turn, materially and adversely affect Magma's business, financial condition, future results and cashflow.

Geothermal exploration and development programs are highly speculative, are characterized by significant inherent risk and costs, and may not be successful.

Magma's future performance depends on its ability to discover and establish economically recoverable and sustainable geothermal resources on its properties through its exploration and development programs. Geothermal exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into generating power plants. There is no assurance that Magma's exploration and development programs will be successful. Despite historical exploration work, Magma's properties, other than the Soda Lake Operation, are without a known geothermal resource. Substantial exploration and development work is required in order to determine if any economically recoverable and sustainable geothermal resources are located on these exploration properties. Successfully discovering geothermal resources is dependent on a number of factors, including the technical skill of exploration personnel involved. Even in the event commercial quantities of geothermal resources are discovered, it may not be commercially feasible to bring power generation facilities into a state of commercial production from such geothermal resources. The commercial viability of a geothermal resource once discovered is dependent on a number of factors, some of which are particular attributes of the resource, such as heat content (the relevant composition of temperature and pressure), useful life, operational factors relating to the extraction of fluids from the geothermal resource, proximity to infrastructure, capital costs to construct a power plant and related infrastructure and energy prices. Many of these factors are beyond Magma's control.

Geothermal exploration and development costs are high and are not fixed. A geothermal resource cannot be relied upon until substantial development, including drilling, has taken place. The costs of development drilling are subject to numerous variables such as unforeseen geologic conditions underground that could result in substantial cost overruns. Drilling at Magma's properties may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Drilling operations may be curtailed, delayed or cancelled as a result of numerous factors, many of which are beyond the Company's control, including economic conditions, mechanical problems, title problems, weather conditions, compliance with governmental requirements and shortages or delays of equipment and services. If Magma's drilling activities are not successful, it could materially adversely affect its business, financial condition, future results and cashflow.

The Company has a limited operating history.

Magma has a very limited history of operations. The Company is subject to many of the risks common to start up enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Magma will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of Magma's early stage of operations.

From inception the Company has incurred net losses. As a result of its planned exploration and plant expansion projects, over the near term Magma does not expect that its operating revenues will be sufficient to cover its expenses. As a result, Magma expects to continue to incur net losses until it is able to generate significant revenues. Magma's ability to generate significant revenues and become profitable will depend on a number of factors, including its ability to:

- successfully complete its planned expansion programs to its Soda Lake Operation;
- acquire interests in producing geothermal power companies or producing geothermal power plants that contribute to its profitability;
- acquire additional prospective exploration and development properties;
- advance planned and future exploration programs on its exploration properties;
- verify geothermal resources on its exploration properties that are sufficient to generate a favourable economic return from electricity sales;
- acquire electrical transmission and interconnection rights for its geothermal power plant development projects;
- enter into power purchase agreements for the sale of electricity from its geothermal power plant development projects at prices that support its operating and financing costs;
- finance and complete the development and construction of geothermal power plants on its properties;
- operate producing geothermal power plants on a profitable basis;
- secure adequate capital to support its expansion, exploration and development programs and finance its acquisitions; and
- attract and retain qualified personnel.

Magma's financial performance depends on its successful operation of geothermal power plants, which is subject to various operational risks.

Magma's financial performance depends on its successful operation of geothermal power plants. At present Magma operates a single power plant at its Soda Lake Operation. The cost of operation and maintenance and the operating performance of a geothermal power plant may be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- regular and unexpected maintenance and replacement expenditures;
- shutdowns due to the breakdown or failure of the plant's equipment or the equipment of the transmission serving utility;
- labour disputes;
- catastrophic events such as fires, explosions, earthquakes, landslides, floods, releases of hazardous materials, severe storms or similar occurrences affecting a power plant, any of the power purchasers from a power plant or third parties providing services to a power plant; and
- the aging of power plants, which may reduce their operating performance and increase the cost of their maintenance.

Any of these events could significantly increase the expenses incurred by a power plant or reduce the overall generating capacity of a power plant and could significantly reduce or entirely eliminate the

revenues generated by a power plant, which in turn would reduce our net income and could materially and adversely affect our business, financial condition, future results and cashflow.

Magma's geothermal resources may decline over time and may not remain adequate to support the life of its power plants.

The operation of geothermal power plants depends on the continued availability of adequate geothermal resources. Although the Company believes its geothermal resources will be fully renewable if managed properly, there is no certainty that any geothermal resource will remain adequate for the life of a geothermal power plant.

Any geothermal resource may suffer an unexpected decline in capacity to generate electricity. A number of events could cause such a decline or shorten the operational duration of a geothermal resource, which could cause the applicable geothermal resource to become a non-renewable wasting asset. These events include:

- power generation above the amount that the applicable geothermal resource will support;
- failure to recycle all of the geothermal fluids used in connection with the applicable geothermal resource; and
- failure to properly maintain the hydrological balance of the applicable geothermal resource.

If the geothermal resources available to a power plant Magma develops become inadequate, the Company may be unable to perform under the power purchase agreement for the affected power plant, which in turn could reduce revenues and materially and adversely affect Magma's business, financial condition, future results and cash flow. If Magma suffers a decline in its geothermal resources, its insurance coverage may not be adequate to cover losses sustained as a result thereof.

Uncertainty in the calculation of geothermal resources and probabilistic estimates of gross MW capacity.

There is a degree of uncertainty attributable to the calculation of geothermal resources and probabilistic estimates of gross MW capacity. Until a geothermal resource is actually accessed and tested by production wells, the temperature and composition of underground fluids must be considered estimates only. In addition, estimates as to the percentage of the heat that can be expected to be recovered at the surface and the efficiency of converting that heat into electrical energy are subject to a number of assumptions including, but not limited to, resource base temperature, areal extent of the geothermal reservoir, thickness of the geothermal reservoir, percentage of resource recovery and the expected lifetime of the geothermal reservoir. If any of these assumptions prove to be materially incorrect, it may affect the gross MW capacity of a property.

Geological occurrences beyond Magma's control may compromise its operations and their capacity to generate power.

In addition to the substantial risk that production wells that are drilled will not be productive or may decline in productivity after commencement of production, hazards such as unusual or unexpected geologic formations, pressures, downhole conditions, mechanical failures, blowouts, cratering, localized ground subsidence, localized ground inflation, explosions, uncontrollable releases or flows of well fluids, pollution and other physical and environmental risks are inherent in geothermal exploration and production. These hazards could result in substantial losses to Magma due to injury and loss of life, severe damage to and

destruction of property and equipment, pollution and other environmental damage and suspension of operations.

Additionally, active geothermal areas, such as the areas in which Magma's operations and properties are located, are subject to frequent low-level seismic disturbances. Serious seismic disturbances are possible and could result in damage to Magma's projects or equipment or degrade the quality of its geothermal resources to such an extent that Magma could not perform under the power purchase agreement for the affected project, which in turn could reduce its net income and materially and adversely affect its business, financial condition, future results and cash flow. If Magma suffers a serious seismic disturbance, its business interruption and property damage insurance may not be adequate to cover all losses sustained as a result thereof. In addition, insurance coverage may not continue to be available in the future in amounts adequate to insure against such seismic disturbances.

Magma may be unable to obtain the financing it needs to pursue its growth strategy.

When Magma identifies a geothermal property that it may seek to acquire or to develop, a substantial capital investment often will be required. The continued access to capital, through project financing or through credit facilities or other arrangements with acceptable terms is necessary for the success of Magma's growth strategy. The Company's attempts to secure the necessary capital may not be on favourable terms, or successful at all. Market conditions and other factors may not permit future project and acquisition financings on terms favourable to Magma. The Company's ability to arrange for financing on favourable terms, and the costs of such financing, are dependent on numerous factors, including general economic and capital market conditions, investor confidence, the continued success of current projects, the credit quality of the project being financed, the political situation in the jurisdiction in which the project is located and the continued existence of tax laws which are conducive to raising capital. If Magma is unable to secure capital through credit facilities or other arrangements, it may have to finance its projects using equity financing which will have a dilutive effect on its common shares. Also, in the absence of favourable financing or other capital raising options, Magma may decide not to build new plants or acquire properties from third parties. Any of these alternatives could have a material adverse effect on Magma's growth prospects and financial condition.

It is very costly to place geothermal resources into commercial production.

Before the sale of any power can occur, it will be necessary to construct a gathering and disposal system, a power plant, and a transmission line, and considerable administrative costs will be incurred, together with the drilling of production and injection wells. Future development and expansion of power production at Magma's properties may result in significantly increased capital costs related to increased production and injection well drilling and higher costs for labour and materials. To fund expenditures of this magnitude, Magma may have to seek additional financing and sources of capital. There can be no assurance that additional capital can be found and, if found, it may result in Magma having to substantially reduce its interest in the project.

Magma may continue to incur negative operating cash flow for the foreseeable future.

Revenues at the Soda Lake Operation are not sufficient to fund all of Magma's anticipated expansion, development and exploration programs and general and administrative expenses. Magma currently has a negative operating cash flow and may continue to do so for the foreseeable future. Magma's failure to achieve profitability and positive operating cash flows could have a material adverse effect on its financial condition and results of operations.

Energy prices are subject to dramatic and unpredictable fluctuations.

The market price of energy is volatile and cannot be controlled. If the price of electricity should drop significantly, the economic prospects of the operations and properties that Magma has an interest in could be significantly reduced or rendered uneconomic. There is no assurance that, even if commercial quantities of geothermal resources are discovered, a profitable market may exist for the sale of geothermal energy. Factors beyond Magma's control may affect the marketability of any geothermal resources discovered. Prices have fluctuated widely, particularly in recent years. The marketability of geothermal energy is also affected by numerous other factors beyond Magma's control, including government regulations relating to royalties, allowable production and exporting of energy sources, the effect of which cannot be accurately predicted.

Industry competition may impede Magma's ability to access suitable geothermal resources.

Significant and increasing competition exists for the limited number of geothermal opportunities available. As a result of this competition, some of which is with large established companies with substantial capabilities and greater financial and technical resources than Magma, the Company may be unable to acquire additional geothermal operations or properties on terms it considers acceptable. There can be no assurance that its acquisition programs will yield new geothermal operations or properties.

Magma may be unable to enter into power purchase agreements on terms favourable to it, or at all.

The electrical power generation industry, of which geothermal power is a sub-component, is highly competitive and Magma may not be able to compete successfully or grow its business. The industry is complex as it is composed of public utility districts, cooperatives and investor-owned power companies. Many of the participants produce and distribute electricity. Their willingness to purchase electricity from an independent producer may be based on a number of factors and not solely on pricing and surety of supply. If Magma cannot enter into power purchase agreements on favourable terms to it, or at all, it would negatively impact Magma's revenue and its decisions regarding development of additional properties.

The cancellation or expiry of government initiatives to support renewable energy generation may adversely affect Magma's business.

Numerous government initiatives are currently in place, or have been or may be proposed, to support the development of renewable energy generation to meet increasing electricity demand. In the United States, current initiatives include: incentives within the United States Internal Revenue Code, such as the investment tax credit ("ITC") and accelerated depreciation allowances; provisions of the *American Recovery and Reinvestment Act of 2009* extending the availability of the PTC for geothermal projects placed in service before 2014, increasing the ITC from 10% to 30% of eligible costs, and creating a new grant program for geothermal projects that are placed in service in, or for which construction begins in, 2009 or 2010; and renewable portfolio standards ("RPS") requirements or goals established in 33 states and the District of Columbia. The cancellation or expiry of any one or more of these government initiatives, or the failure of federal or state governments to adopt similar initiatives in the future, may adversely affect Magma's business by increasing the costs for financing or development of geothermal power plants and related transmission facilities, reducing demand for geothermal electricity or lowering energy prices.

Environmental and other regulatory requirements may add costs and uncertainty.

Magma's current and future operations, including exploration and development activities and electricity generation from power plants, require licences and permits from various governmental authorities and

such operations are and will be subject to laws and regulations governing exploration and development, geothermal resources, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, project safety and other matters. Companies can experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations, licences and permits. There is no assurance that all approvals or required licences and permits will be obtained. Additional permits, licences and studies, which may include environmental impact studies conducted before licences and permits can be obtained, may be necessary prior to the exploration or development of properties, or the operation of power plants, in which Magma has interests, and there can be no assurance that Magma will be able to obtain or maintain all necessary licences or permits that may be required on terms that enable operations to be conducted at economically justifiable costs. Failure to comply with applicable laws, regulations, licensing or permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Magma may be required to compensate those suffering loss or damage by reason of its activities, and may have civil or criminal fines or penalties imposed upon it for violations of applicable laws or regulations.

In the State of Nevada, drilling for geothermal resources is governed by specific rules. In particular, Nevada drilling operations are governed by the Division of Minerals (Nevada Administrative Code Chapter 534A). These rules require drilling permits and govern the spacing of wells, rates of production, prevention of waste and other matters, and, may not allow or may restrict drilling activity, or may require that a geothermal resource be unitized (shared) with adjoining land owners. Such laws and regulations may increase the costs of planning, designing, drilling, installing, operating and abandoning Magma's geothermal wells, the power plant and other facilities.

Applicable laws and regulations, including environmental requirements and licensing and permitting processes, may require public disclosure and consultation. It is possible that a legal protest could be triggered through one of these requirements or processes that could delay, or require the suspension of, an exploration or development program or the operation of a power plant and increase Magma's costs. Because of these requirements, Magma could incur liability to governments or third parties for any unlawful discharge of pollutants into the air, soil or water, including responsibility for remediation costs. Magma could potentially discharge such materials into the environment: from a well or drilling equipment at a drill site; leakage of fluids or airborne pollutants from gathering systems, pipelines, power plants or storage tanks; damage to geothermal wells resulting from accidents during normal operations; and blowouts, cratering and explosions.

No assurance can be given that new laws and regulations will not be enacted or that existing laws and regulations will not be applied in a manner that could limit or curtail Magma's exploration and development programs or its operation of power plants. Amendments to current laws, regulations, licences and permits governing operations and activities of geothermal companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs, or reduction in levels of production, or abandonment, or delays in development of the business.

The success of Magma's business relies on attracting and retaining key personnel.

Magma is dependent upon the services of its senior management team. The loss of any of their services could have a material adverse effect upon it.

Employee Recruitment, Retention and Human Error

Recruiting and retaining qualified personnel is critical to Magma's success. Magma is dependent on the services of key executives, including its Chief Executive Officer and other highly skilled and experienced executives and personnel focused on managing the Company's interests. The number of persons skilled in acquisition, exploration, development and operation of geothermal properties is limited and competition for such persons is intense. As its business activities grow, Magma will require additional key financial, administrative and technical personnel as well as additional operations staff. There can be no assurance that Magma will be successful in attracting, training and retaining qualified personnel as competition for persons with these skill sets increase. If Magma is not successful in attracting, training and retaining qualified personnel, the efficiency of its operations could be impaired, which could have an adverse impact on its future cash flows, earnings, results of operations and financial condition.

Despite efforts to attract and retain qualified personnel, as well as the retention of qualified consultants, to manage Magma's interests, even when those efforts are successful, people are fallible and human error could result in significant uninsured losses to Magma. These could include loss or forfeiture of geothermal claims or other assets for non-payment of fees or taxes, significant tax liabilities in connection with any tax planning effort Magma might undertake and legal claims for errors or mistakes by Magma's personnel.

Magma's officers and directors may have conflicts of interests arising out of their relationships with other companies.

Several of Magma's directors and officers serve (or may agree to serve) as directors or officers of other companies or have significant shareholdings in other companies. To the extent that such other companies may participate in ventures in which Magma may participate, the directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment.

Magma may face adverse claims to its title.

Although Magma has taken reasonable precautions to ensure that legal title to its properties is properly documented, there can be no assurance of title to any of its property interests, or that such title will ultimately be secured. Magma's property interests may be subject to prior unregistered agreements or transfers or other land claims, and title may be affected by undetected defects and adverse laws and regulations.

Pursuant to the terms of its BLM leases, Magma is required to conduct its operations on BLM-leased land in a workmanlike manner and in accordance with all applicable laws and BLM directives and to take all mitigating actions required by the BLM to protect the surface of and the environment surrounding the relevant land. Additionally, certain BLM leases contain additional requirements, some of which relate to the mitigation or avoidance of disturbance of any antiquities, cultural values or threatened or endangered plants or animals, the payment of royalties for timber and the imposition of certain restrictions on residential development on the leased land. In the event of a default under any BLM lease, or the failure to comply with such requirements, or any non-compliance with any of the provisions of the *Geothermal Steam Act of 1970* or regulations issued thereunder, the BLM may, 30 days after notice of default is provided to Magma's relevant project subsidiary, suspend Magma's operations until the requested action

is taken or terminate the lease, either of which could materially and adversely affect Magma's business, financial condition, future results and cash flow.

Uncertainty Regarding the Conversion of Exploration Concessions

Magma must convert certain Chilean exploration concessions into exploitation concessions in order to proceed with planned exploration and development activities on its Chilean properties. In particular, Magma is currently in the process of applying to the Chilean Ministry of Mining to convert several existing geothermal exploration concessions at the Maule Property into exploitation concessions. There is no assurance that Magma will be able to convert any exploration concessions into exploitation concessions in a timely manner, or at all, in order to proceed with exploration and development activities on its properties.

A significant portion of Magma's revenue is attributed to payments made by a single power purchaser under the Soda Lake PPAs.

Electricity sales from the Soda Lake Operation are governed by the terms of two long-term PPAs with NV Energy. Accordingly, Magma's revenues and power generation operations are currently dependent upon a sole customer, NV Energy. Magma does not make any representations as to the financial condition or creditworthiness of NV Energy, and nothing in this Annual Information Form should be construed as such a representation.

There is a risk that NV Energy may not fulfill its payment obligations under the Soda Lake PPAs. For example, as a result of the energy crisis in California in the early 2000s, Southern California Edison withheld payments it owed under various of its PPAs with a number of power generators between November 2000 and March 2002. If NV Energy fails to meet its payment obligations under the Soda Lake PPAs, it could materially and adversely affect Magma's business, financial condition, future results and cashflow.

Fluctuation in foreign currency exchange rates may affect Magma's financial results.

Magma maintains accounts in Canadian and U.S. dollars. Magma's operations in the United States and South America make the Company subject to foreign currency fluctuations. Foreign currency fluctuations are material to the extent that fluctuations between the Canadian and U.S. dollar and/or U.S. dollar balances are material. Magma does not at present, nor does it plan in the future, to engage in foreign currency transactions to hedge exchange rate risks but it does convert Canadian funds to U.S. dollars anticipating U.S. expenditures.

Magma may not be able to successfully integrate businesses or projects that it acquires in the future.

Magma's business strategy is to expand in the future, including through acquisitions. Integrating acquisition targets is often costly, and Magma may not be able to successfully integrate acquired companies with its existing operations without substantial costs, delays or other adverse operational or financial consequences. Integrating the acquired companies involves a number of risks that could materially and adversely affect Magma's business, including:

- the failure of the acquired companies to achieve expected results;
- inability to retain key personnel of acquired companies;
- risks associated with unanticipated events or liabilities; and

- difficulties associated with establishing and maintaining uniform standards, controls, procedures and policies, including accounting and other financial controls and procedures.

Magma's insurance policies may be insufficient to cover losses.

As protection against operating hazards, Magma maintains insurance coverage against some, but not all, potential losses. Magma does not fully insure against all risks associated with its business either because such insurance is not available or because the cost of such coverage is considered prohibitive. The occurrence of an event that is not covered, or not fully covered, by insurance could have a material adverse effect on Magma's financial condition and results of operations.

Risks Relating to the Political and Economic Climates of Countries in which Magma Operates

There are risks associated with inter-regional transmission grids.

The electrical power generated by Magma's operations may be used by consumers in the jurisdiction where such operations are located, such as Nevada in the case of the Soda Lake Operation, or sold to other neighbouring jurisdictions through an inter-regional transmission grid. Applicable laws, inter-regional agreements and the structure and functioning of the power markets between a host state and its neighbouring states are all critical to the success of Magma's geothermal projects.

Host country economic, social and political conditions can negatively affect Magma's operations.

A number of Magma's exploration properties are located in Chile, Argentina and Peru. As Magma conducts exploration and development operations in these foreign countries, it is exposed to a number of risks and uncertainties, including:

- terrorism and hostage taking;
- military repression;
- expropriation or nationalization without adequate compensation;
- difficulties enforcing judgments obtained in Canadian or United States courts against assets located outside of those jurisdictions;
- labour unrest;
- high rates of inflation;
- changes to royalty and tax regimes;
- extreme fluctuations in currency exchange rates;
- volatile local political and economic developments;
- difficulty with understanding and complying with the regulatory and legal framework respecting the ownership and maintenance of geothermal properties and power plants; and
- difficulty obtaining key equipment and components for equipment.

Host country economic, social and political uncertainty can arise as a result of lack of support for Magma's activities in local communities in the vicinity of its properties. Such uncertainties also arise as a result of the relatively new and evolving promotion of private-sector power development. Though the effects of competition will increase the likelihood of market efficiencies and benefit Magma's properties, elimination of energy cost subsidies may increase the inability of end-use consumers to pay for power and lead to political opposition to privatization initiatives and have an adverse impact on Magma's properties and operations.

Developments regarding Aboriginal, First Nations and Indigenous Peoples

Magma explores and operates in areas inhabited by aboriginal, First Nations, and indigenous people. Developing laws and movements respecting the acquisition of lands and other rights from such people and communities may alter decades old arrangements made by prior owners of Magma's geothermal properties or even those made by Magma in more recent years. Magma has used commercially reasonable efforts in its dealing with all aboriginal, First Nations, and indigenous people to ensure all agreements are entered into in accordance with the laws governing aboriginal, First Nations, and indigenous peoples and their communities but because of complex procedural and administrative requirements in some jurisdictions, there is no guarantee that such agreements will ultimately protect Magma's interest, nor can there be any guarantee that future laws and actions will not have a material adverse effect on Magma's financial position, cash flow and results of operations.

Risks Relating to the Common Shares and Trading Market

If Magma's common share price fluctuates, investors could lose a significant part of their investment.

In recent years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. The market price of Magma's common shares could similarly be subject to wide fluctuations in response to a number of factors, most of which Magma cannot control, including:

- changes in securities analysts' recommendations and their estimates of Magma's financial performance;
- the public's reaction to Magma's press releases, announcements and filings with securities regulatory authorities and those of its competitors;
- changes in market valuations of similar companies;
- investor perception of Magma's industry or prospects;
- additions or departures of key personnel;
- commencement of or involvement in litigation;
- changes in environmental and other governmental regulations;
- announcements by Magma or its competitors of strategic alliances, significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- variations in Magma's quarterly results of operations or cash flows or those of other companies;

- revenues and operating results failing to meet the expectations of securities analysts or investors in a particular quarter;
- future issuances and sales of Magma's common shares; and
- changes in general conditions in the domestic and worldwide economies, financial markets or the mining industry.

The impact of any of these risks and other factors beyond Magma's control could cause the market price of its common shares to decline significantly. In particular, the market price for Magma's common shares may be influenced by variations in electricity prices. This may cause Magma's common share price to fluctuate with these underlying commodity prices, which are highly volatile.

Magma has no dividend payment policy and does not intend to pay any cash dividends in the foreseeable future.

Magma has not declared or paid any dividends on its common shares and does not currently have a policy on the payment of dividends. For the foreseeable future, Magma anticipates that it will retain future earnings and other cash resources for the operation and developments of its business. The payment of any future dividends will depend upon earnings and its financial condition, current and anticipated cash needs and such other factors as its Board of Directors considers appropriate.

The issuance of additional equity securities may negatively impact the trading price of Magma's common shares.

Magma may issue equity securities to finance its activities in the future. In addition, outstanding options or warrants to purchase its common shares may be exercised, resulting in the issuance of additional common shares. The issuance of additional equity securities or a perception that such an issuance by Magma may occur could have a negative impact on the trading price of Magma's common shares.

Current global financial conditions have been subject to increased volatility.

Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact our ability to obtain equity or debt financing in the future and, if obtained, on terms favourable to Magma. If these increased levels of volatility and market turmoil continue, Magma's operations could be adversely impacted and the trading price of its common shares could be adversely affected.

Additional information about the Company is available on SEDAR at www.sedar.com and on the Company's website at www.magmaenergycorp.com.