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Cathy Hickson
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Andrea Zaradic
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Wellington West

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Matt Gowing
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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the Magma Energy Corp Conference Call with Mr. Ross Beaty, Chairman and Chief Executive Officer of Magma Energy Corp. Please be advised that this call is being recorded for instant replay purposes.

I would now like to turn the meeting over to Mr. Beaty. Please go ahead, sir.

Ross Beaty, Chairman & Chief Executive Officer

Thank you very much, operator, and good morning ladies and gentlemen. Welcome to Magma's First Quarter 2010 Financial and Operating Results Conference Call.

I'd like to make reference to the fact that I will be making a number of forward-looking statements today and we seek safe harbour protection for those. I would also remind our listeners that all dollar amounts expressed today will be in U.S. dollars, as that is our operating currency.

With me on this call are Frank Monastero from Reno, who is the President of Magma U.S. and in charge of all of our U.S. operations; Alison Thompson, our Vice-President, Corporate Relations; Cathy Hickson, our Chief Geologist; Andrea Zaradic, our Vice-President of Project Development; and Sandra Lim, our Chief Financial Officer. I will be asking Andrea to say a few words later on in the call and otherwise the rest of the members from Magma are here to answer questions as may arise.

Well, as most of you know, Magma is a very young company. This is just the first quarter of our second full year in operations and our financial results are not terribly comparable year on year. In the first quarter last year we did not own the Soda Lake plant in Nevada and we were only seven months old then, with few assets but very big plans.

Since the end of September a year ago we have grown dramatically, but our fastest growth has come in the quarter just ended. Agreements were signed in Iceland that, once completed, will result in our annual geothermal power production increasing from 8 megawatts net to 83 megawatts net; power production expansions are planned for 8 megawatts net in Nevada in early 2010, about which we will comment later; and 107 megawatts net in Iceland by 2015.

Our Nevada and international exploration efforts are gearing up quickly and we have already announced a new 140-megawatt geothermal resource discovery at our Maule project in Chile. This is a major discovery but we think it will get much bigger with further exploration. We added seven new exploration properties during the quarter to our Nevada portfolio and just after its end two new projects in Nicaragua. The real highlight of the quarter however was our completion of a successful IPO on July 7th which raised $88 million net of costs. This gives us the financial horsepower to aggressively explore and develop the most promising of our properties in the next couple of years.

So Q1 was a pretty good quarter. Since going public on July 7th our independently verified geothermal resources have increased from 199 megawatts to 436 megawatts, nearly 150 percent, and, as I've said, our net power production from 8 megawatts to 83 megawatts more than ten times. This is a pretty good start on our mission to build a great global geothermal power company by successful exploration, production, and acquisition.

Looking at our assets in more detail, let's start with our Soda Lake operation in Nevada. Plant operations generated only minimal cash flow during the quarter, as expected. Revenue was affected by seasonal conditions as summer temperatures always reduce power output and by occasional plant disruptions due to drilling and plant interruptions as a result of our phase-one expansion project designed to double Soda Lake's output from 11 megawatts gross or 8 megawatts net to 23 megawatts gross or 16 megawatts net.

Regarding the status of our phase one and two expansion plans I'm going to ask Andrea Zaradic, Magma's VP, Project Development, to outline what's going on right now. Andrea?

Andrea Zaradic, Vice-President, Project Development

Thank you, Ross.

Following the drilling completion of the second production well in early August we entered into a phase of detailed data analysis that included the development of a working reservoir model of the Soda Lake field. In mid-September we hired the Fractured Reservoir Engineering Group from Golder Associates located in Redmond, Washington with the main objective of developing a hydrological model of the field. Since that time and over the last eight weeks 125 independent sets of data, both historical and recently acquired from the results of the drilling program, were assessed and used in the development of this model. Through these efforts we've established a working model of the field which supports the main theory that our reservoir at Soda Lake consists of both a shallow aquifer fed from a deeper source of heat. The primary objective of this modelling exercise will be executed in two stages and will be used to determine how we can improve productivity both from our existing well field and the two newly drilled production wells.

In addition to this, based on the recent completion and results of a (inaudible) test program that we initiated in March of this year we have very good reason to believe that our first production well that we drilled and completed in June of this year is connected to the deeper Soda Lake reservoir while the second well, completed in August, is connected to the shallow well, shallower aquifer. Given the high temperatures recorded in both these wells, particularly the first well, in addition to significant lost circulation experienced during the drilling program, we are continuing our efforts to complete this program and bring these two wells to commercial production.

In addition to the modelling work, the geological, geophysical and engineering assessments underway at the reservoir, we have been actively investigating several options to improve well productivity from our two newly-drilled wells. Very briefly, these consist of a flushing and removal of the existing liner in the wells to access the deeper reservoir, an acid treatment primarily used to treat well bore damage, hydrofracturing of the wells, and we have actually seen a good history of hydrofracking in the Soda Lake field, and deflibration(sp.).

In addition to improving productivity from these two new wells we are also investigating options of increasing and optimizing production from the existing producing and injecting wells in the field. This basically consists of determining the impact of taking offline certain injectors in the field which are known to cause cooling and to determine a long-term strategy of maintaining both thermal and pressure support of the field. This will now be possible with the tools we have developed and are continuing to develop so as to determine the best sustainable operational strategy for the field.

We recently completed a shutdown for both Soda Lake one and two at the end of October. Prior to that shutdown we completed an in-depth engineering assessment of the plant to determine what opportunities existed for efficiency improvements in addition to ensuring plant reliability in preparation for the higher geo flow rates, temperatures and pressures that we will introduce to the plant to achieve the nameplate capacity that Ross referred to.

The engineering work was completed in mid-August and we are pleased to conclude that through these efforts we validated our engineering model and have squeezed out an additional megawatt of power from the facility, which bumps up our current plant output to approximately 9 net megawatts.

This one megawatt increase equates to just over 8,000 megawatt hours per year of additional revenue with no additional operating costs. Very quickly, these improvements were realized through a rebuild of the Soda Lake one cooling tower, an increase of pipeline sizing into Soda Lake one to allow greater flow and reduced pressure loss, and also a very thorough and elaborate cleanout and inspection of all the heat exchangers at the facility.

To date the plant has produced just over 50,000 megawatt hours out of a total budget of 62,500 megawatt hours for 2009, and assuming the plant continues at current production rate, which we have every reason to believe it will, we will achieve just over 95 percent of our budgeted production target for the year. In a nutshell, the plant is now ready for the additional flow.

As of the end of October, as part of the phase-one expansion program, we have spent $10.6 million out of a budget of $18.2 million. Of that $10.6 million $2.1 million has been committed to plant refurbishment and upgrades with the balance of approximately $5 million remaining required for the installation of new production wells, pumps and equipment, supporting equipment.

So the next key steps for Soda Lake in hand with the tools that we have are a set of recommendations from our consulting group in Golder in addition to our in-house team in Reno by the end of the month to determine what our next steps are for reworking of the two new drilled wells in the field in addition to the existing producing wells. And concurrent with this we will also be preparing an updated resource estimate for Soda Lake to update the P90 and P50 estimates that we developed approximately one year ago.

Ross Beaty, Chairman & Chief Executive Officer

Thanks, Andrea.

So, in other words, we're moving right along the path that we announced last conference call and at the same time as we're trying to get to the end of our phase-one expansion, which takes our power to 16 megawatts net, we're also looking at the phase-two expansion today and seeing what the field is capable of so that we can then move into that program as soon as possible.

Okay, I'll now move to our other exploration assets. As I mentioned earlier, Magma acquired seven new Nevada geothermal properties in Q1 and two new Nicaraguan exploration projects just last month. We now hold 161,000 hectares or just over 400,000 acres of geothermal rights at 27 properties in five countries. But of course it's quality and not quantity that counts and our big focus in 2010 will be to explore these holdings aggressively, winnow out the wheat from the chaff, and drop the lowest-quality projects to focus our efforts on the best.

In the United States we are blessed with wonderfully supportive governments at all levels that understand and encourage geothermal energy. They do this because geothermal power development can help wean the country off other more polluting power generation methods, reduce America's dependence on foreign oil, provide new job opportunities, and create a truly sustainable energy economy that will be the foundation for a stronger country. A principal focus for Magma in 2010 will be to explore and develop our large U.S. land holdings and to seek new and better ones.

We were successful recently in winning $10 million in Department of Energy drilling grants for our Soda Lake and McCoy properties and this will help enhance our ability to drill more actively and also to seek new innovative ways to explore for geothermal power in the U.S. We first have to permit our planned activities and we hope to be able to complete permitting work early in the New Year, enabling a comprehensive geological, geophysical and drilling program on several of our Nevada properties, particularly our Soda Lake, McCoy, and Desert Queen projects. We have already done a lot of surface work so far resulting in our acquisition of several new tracts of land and our relinquishment of some land we acquired last year that didn't meet our standards.

In Chile, as announced previously, we have already made a major geothermal resource at Maule and we are now building a road that will allow us to carry out more drilling when the Chilean government approves our license applications, which we hope will happen soon. Our other Latin American exploration lands, including the two new concessions we recently won in Nicaragua, will see early stage low-cost exploration as we evaluate where and how to conduct more detailed work.

Moving to Iceland, I am pleased to report today that we expect to close this week the first purchase of an 8.6

percent interest in HS Orka, the large geothermal power company that we like so much. The conditions precedent to closing have been met, albeit about two months late, later than we expected due to some very dilatory behaviour by or dilatory, ah, otherwise you might say pokey practices by some of the European banks that hold the debt of this company. So it's a little bit later than expected but we're now going to close it and we should be a proud minority shareholder of this great company very soon. We now expect to close the next 32 percent purchase in late November and another 3 percent in March 2010, which will take Magma's interest in HS Orka to 43 percent. We hope to increase this interest in due course up to 50 percent to enable us to consolidate HS Orka's financial statements into Magma's but we have agreed with Iceland's current government to stop there for the time being such that Icelandic interests will hold the other half of the company.

We have recently been spending a lot of time in Iceland to understand better the geothermal resources held by HS Orka, its current operations, its large growth potential, and its great human resources. And to make a long story short, we love them all. Iceland is having a tough time right now after its banking industry collapsed a year ago and we hope that Magma will be a great corporate citizen in the country over the long term, helping provide capital and support to build a stronger economy at the same time as this builds us into a stronger company. For the investment analysts on the call, our plan is to complete the second tranche of our purchase of HS Orka later this month and then provide a comprehensive disclosure document detailing the cash flow and resource models we have for our shareholding in the company.

My final comment this morning is to express my gratitude and surprise at the wonderful coverage being given us by investment analysts and firms. We've only been a public company now for four or five months but we have ten analysts covering us from Canadian and U.S. firms. They have been generous in their comments on our business plan, our management team, and our assets. We have a formidable task ahead of us to realize on our mission to build one of the world's preeminent geothermal power companies and I think our Q1 results, our first quarter since we became a public company, shows that we are executing well on our business plan. we have discovered a major new geothermal resource in Chile, we are building and operating well at Soda Lake, and we have acquired new projects in Nevada, Nicaragua, and Iceland. Our goal is to provide superior financial returns to our shareholders through capital gains and dividends. We did that in Q1 and I look forward to continuing this record in forthcoming quarters and years.

With that I would like to open the call to questions.

QUESTION AND ANSWER SESSION

Operator

Thank you, sir. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. To register, please press star one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while participants register for their questions. Thank you for your patience.

The first question is from Marcel Valentin from Wellington West. Please go ahead.

Marcel Valentin, Wellington West

Good morning. You mentioned that you'll provide an update when the second tranche in Iceland closes; can you provide any clarity on the debt restructuring going on with HS Orka? How that's proceeding?

Ross Beaty, Chairman & Chief Executive Officer

Sure. There's no real debt restructuring. The debt is current. Its principal and interest are absolutely up to date and have always been. What happened last year was when the Icelandic krona devalued the debt equity ratio went offside. The equity value went down of course, the debt stayed where it was, in fact it went up because in krona terms the krona weakened significantly against the dollar and a lot of the debt is denominated in dollar and yen and euro and so on. So that just sent the debt equity ratio offside and the three European banks basically had to waive the breach.

And in the course of negotiating this a lot of other, almost all debt in Iceland was offside as well so there's been just a massive, um, it's a combination of restructuring for debts that really are bad debts and the ones like HS Orka which are current and are not in breach at all apart from the covenants. They kind of went to the second tier and just got, I guess, much slower response from the three banks that hold the debt.

At the same time, the security has been enhanced a little bit, that's taken a bit of time, and there has been a slight

increase in the coupon on the debt and that's what took the time negotiating between the three banks and the power company, HS Orka.

So that is now just about finished. The banks have waived the breach by a term sheet and now they're moving things into sort of detailed new banking documents, which of course, as you know, take a little bit more time to get finalized. Okay?

Marcel Valentin, Wellington West

Okay, thank you. Moving on to Chile, can you give us some sort of sense on the timing of the permits? You said they'd come soon but, ah...

Ross Beaty, Chairman & Chief Executive Officer

Yeah. Maybe, Cathy, can you—it's hardly a push of string(sp.).

Cathy Hickson, Chief Geologist

Yeah. basically the government is in the process of restructuring its geothermal development group, its geothermal department, and it's moving it from the current ministry of mines to a newly-formed ministry of energy. And actually the president has asked the ministers to clear up all backlog of geothermal before the end of the current calendar year. So we are expecting this to be resolved relatively rapidly.

Marcel Valentin, Wellington West

Thank you. Can we just get some sort of indication over the next six months besides what's going on in Iceland? Can you provide us with some sort of big catalyst that we might be able to expect? PPA, drill results, so on.

Ross Beaty, Chairman & Chief Executive Officer

Sorry, apart from Iceland or in Iceland?

Marcel Valentin, Wellington West

Apart from Iceland. Or including, sure, if there's something else going on there.

Ross Beaty, Chairman & Chief Executive Officer

Well, you know, I think you're just going to have a look and see how we grow during the year. I mean we'll have every index of growth. Of course there's exploration results, there's new resource announcements, there's execution of power purchase agreements, there will be taken projects advanced through drilling towards say pre feasibility and then feasibility. We will be doing these both in Latin America and in North America simultaneously on our best properties. I'm not just sure exactly what—we can't really predict exactly what's going to happen because it's going to have to just depend on results and the classic iterative approach to exploration that we'll be undertaking. I think you just have to watch us and assume we'll be having lots and lots of news from a very aggressive program.

Marcel Valentin, Wellington West

Thank you.

Operator

Thank you. The following question is from Jeremy Mersereau from National Bank Financial. Please go ahead.

Jeremy Mersereau, National Bank Financial

Good morning. I just have a couple of questions. First, the added properties in Nevada, are they—would it be safe to assume that they're all near existing concessions?

Ross Beaty, Chairman & Chief Executive Officer

Frank?

Frank Monastero, President, Magma Energy U.S. Corp.

Well, you know, some of them are. Many of the properties that we've added in Nevada are ones that have been explored previously. They were explored in the middle 1970s into the early 1980s, similar to what happened to Desert Queen and Panther Canyon and McCoy, and we picked them up in the lease sale because of that because there's a substantial amount of

information that's already available. Our Soda Lake East project is an area that is adjacent to our existing Soda Lake project, as is our (inaudible) project to the north and, yeah, the interest in those particularly properties is based on the proximity to existing resources and also the fact that there is some promising historic data on them.

Jeremy Mersereau, National Bank Financial

Right. So I don't know if you can give me an idea as to how much you are planning to spend on these early-stage properties over the next year?

Frank Monastero, President, Magma Energy U.S. Corp.

Well that's difficult to, ah, as Ross pointed out, because exploration projects by their very nature are iterative it's very difficult to say at the present time. Suffice to say that we have a very aggressive program. As we explained during our IPO road show to potential investors, you know, we are going to go through a very rigorous winnowing process and in order to do that we have to commit a substantial amount of money to exploration.

Jeremy Mersereau, National Bank Financial

Okay. And I guess along a similar line of questioning just wondering if you can give us an idea as to what kind of spending you expect to do in Nicaragua with ramp out over the next 12 months or so.

Ross Beaty, Chairman & Chief Executive Officer

Next 12 months in Nicaragua the budget will be very small. It's going to be confined to basic geological field work, geochemical sampling, perhaps some geophysics, but relatively modest budgets, as is going to be typical of these early-stage projects and in fact the exploration projects on the new Nevada properties as well. it's going to be relatively low budget amounts before we get into the big cost, which is drilling, and we'll make sure that we have a good target before we go and spend the big money on drilling. Whether that will be a 2010 expense or a 2011 expense on either Nicaragua or the U.S. properties will remain to be seen.

Jeremy Mersereau, National Bank Financial

Okay. And just so I, ah, I just want to make sure I understood correctly, we should be expecting an updated resource estimate by the end of this month for Soda Lake. Is that correct?

Andrea Zaradic, Vice-President, Project Development

No, not by the end of this month. I'd say by end of Q1 next year we should have and updated resource estimate, if not sooner.

Jeremy Mersereau, National Bank Financial

Okay.

Andrea Zaradic, Vice-President, Project Development

Yeah. In the next quarter.

Jeremy Mersereau, National Bank Financial

Next quarter, not Q1 2011.

Ross Beaty, Chairman & Chief Executive Officer

Probably not the quarter ended December 31st but probably early next year.

Jeremy Mersereau, National Bank Financial

Great. Thanks.

Operator

Thank you. The following question is from Steven Li from Raymond James. Please go ahead.

Steven Li, Raymond James

Hi. Thank you. Just a couple of questions. On Soda Lake, the reworking of the two new wells and the existing wells, when do you expect to complete that study?

Andrea Zaradic, Vice-President, Project Development

Well, Steven, that study is coming to a preliminary completion by the end of November, at which point we'll have some recommendations of what those options are. We are in parallel costing out various options and using the modelling to determine what's the best technical solution. So I expect in December that we will be very busy again with well rework on first well for certain.

Steven Li, Raymond James

And then, Andrea, in your comment it looks like you're budging drilling a new production well; what is the timeline for that?

Andrea Zaradic, Vice-President, Project Development

The current budget does not have any funds allocated for a new well, I'm not sure where you got that from, but what we have in the current budget is $18.2 million for the phase-one expansion, of which we've spent $10.6 to date, and we have approximately $5 million remaining, which is allocated for production well equipment. You know, pump, piping, electrical equipment. At this point in time we're not assuming that we will need to drill a new well.

Steven Li, Raymond James

Okay, great. And then just a couple more questions. The recent $10 million funding award from the DOE, when do you expect to receive that money? And also when do you expect to file the 30 percent cash grant application for Soda Lake? Thanks.

Ross Beaty, Chairman & Chief Executive Officer

Frank, can you tackle the first one?

Frank Monastero, President, Magma Energy U.S. Corp.

Yeah, absolutely. Great question, Steven. We'd love to know the answer as well if you have any insights.

The issue with the Department of Energy of course is they made the award announcements quite early, we were very impressed and very pleased. We received notification late last week by letter that they would like to move to the next stage, which is the negotiation process. Specific questions were asked, they were relatively minor, we responded to them, got a replay saying they were adequate; however, they did not name a time and a place for the negotiations. We anticipate, with not a whole lot of foundation, but we do anticipate discussions commencing some time before the end of the first week in December. We'll see where that goes. But we are right now, obviously, awaiting further direction from DOE.

Ross Beaty, Chairman & Chief Executive Officer

Thanks, Frank. And Andrea will tackle the second question.

Andrea Zaradic, Vice-President, Project Development

Steven, with respect to the energy grant, we will be applying for that at the completion of phase one. And I apologize—I've been talking in calendar quarters but that would be the beginning of 2010 timeframe when we finish the phase one expansion we will then apply for the 30 percent energy grant.

Steven Li, Raymond James

Okay, great. Thanks guys.

Ross Beaty, Chairman & Chief Executive Officer

Okay. You're very welcome, Steven.

Operator

Thank you. The following question is from Dilip Warrier from Thomas Weisel Partners. Please go ahead.

Dilip Warrier, Thomas Weisel Partners

Good morning. I wanted to get a little bit more colour perhaps on the recent concession wins at Nicaragua with Polaris. I was wondering what led to the partnership and, you know, should we be expecting more partnerships of this sort going forward, particularly outside the U.S.?

Ross Beaty, Chairman & Chief Executive Officer

No, you shouldn't. Unless we had quite unusual circumstances. At the end of the day, you know, our mission is to try to build a preeminent geothermal power company and generally speaking you don't get there by partnering projects. Sometimes you do, but you don't usually. If a project is really a good one you want to own it all.

Nicaragua is a little exceptional because we actually had a joint venture there last year with Polaris on a small property we were working together on and that was interesting to me because we were new to the area and they were not. they were veterans there and I liked the management team and thought, you know, it might be the springboard to some other relationship in the future.

That project never went anywhere, we ended up dropping it, but this year when the properties came up for bid we kind of already had a JV agreement, we had a JV company, and we decided we'd bid together for those two concessions. You know, from my standpoint, Ram is a new company, it's taken over Polaris and rolled it into, ah, to create manpower rolled it into Western GeoPower and a shell company on the TSX.

So this is an opportunity for us to kind of work together with this new company. There's lots of benefits when you do this but, at the end of the day, I don't think you will be seeing this as a model for the future. They do have a good infrastructure in Nicaragua, they can operate more inexpensively than we can, they're a good group and we know them well and that's sort of the right ingredient to start with in a joint venture but, as I said, don't expect to see this as a model.

Dilip Warrier, Thomas Weisel Partners

Thanks, Ross. Another question, you know, and I know it's a little early to give any guidance of any sort on Chile but, you know, if you could provide us some sort of colour on what the prevailing electricity prices there are and, you know, what sort of construction costs as well as sort of the ongoing cash (inaudible) cost.

Ross Beaty, Chairman & Chief Executive Officer

You know what? I really apologize, I'm going to duck that question. We just don't have—the project is still early stage. It looks very, very promising and very large. It's situated in a great spot in Chile for development. We see no fatal flaws to development but let's first of all get the concessions we need granted to us from the government that we've applied for, let's get back on the ground and drill a few more holes, and then we can maybe—we won't be waiting a long time I hope. We'll be hopefully answering those questions within the next 12 months, maybe even within the next six months, but I think it's a tiny big premature to get into those details right now.

Let's I guess say that this resource that we think we have will be on the, by the standards of geothermal properties worldwide it will be a world-class resource. But to say that as a resource and ultimately get to power production, you know, that's a very, very long step and a long leap of faith to be able to allow us to do that. It's going to take years to do and a tremendous amount of money, tremendous amount of effort as we walk through all of the stages between today and power production on this property.

Dilip Warrier, Thomas Weisel Partners

Very good. Understood. And then one last question. So, you know, at Soda Lake the, ah, what you've said now is the equipment refurbishment should be completed and is on track to be completed I guess by the end of March 2010. Should we expect the additional 8 megawatts net to also be on line by that time or is there no guidance on that at this point?

Ross Beaty, Chairman & Chief Executive Officer

That's definitely the game plan right now and that's what we're shooting for today and hope to get there. Absolutely.

Dilip Warrier, Thomas Weisel Partners

Thank you.

Ross Beaty, Chairman & Chief Executive Officer

You're welcome.

Operator

The following question is from Matt Gowing from Research Capital. Please go ahead.

Matt Gowing, Research Capital

Hello all. Thanks for taking my question. Early on in the conference call you spoke about an upcoming power purchase agreement that we should be looking for; can you provide any more colour on that?

Ross Beaty, Chairman & Chief Executive Officer

Upcoming power purchase agreement where?

Matt Gowing, Research Capital

Well I think you just—you made the comment in general that, ah, did you kind of indicate that you expect to sign one in the near term on one of your projects?

Ross Beaty, Chairman & Chief Executive Officer

No we didn't.

Matt Gowing, Research Capital

Okay.

Ross Beaty, Chairman & Chief Executive Officer

No, what I said, and I might have been misunderstood, was when we sign one you'll know about it. We'll announce it promptly as it is a significant value generator and value metric for all power projects.

Matt Gowing, Research Capital

Great, thank you.

Ross Beaty, Chairman & Chief Executive Officer

So the next one that we will likely execute, and we've been generally of the view that you want to first of all develop your resource that you can actually feed into a plant before you go and negotiate a power purchase agreement rather than the reverse, because we think that if we have the power availability we will get a power purchase agreement under the current renewable portfolio standards that prevail in the western U.S. So if we can produce it, they will come, and they will come at good rates, but we also think it's quite premature to put the cart before the horse and negotiate a power purchase agreement before we have the power.

Matt Gowing, Research Capital

Okay, great. Thanks. And on the last conference call that you hosted you spoke about potential exploration success at some of our South American properties, you know, your Peru, Argentinean, Chilean properties. You spoke about doing a review on some of the geochemistry and some of the steam there. Do you have any more of an update to provide on that front?

Ross Beaty, Chairman & Chief Executive Officer

Cathy could hold forth here for the next two hours if we let her but I'm going to actually—she's got her hand up right now to speak but I'm actually going to jump in and say we have done work, the work looks fabulous, but it's still early days and I think we should have more detail before we really talk too much about it. We have done a lot of work, we're continuing to do a lot of work, this is low-cost work, surface work, geophysics, geochemistry, geology, but the real meat comes when you start poking holes in the ground and I think we really want to wait for that.

Matt Gowing, Research Capital

Okay, great. And just moving back to Soda Lake, the resource report that you expect to have I guess updated by end of November I believe you said, so it's going to add one megawatt to the potential reservoir size in terms of generating capacity. Is the purpose of that also to give you validation that you should pursue with Soda Lake expansion?

Ross Beaty, Chairman & Chief Executive Officer

No. The one megawatt has already been added to the power production at Soda Lake. That was the result of the refurbishment of the two plants we have there. That's behind us and it's into the energy mix already. Now we're looking for another seven megawatts net to come from new flow that comes from new holes or a reworking of the existing holes. And that's what we're now looking to do in the next four or five months to finish that work by the end of March next year.

Matt Gowing, Research Capital

Great, thanks. I'll get back into the queue.

Ross Beaty, Chairman & Chief Executive Officer

Okay. Thank you.

Operator

Thank you. The following question is from Mac Whale from Cormark Securities. Please go ahead.

Mac Whale, Cormark Securities

Hi, good morning. Just on Soda Lake, I'm wondering what the bottom line—you've given us a lot of detail on the plan and the timing, is the bottom line to confirm the CapEx and the megawatts that you expect for that CapEx or should we be thinking that those are really up in the air now?

Ross Beaty, Chairman & Chief Executive Officer

No. Well yes and no I guess is the answer to that. Correct me if I'm misstating things, Andrea, but the—the plan is still the original plan, Mac. It's still the original plan to get to 16 megawatts net at Soda Lake with two new holes and on the original budget that we established a year ago. So none of that has changed yet. We're on track for doing that. We are hopeful we're going to be able to do that but, like everything, it's all dependent on the results of the work we do. The reworking of the hole for example, the reservoir model, the results of the, ah, all of the work that we're doing currently. So it's nothing we could take to the bank right now but we're very much on track, as we said, to achieve that.

Mac Whale, Cormark Securities

Okay, great. And then in terms of Iceland, can you—I'm just trying to get a handle on the demand or potential demand for the growth prospects. Just wondering about, from an economic or at least an economy point of view, it's not like the population is growing and there's not a whole lot of growth in the economy. What's it going to take to get that pipeline into sort of a fast track if you will?

Ross Beaty, Chairman & Chief Executive Officer

Okay, just to review numbers, HS Orka currently produces 175 megawatts. A majority of that is sold by direct contract to the Alcan smelter nearby, and the other portion, the minority of that, is sold on to the Icelandic grid for residences and businesses in Iceland. The smelter contract is a U.S. dollar pay contract and the other energy contracts are in Icelandic krona. There are plans for 250 megawatts of expansions at HS Orka between now and 2015, and the simplest way to model that, and again we'll give you all these numbers later, but the simplest way to model that is 50 megawatts a year for five years. All of that power, 100 percent of that power will be committed to a new aluminum smelter that is under construction by Century Aluminum at a site called Helguvik.

So that plant, the new aluminum smelter at Helguvik will need something like 800 megawatts of power, 700 or 800 megawatts. It's going to take it in stages. As I say, it's under construction now and it will take that new power in stages. So there's a lot more power needed at that smelter than simply will be available from HS Orka. And where the smelter will get its additional power will be from the other large geothermal power company in the company, which is run by Reykjavík Energy, and other sources, for example off the grid. The grid is run by the Icelandic power company Landsvirkjun and they have excess power currently that they will supply into that smelter along with power to be supplied by HS Orka and by Reykjavik Energy. Okay? So 100 percent of it is committed for all of the expansion that is currently planed to 2015.

Mac Whale, Cormark Securities

Right. Okay. That's excellent, thanks. And then just lastly on the OpEx in the quarter; is this level, around $2 million a quarter, is there anything exceptional in that or is that what we should be thinking about over the next, say, 12, 24 months?

Ross Beaty, Chairman & Chief Executive Officer

Sandra?

Sandra Lim, Chief Financial Officer

It's not totally unusual but we did have, you know, a few costs, unusual costs...

Operator

Mr. Beaty's line has disconnected. Please remain on line.

Please continue to stand by; the conference will resume momentarily.

Ross Beaty, Chairman & Chief Executive Officer

Hello?

Operator

You're on line sir.

Ross Beaty, Chairman & Chief Executive Officer

Okay. So we just got cut off there, I don't know what happened, but are there any other questions, operator?

Operator

Yes. Once again, please press star one if you have a question.

Our following question is from Ian Tharp from Dundee Securities. Please go ahead.

Ian Tharp, Dundee Securities

Thanks very much and again congratulations on a pretty impressive quarter.

So I'll go back to Soda Lake if I could. Andrea, I understand the plans, you've described those in detail in terms of the work you're doing now. I understand that you may not actually need additional wells to get up to the phase-one productive capacity of 16 net megawatts but does that require, I guess step one you've got the first well that's gone into that deeper, hotter zone, are you kind of anticipating that you're going to get some production from that and therefore you will not need new wells? Or how should we think of new wells I guess for phase-one expansion? I still see that we have kind of a lack of heat and steam there.

Andrea Zaradic, Vice-President, Project Development

Well you're right on, Ian, in terms of your understanding. The objective for us right now is to ensure that we've thoroughly analyzed these two wells that we drilled to determine whether or not we can convert them to commercial flow.

Now what's important to understand for everybody is that Soda Lake in its history and the wells that have been drilled there, it has not been uncommon to see wells initially drilled to be non-commercial and over time through rework to become commercial, so it's actually, it's an exercise in patience and in technical due diligence on our part to make sure that we thoroughly understand what's going on beneath the ground there in terms of the greater reservoir and how we are connected to it, particularly at the first well.

As I mentioned in my summary, we know we are connected. Well I should say we believe we are connected based on tracer test results that we received in completion in September of this year. We have good reason to believe that so we continue to focus on that well. When I say new wells what I mean is drilling new wells, so completely outside of what we've currently drilled and drilling additional wells to the two that we've currently drilled.

Now the second well we know is connected to the shallower reservoir because we drilled right through it, so there are no surprises there. We know exactly what's going on in the second well in terms of the shallow reservoir. What's important for us is to determine the sustainability of the field and how we can make sure that once we get the plan to the 16 megawatts we sustain it at that output.

Ross Beaty, Chairman & Chief Executive Officer

And potentially increase it.

Andrea Zaradic, Vice-President, Project Development

And increase it.

Ian Tharp, Dundee Securities

Okay. And is the idea based on timing, I know Frank talked about the timing of the drilling grants, is the idea there potentially to use that funding toward another deep

well into this deeper, hotter resource if your work concludes that that's the way to go?

Ross Beaty, Chairman & Chief Executive Officer

Ian, what the plan is for that DOE drilling money is to really focus on the next phase of work, what we call phase two, which is really trying to determine—and all of this work right now is part of that as well—to really try to determine how big we can make Soda Lake. Is it going to be capped at 16 megs? Can we push it to 30 megs? 35 megs? What is the size of that field? What do we need to do to get it to that big level? The big level is going to require a whole new plant. You know. And definitely more holes. And all of the work we're doing right now is going to help us answer the question of how big can we make it, when can we make it that big, and what do we need to do to get it there. But that's really the idea of the DOE grant money in terms of the drilling is to push it beyond the current phase-one size.

Ian Tharp, Dundee Securities

Okay. And then to Andrea's point, she said that will result in hopefully a new and expanded P50 P90 estimate for the site.

Andrea Zaradic, Vice-President, Project Development

Well and that's right, Ian. And what we're actually hoping, I shouldn't say hoping, what we're going to do is we're going to prepare our resource estimate probably to the Australian code, because the Canadian code is still in draft, as you know. But as a company we are moving to reporting our resources and reserves per the established codes.

Ross Beaty, Chairman & Chief Executive Officer

We've—I've been on the soapbox on this a few times recently but quite frankly, Ian, we think that the existing P90 P50 system is grossly misleading to investors and is a bad system for public company disclosure of geothermal resources. We think a far better system is the one that's been developed in Australia and elsewhere where you have a category of proven and probable geothermal reserves. Those are reserves, those are projects that have gone through a positive feasibility study or are in production. And a second group categorization, which is a geothermal resource in the measured and indicated or inferred categories, and to us that is much, much more meaningful and it's the system that we plan to proceed with, including Soda Lake, all of our U.S. properties eventually and internationally.

Ian Tharp, Dundee Securities

Okay. I definitely agree on your view there.

So, very quickly, thank you for Soda Lake. Just quickly moving on to Maule. I understand that the road is fully underway. We're waiting for a conversion to the exploitation concession at any time. Are there any other elements that need to fall into place before you're actually able to mobilize the rigs up the road once it's done and start drilling? Environmental or other permit?

Andrea Zaradic, Vice-President, Project Development

No. We're on track, the biggest thing is can we get the road up there in the summertime.

Ross Beaty, Chairman & Chief Executive Officer

Can we get the drills up there in the summertime.

Andrea Zaradic, Vice-President, Project Development

Yes.

Ian Tharp, Dundee Securities

Right. Yeah, before the snow (inaudible). Okay.

Ross Beaty, Chairman & Chief Executive Officer

Thanks a lot, Ian.

Ian Tharp, Dundee Securities

Okay, thank you.

Operator

Thank you. The following question is from Thomas Daniels from Tomas Weisel Partners. Please go ahead.

Thomas Daniels, Thomas Weisel Partners

Hi guys. Just one real quick question on the 30 percent cash grant at Soda Lake: Is that going to be on the $18.3 million budget, 30 percent of that? Is that safe to assume that number?

Ross Beaty, Chairman & Chief Executive Officer

Yes.

Thomas Daniels, Thomas Weisel Partners

Yes? Okay. And then would you guys file that for the phase one expansion and then file a separate ITC for the second phase?

Ross Beaty, Chairman & Chief Executive Officer

Yes.

Thomas Daniels, Thomas Weisel Partners

Yes? Okay, great. thank you very much.

Ross Beaty, Chairman & Chief Executive Officer

You're welcome.

Operator

Mr. Beaty, there are no further questions registered.

Ross Beaty, Chairman & Chief Executive Officer

Okay, well that's great. Thank you everybody for your time and patience in listening to our Q1 conference call and until we meet again good afternoon and good morning. Bye-bye.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation.
