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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome 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. Ross Beaty. Please go ahead, Mr. Beaty.

Ross Beaty, Chairman & Chief Executive Officer

Thank you, operator, and good morning ladies and gentlemen. Thank you very much for joining us on this Q3 Fiscal 2010 Conference Call.

I am presently located in Iceland and joining me here are Asgeir Margeirsson, who is the head of our Icelandic business, as well as Alison Thompson, Magma's Vice-President of Corporate Relations. On the phone from Vancouver are Andrea Zaradic, our VP, Operations and Development, and Sandra Lim, our CFO. And from New York is Cathy Hickson, our Vice-President, Exploration and Chief Geologist.

As usual, I'm going to open up things here and make some introductory comments. I will be assisted by Sandra, who will walk through some of our financial results, have Andrea go over some of our operational results, and then I'm going to finish off and open the call to questions.

Obviously our third quarter results, which we released on Friday afternoon, have been overshadowed by our big announcement this morning, that Magma is in the process of acquiring all of Geysir Green Energy's stake in HS Orka, which will take us to a 98.5 percent ownership position in HS Orka. So my comments will include this event.

Firstly, talking about the quarter, the highlights of our January to the end of March period and extending into a couple of things up to today, first of all, the award in Chile of our Pellado and Maule concessions and the start of our big drilling program there. Secondly, in Nevada, our Soda Lake expansion work and our first drilling program on our other Nevada properties, this particular one at the Desert Queen property. Thirdly, the acquisition of the 2.5 percent interest in HS Orka and negotiation of the agreement announced today.

As our investors know, Magma has grown quickly since its inception in 2008. We now operate in three regions: Firstly, the Southern part of South America based out of Santiago, Chile; secondly, the U.S. based out of Reno, Nevada; and, thirdly, Iceland. Our rapid growth from these three platforms today positions us as a large global geothermal power company.

We ended 2008 with 11 megawatts of power production and in-ground reserves and resources of 199 megawatts. We ended 2009 with 84 megawatts of power production and in-ground reserves and resources of 854 megawatts. After we complete the HS Orka deal and assuming we discover or acquire nothing more in 2010, Magma should end 2010 with 186 megawatts of power production and 1,354 megawatts of geothermal reserves and resources. This makes Magma, by a very wide margin, the second largest North American primary geothermal power company. And when I say primary geothermal power company I mean a company with over 50 percent of its revenues from geothermal production. That's pretty satisfying growth in my view and absolutely great execution of our business plan to become a leading geothermal power company through the businesses of discovery, construction, operation and acquisition.

I would now like to turn the call over to Sandra Lim, our CFO, who will go over our Q3 financial results. Sandra?

Sandra Lim, Chief Financial Officer

Thank you, Ross.

During Q3 Magma earned a small profit of $142,000, which is the first quarter of earnings in the short life of our company. Contributing to the profit were Magma's share of equity earnings from HS Orka of $3.6 million and operating income from Soda Lake of $72,000.

With respect to HS Orka's operations for the quarter, on a Canadian GAAP adjusted basis HS Orka earned $9.6 million. Profit was the result of higher aluminum prices during the quarter compared to the prior quarter as well as the reduction of some operating costs. HS Orka has four purchase power agreements under which sales prices are indexed to the prices of aluminum; therefore, higher aluminum prices increased HS Orka's revenues as well as its net income from operations. Included in net income is a gain of $9.6 million for the increase in the value of the embedded derivatives contained in these agreements.

We have calculated EBITDA for the quarter to be $5.8 million. EBITDA for HS Orka's fiscal 2009 was $19.1 million. Should operations for the remainder of 2010 continue as expected, HS Orka should achieve significantly higher operational earnings for fiscal 2010. HS Orka ended the quarter with $2 million in cash and $19.3 million in working capital versus $1.2 million in cash and a working capital deficiency of $27 million at December 31, 2009. Its liabilities were $209 million at quarter end versus $218 million at December 31, 2009. This positive quarter has increased HS Orka's profitability and strengthened its financial position.

The economic outlook for Iceland is more positive than a year ago. The London Metal Exchange has also forecast higher aluminum prices for the next ten years; therefore, while there is still uncertainty in the global economic forecast there are positive indications that HS Orka will continue to increase its profitability and carry out its expansion plans.

At the Soda Lake operation we earned $72,000 from operations during the quarter. Earnings were slightly impacted by a fire in February and by the ongoing phase one expansion program. Fortunately, and most importantly, there were no injuries due to the fire. Cost to Magma was largely limited to a $500,000 insurance deductable.

A short word now on our corporate activities. Corporate activities during the quarter were focused on closing the acquisitions of the additional 2.25 interest in HS Orka. In addition, Magma continues to investigate other worth-while acquisitions around the world. In February we established an office and a team of geothermal experts in Iceland. The addition of the technical team benefits not just our Icelandic interest but our other projects as well, specifically in South America.

Our corporate expenses to the end of the quarter are reflective of our aggressive growth to data and especially during this fiscal year. At March 31st Magma had cash and cash equivalents of $40.5 million and working capital of $31.7 million. Since raising $88 million in our IPO in July we have used the cash to significantly increase our portfolio of geothermal properties, specifically with the acquisition of HS Orka, and to develop and execute on our expansion and development plans at Soda Lake and Maule.

And back to you, Ross.

Ross Beaty, Chairman & Chief Executive Officer

Thank you very much, Sandra.

I'd like to now fill in some operational details with Andrea Zaradic's presentation, if you could go over what's new at Soda Lake and Iceland in terms of our operations there. Thank you, Andrea.

Andrea Zaradic, Vice-President, Operations & Development

Thank you, Ross. I'll first start with Soda Lake.

Following our last update provided on February the 16th we are happy to report that the installation is now complete and commissioning of our new production well

45A-33 commenced as scheduled on April 30th. Plant and well field optimization are currently underway and we expect to have the net gains from the facility fully quantified by the end of the month. It is worth noting that this is the first new well that has been connected to the plant in over 17 years and represents one of the hottest and deepest pump settings at over 2,000 feet. I want to commend and thank the Soda Lake operations team for a job well done and their hard work and dedication during the construction, installation, and commissioning of this new well.

As previously reported, we commenced a testing program on a decommissioned well in the field known as well #41-33, which we have dubbed our steam well. The well was taken out of service in 2002 primarily due to poor pump performance and sat idle until December 2009, at which time we discovered that a steam cap had formed in the field. Following an exhaustive 100-day testing program, which commenced on January the 26th, at the end of April we concluded that due to a steady pressure and flow decline that the well was not able to economically sustain sufficient deliverability to the plant and has therefore been shut-in and all testing has been terminated. This was not the outcome we had hoped for but all the necessary testing was conducted in order to conclude well viability prior to any significant capital investments.

The second production well, 41B-33, that was completed in August of last year, will undergo a series of deep injection tests commencing over the next three to four weeks, as previously reported. Following these tests we will determine the viability of this well as a deep injector and also its viability as a production well via the shallow aquifer through which we originally drilled.

In parallel to our phase one program we have commenced or plans for the initiation of the phase two expansion at Soda Lake. At the end of April we received an updated resource and reserve assessment from GeothermEx, which has determined that the field contains a proved reserve of 14.2 megawatts net or 20 megawatts gross and an indicated resource of 28.5 megawatts net or 41 megawatts gross.

Our permitting process for the phase two drilling program is well underway and we expect to have permits in place by this summer, with drilling targeted for the fall. Additionally, the $5 million DOE grant which was received last year will be used towards the pending seismic survey this summer, again following receipt of permits from the BLM, which we expect to have by the end of June. We have received our first payment tranche from the DOE on this program in April for some of the preparatory and permitting activities that have been underway for the last 12 months. We will commence with new drilling at Soda Lake following completion of the seismic survey. Our phase two program will target new step-out areas of the field in order to maximize the resource potential identified in the GeothermEx report. In the interim we remain focused on the completion of the phase one program.

As of April the 30th the facility generated 22,550 megawatt hours of energy and despite the ongoing construction activities and interruption due to the fire the plant continues to perform well and as expected. Approximately $14.5 million has been spent to date on the phase one program out of a budget of $18.2 million. We continue our negotiations with NV Energy for an updated PPA and in addition to this we've also began the preparation of the application for the ARRA 30 percent energy grant.

Now over to Iceland. Both the Svartsengi and Reykjanes power plants performed as expected, producing slightly over 328,000 megawatt hours of electricity for the quarter ending March 31st. Total budgeted power production for the year is approximately 1,325 gigawatt hours and both facilities are tracking as expected against budget. One of the two 50-megawatt Fuji turbines at the Reykjanes plant was recently shutdown for approximately seven days in April for a routine scheduled maintenance inspection. This was the first time since the facility commenced operations in May 2006 that the unit has been shutdown. No major issues were uncovered and the unit was brought back on line as scheduled. The second 50-megawatt turbine is also imminently scheduled for a similar maintenance inspection.

The 50-megawatt expansion project at Reykjanes is proceeding as scheduled. The turbine unit has been shipped from Japan and is scheduled to arrive in Iceland in mid-June. Detailed engineering is now complete and plans are underway for issuing tender packages for construction following arrival of the new turbine and receipt of all necessary construction permits. Construction work continues nearby at the Nordural Helguvík smelter project, which will be the major consumer of the new electrical power to be generated from the expansion to the Reykjanes plant. Additionally, drilling of a new well, RN29, in the Reykjanes field is proceeding as scheduled and has now reached a depth of just over 2,000 metres with exceptional temperatures. All is proceeding as planned on the project, which is scheduled to be commissioned and on line by the third quarter of 2010, subject to completion of project financing and PPA negotiations, all at a capital cost of approximately $122 million.

Over to you, Ross.

Ross Beaty, Chairman & Chief Executive Officer

Wonderful. Thank you very much for that.

Okay, I'm going to say a few words on the exploration front and then a little bit about Iceland and then we'll wrap it up and go into questions.

So regarding our exploration program, of course a core plank of our business plan, the focus of Magma's exploration right now is at our Mariposa property in Chile. Mariposa is the resource, we call the resource that is, ah, a portion is on the Maule concession and a portion is on the Pellado concession but basically we're going to be calling it the Mariposa property from now, in Chile and also in Nevada.

At Mariposa we started a four-hole slim well drilling program in Q3, which will be ongoing through 2010. Our first well is now at about 450 metres depth in hot rock and is planned to go to about 1,500 metres, which will take until late June. We should have first results available in July or so. We received our 50-megawatt exploitation permit last month, which will allow us to build the first phase of a power plant on the large resource that exists here, subject to continuing drilling, economic evaluation, environmental and other work. And, of course, negotiating the power purchase agreement with one of the two local utilities. So far so good.

We are also beginning active early-stage exploration on our extensive holdings in Peru now that the Peruvian government has published its new geothermal regulations. We think Peru has really tremendous potential for large geothermal systems and we intend to be early entrants there, taking advantage of our good regional expertise and our Santiago and Lima-based exploration teams.

In Nevada, I am pleased to report that we have had positive results from our first drilling program on our extensive geothermal property holdings there. We drilled four temperature gradient holes at our Desert Queen property and got some very promising results, which we are still analyzing. Elsewhere in Nevada, we continued to move through the somewhat tedious permitting world and hope that we will be able to start drilling at least at one or two other of our Nevada properties, such as McCoy, as soon as possible.

In Iceland, HS Orka, as Andrea mentioned, is drilling a production-sized hole in a new area near the Reykjanes plant. We had a look at it today. It was intended as an injection hole but we've encountered plus 300 degree temperatures, 300 Centigrade by the way temperatures, and we think the hole might be a discovery hole into an entire new resource area for future use in the planned plant expansions at Reykjanes. It's a very exciting whole new riff system that looks like it's going to generate another resource, a completely new resource region.

I should mention that we decided to terminate our joint venture with Ram Power Company in Nicaragua and relinquished the two concessions we were awarded there last fall. We had significant trouble bonding the exploration commitment and didn't want to tie up $5 million of our capital on that project and I think neither did Ram, so we just made a mutual decision to terminate the project. We have thanked the Nicaraguan government for working with us on this and actually we hope to become involved there in a different capacity in the future. We never really put too much focus on that Nicaraguan project, which was a proposed 50-50 joint venture with Ram. We had no disagreements with Ram at all; that was just the result of tying up more capital than we felt the early stage exploration property was justified at the time.

Finally, let me say some things about our new deal to acquire Geysir Green Energy's stake and go to 98.5 percent of HS Orka. Firstly I would to thank Geysir and its controlling shareholders for their confidence and faith in Magma to assume operational control of this great company. We don't propose any material changes to HS Orka's management and operation. The people at HS Orka are really professional and in fact we hope to use them elsewhere in our growing business as much as possible. Already we have had Icelanders at our Chilean and Nevada operations to assist us and we see that increasing in future. Second I want to tell the Icelandic stakeholders that Magma will manage HS Orka well and look after their interests. This includes the employees, the communities around the plant, the companies providing services to the operations, and the government. We will be a professional, responsible owner of this business and as soon as possible I hope we are seen as a great corporate citizen in Iceland while at the same time seeking to maximize value for our shareholders. Quite frankly, the two go together.

You have seen and heard of our positive financial results for Q3 from HS Orka. What we are really excited about is the potential to grow HS Orka's production to 405 megawatts by 2015. To achieve this we need a renegotiated PVA with the new Nordural aluminum smelter being built in Helguvik, which we hope to conclude quickly, and actually we'll be sitting down with them tomorrow morning to get going on that again. We will require higher energy prices on the existing supply contract to reflect today's higher interest, capital and operating costs. There are several other parties interested in HS Orka's beautiful, green geothermal power but we will do our best to first conclude things with Nordural. We will also need to finance the expansion costs. Today HS Orka has about $20 million in cash and it has bonds worth about $20 million that it is seeking to sell for cash proceeds. HS Orka has already invested about $18 million in capital for the next 50-megawatt expansion program, leaving about $98 million yet to spend. The $98 million will be financed using a combination of currently available equity—as I said, there's almost $40 million available for that—and by arranging new debt. A number of options exist for this new capital and we will be looking at concluding new financings as soon as possible. We certainly don't see any need to raise new equity for hits expansion.

While I'm talking about capital needs I will touch on our plans to finance our purchase agreement. Our need by July 30th is to pay Geysir Green Energy either $84.5 million in cash if we elect an all-cash deal or $45 million in cash and $26 million worth of Magma shares. We have several alternatives to raising these funds, one of which is to seek new minority shareholders in HS Orka, either within or outside Iceland. There are a number of interested parties and we intend to discuss this opportunity with a number of those parties over the next couple of months. If we conclude the sale of a minority stake our need to raise new equity may be eliminated in part or entirely. We will determine this in coming months.

I think I will wrap things up now in terms of the opening words and open the call to questions. Thanks to you once again for joining us on this call. Over to you, operator.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift the handset before making your selection. If you have a question, please press star one on your telephone keypad. If at any time you would like 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 the participants register. Thank you for your patience.

The first question will be from Jeremy Mersereau of National Bank Financial. Please go ahead.

Jeremy Mersereau, National Bank Financial

Good morning everyone. I've got a couple of quick questions of course on the HS Orka purchase. I don't know if you can give me a little colour on the current power prices today compared to your current PPAs.

Ross Beaty, Chairman & Chief Executive Officer

The power prices are normally kept confidential, Jeremy, but I think you can—they're not that hard to work out either. We're not allowed to say them specifically but they're not terribly difficult to work out, you just have to multiply the revenue divided by the number of kilowatt hours or gigawatt hours we (inaudible) quarter.

And, sorry, what was the next part of that?

Jeremy Mersereau, National Bank Financial

Well it was compared to your current PPAs. But that's fine; I'll have to figure that out.

Ross Beaty, Chairman & Chief Executive Officer

But as I say, that's how you do it. It's not a complicated exercise given that we only have the one—

Jeremy Mersereau, National Bank Financial

Right. And what kind of leverage do you think you can get to at HS Orka with the existing and the expansion?

Ross Beaty, Chairman & Chief Executive Officer

Well that's a very good question. We're actually just starting that discussion now with some of the potential lenders. There's lenders in Iceland, the pension funds specifically are well endowed with cash resources for Icelandic investments. They're interested both in buying a chunk of the business and also providing capital for growth through conventional debt instruments. And then of course there's the usual banking syndicate that more typically would be a European banking syndicate that is normally the direction that has lent into Iceland traditionally. And we're just getting into those discussions so I can't obviously tell you specifically. The hope is we'll have at least a 60-40 debt-equity ratio and if we can push it we'll push it as high as we can consistent with a reasonable debt-equity ratio or reasonable coverage ratios and so on.

Jeremy Mersereau, National Bank Financial

Great. And are there any more government approvals needed for the transaction? I know that there was some protectionists talking about the purchase previously.

Ross Beaty, Chairman & Chief Executive Officer

Yeah, and I mean protectionists are—it's one way to call them. Let's just say in Iceland right now, you know, the poor country has been beat up. It's been really badly dealt with by a lot of entrepreneurs and financial mavericks and financial guys and not a terribly well regulated banking system, so the people here are pretty shell-shocked. And there's a minority, a small minority who are card-carrying kind of non-capitalist people, and those are the ones who kind of are noisy about not wanting any foreign involvement in the energy business or, for that matter, any business in Iceland, especially now that they've been so badly dealt with under the sort of capitalist system. And those are going to continue. I don't think we can prevent people from making noises. But we think the majority of the country and certainly the government are fair minded and will let us proceed with this and get it going for all kinds of good reasons. All the usual reasons of good investment and making things happen. So it's going to be a little bit noisy for a little while. We think that will die down soon and then we'll just get about the business of building these operations. There's one particular permit that we are waiting for. It's relatively imminent. We think it's going—we've been given all the right signals. And that's actually the operating permit for the expansion. We expect to have that in a few weeks. That's the only significant one, I'd say, that we need to have that we're waiting for.

Jeremy Mersereau, National Bank Financial

Great. Thank you.

Operator

Thank you. The next question is from Veny Aleksandrov of Pritchard Capital Partners. Please go ahead.

Veny Aleksandrov, Pritchard Capital Partners

Good morning and congratulations. My first question is on the new aluminum smelter. Can you give us an update? I know Andrea touched on it but there was a pending financing; do you have any update on that and (inaudible) construction, the construction progressing?

Ross Beaty, Chairman & Chief Executive Officer

So I would say that really the power purchase agreement with HS Orka is the last significant thing they don't have that they need before they actually get that thing going full steam ahead. They've been doing construction work slowly over the last year or so. They've invested more than $100 million in the expansion so far and they have their banking syndicate arranged I'm told, they have other PPAs in Iceland arranged I'm told. The last thing they need and the thing that we've been waiting to get this Geysir deal done for, for quite a few months actually, is they've been waiting until somebody is really running HS Orka or owning HS Orka who can negotiate now to get to a definitive deal.

The problem has been Magma has had a minority interest and not any kind of control to make decisions and the controlling shareholder, Geysir, has been for sale and they haven't wanted to make anything decided that would influence a potential buyer of their stake. So now that Magma has done this deal we're going to sit down starting tomorrow morning and we are going to sit down until we hopefully knock out a PPA, which we have been told by Nordural is the last thing they need to get this plant going full steam ahead.

Veny Aleksandrov, Pritchard Capital Partners

Thank you. Then my second question on the cost per megawatts, doing the quick math your acquisition costs come around $1.6 million and then Andrea talked about future expansion projects and again doing the quick math it seems like $2.2 million per megawatt. Is this about right in Iceland?

Ross Beaty, Chairman & Chief Executive Officer

Yes, that's not an unreasonable number at all. Our estimate is between $2.2 and $2.5. Andrea, do you have anything to say?

Andrea Zaradic, Vice-President, Operations & Development

No, that's bang-on, Veny.

Veny Aleksandrov, Pritchard Capital Partners

Thank you so much. I will let the others ask questions. Thanks.

Ross Beaty, Chairman & Chief Executive Officer

Thank you very much. And just in terms of the, ah, if you actually work out the acquisition cost we are ending up buying 98.5 percent of this business for $129 million cash, which is $800,000 per megawatt. And the rest of the purchase price, we are assuming long-term debt of $190 million, which works out to $1.1 million per megawatt, and we're paying $87 million in vendor bonds, vendor financing, that's about $0.5 million a megawatt.

So when you add those together it's actually about a $2.4 million per megawatt acquisition cost, although of that $1.6 million we are expecting to be largely financed by the operational cash flow, which will reduce or eliminate the indebtedness, and in fact $800,000 per megawatt is the out-of-pocket cash cost. And I don't know another operation in the world that would be able to acquire at such a reasonable cost considering the asset that we're getting a hold of here.

Veny Aleksandrov, Pritchard Capital Partners

Thank you for that.

Operator

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

Steven Li, Raymond James

Thank you. Just a couple quick questions. Since quarter end how much of your cash has been spent? Is it about $9 million? I got that from the MD&A.

Sandra Lim, Chief Financial Officer

That's probably roughly correct, yes. We paid the remaining April payment on HS Orka, which was about $6.5 million, and we've sent some money for our South American operations and our Reno operations.

Steven Li, Raymond James

Okay. And you've got about $2.6 million of transaction costs as well? Is that in the $6.5 or is that on top of the $6.5.

Sandra Lim, Chief Financial Officer

No, the $2.6 is accumulative transaction costs—

Steven Li, Raymond James

Oh, okay.

Sandra Lim, Chief Financial Officer

For all of our acquisitions since the first acquisition.

Steven Li, Raymond James

Okay, great. And on HS Orka, how much debt is on the balance sheet currently and how much does it cost to service the debt annually?

Sandra Lim, Chief Financial Officer

We've got about, um, in terms of long-term loans we've got about $188 million loans and borrowings and then other liabilities of course, so in terms of total liabilities we've probably got about $210 million of total liabilities.

And in terms of our debt servicing, you know, we've always, HS Orka has always paid off its, met all of its debt obligations from operational cash flows.

Ross Beaty, Chairman & Chief Executive Officer

What is this debt service, what is the average interest rate, Sandra?

Sandra Lim, Chief Financial Officer

The average interest rate—we've got a number of loans and they range from as low as about 3 percent up to about 8 percent for one or two very small loans. So about the average would be about 5.5 percent.

Steven Li, Raymond James

Okay, great. Thank you.

Operator

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

Dilip Warrier, Thomas Weisel Partners

Good morning, Ross, and congratulations on the HS Orka deal.

I understand the disclosure or perhaps the confidentiality requirement from the PPA with HS Orka so this may be perhaps more of a request than a question for today, but reading your MD&A it sounds like a 10 percent variance in the price of aluminum would have resulted in something like a 40 percent variance in net income to HS Orka. So, you know, a little bit more colour on how those PPAs are structured, perhaps kind of a floor and ceiling rate or something like that would be much appreciated.

Ross Beaty, Chairman & Chief Executive Officer

Well one thing we do do is on our website we have a presentation on HS Orka where we have an internal rate of return calculation and a net present value at 8 percent. And we have those shown with sensitivities to both the currency rate, the ISK versus the dollar, and also changes up and down with the aluminum price curve, so that you're at least able to get some variance and some calculation of the sort of net value to us. And it is quite significant.

The aluminum price, you know, in Iceland this business is very much leveraged to aluminum prices. And we took the position back in the spring of 2009 when we were actually doing the first analysis of the value of this business we did our own purchase acquisition valuation based on limited prices that were very close to what we see as a floor price over the last, you know, ten years or so. And this is because in Q1 2009 everything was on the floor. Until March of 2009 it was kind of a record low in real terms. So we thought the likelihood was good that the price was going to go up a lot and of course the business is pretty leveraged to higher aluminum prices, at least on the existing contracts. 50 percent of the revenue, approximately 50 percent of the revenue from HS Orka today is indexed to the aluminum price. The other 50 percent is not.

But to the extent that we go forward with the new PPA with Nordural for their new aluminum smelter at Helguvik then one of the things we are going to be discussing with them is how to reduce the leverage to aluminum prices or at least make it something that's more easy to calculate with kind of a base price and then maybe a kicker of value indexed to the price. Much like you might have for say a royalty. And that would make it a little bit easier to value and a little bit easier to get kind of a base case valuation here that you can then apply upside factors but no downside factors. That's what we're going to try to aim at with the new PPA.

Dilip Warrier, Thomas Weisel Partners

I got it. Thank you.

Operator

Thank you. The next question is from John McIlveen of Jacob Securities. Please go ahead.

John McIlveen, Jacob Securities Inc.

Yes, good morning. Could you give me what the exact percentage acquired in this last transaction was for Orka?

Ross Beaty, Chairman & Chief Executive Officer

It's not a simple exercise, John, because we actually, before we made—the interest we were acquiring was all of Geysir's interest, which was 55.3 percent before we did an equity injection where we invested $20 million of new equity between us and Geysir in the company. Okay? So we did that first in March and April. Actually it was done in April. And so Magma actually increased its stake from 43 percent to 46 percent through the process of the equity injection. Are you with me?

John McIlveen, Jacob Securities Inc.

Yes.

Ross Beaty, Chairman & Chief Executive Officer

Issuing new shares. And then the next step, which is this transaction here, we bought all of Geysir's stake, which had diluted down from 55 to, say, 52 percent, and so you go from 46 percent we have now, we add the 52 percent, we come up to 98.5 percent.

John McIlveen, Jacob Securities Inc.

Okay. Is there—what I'm missing is the cost of the piece in the middle there, the 43 to 46.

Sandra Lim, Chief Financial Officer

Ross, if I may, that's in our financials under the subsequent events note. We acquired the 2.99 percent in May and for a cost of about $3.2 million.

John McIlveen, Jacob Securities Inc.

Okay. And on the debt assumed, is this also perhaps low interest rate such that it might appear as a lower number on the balance sheet?

Sandra Lim, Chief Financial Officer

Yes it is. It is a bond that Geysir currently owes and I believe the interest rate is about 3.5 percent.

Ross Beaty, Chairman & Chief Executive Officer

Yeah, that's exactly what it is, Sandra. Thank you. So we have two bonds. One we owe to Reykjavik Municipality or Reykjavik Energy with an interest rate of one-point-something percent and the second is the bonds that we've just acquired in this deal that has about a 3.5 percent interest rate to Reykjanesbaer.

John McIlveen, Jacob Securities Inc.

Any idea what the face value adjustment would be at this time?

Ross Beaty, Chairman & Chief Executive Officer

The face value of the Reykjanesbaer bond is 50 million. The nominal value is 50, the book value for us would be 35.

John McIlveen, Jacob Securities Inc.

Okay. And one last question: do you have a capital budget figure for 2010?

Ross Beaty, Chairman & Chief Executive Officer

A budget figure for what? Revenue? EBITDA?

John McIlveen, Jacob Securities Inc.

Just total company. I guess non-Orka really.

Ross Beaty, Chairman & Chief Executive Officer

On what metric though? What do you want to see? Revenues? Income?

John McIlveen, Jacob Securities Inc.

No, no, capital budget. Spending on exploration, drilling...

Ross Beaty, Chairman & Chief Executive Officer

Not—I haven't... I don't know. Andrea, can you answer that one? I just don't have it on the top of my head, John. I'm sorry. I'd like to give you a real number, not a wild guess. But it's not substantially changed other than the fact that for sure some of our Nevada exploration has been a little slower than we had originally budgeted. So a lot of that money just simply hasn't been spent.

Sandra Lim, Chief Financial Officer

That's correct.

John McIlveen, Jacob Securities Inc.

Okay, thank you very much.

Operator

Thank you. The next question is from MacMurray Whale of Cormark Securities. Please go ahead.

MacMurray Whale, Cormark Securities

Hi. Just looking at some of Orka's results, trying to figure out the EBITDA calculation you used. I just noticed that the gross profit in both the quarter and the year last year are actually lower than the EBITDA. I was just wondering can you take us through how that's reconciled.

Ross Beaty, Chairman & Chief Executive Officer

I'll let Sandra in just a sec but the biggest thing, because I had the same question, Mac, and the biggest thing to realize is that the cost includes depreciation. Okay? The cost line, it includes depreciation. So apart from that, Sandra, can you do that?

Sandra Lim, Chief Financial Officer

Yes, that is correct. There's depreciation in both the cost of energy production and in operating expenses. So if you look on the Orka cash flow statement you'll see the total amount of depreciation, so you take basically the net income from operations, add back the deprecation and you should come to what we figured out EBITDA to be.

MacMurray Whale, Cormark Securities

Okay, so that would the difference in that. Okay. That's good, thanks. In terms of the—I'm trying to figure out the consolidated balance sheet, so in terms of the liabilities, the total liabilities that you report at the end of March, how much of that is current?

Sandra Lim, Chief Financial Officer

In Orka? At the end of March Orka had about $28 million in current liabilities.

MacMurray Whale, Cormark Securities

And what's the schedule in 2010 for that? Is that back-end loaded?

Sandra Lim, Chief Financial Officer

Well they're all current liabilities so they are payable. Trade and other payables are about $7.7 million and they're paid under normal terms. And the current portion of the long-term debt is about $20 million. So that would be paid off evenly throughout the year.

Ross Beaty, Chairman & Chief Executive Officer

And what are current assets in contrast?

Sandra Lim, Chief Financial Officer

We've got current assets of about $49 million.

MacMurray Whale, Cormark Securities

Okay. And yearly interest is roughly $6 million? Is that correct?

Sandra Lim, Chief Financial Officer

That sounds about correct, yes.

MacMurray Whale, Cormark Securities

Okay. And then the swing in the working capital from sort of negative $27 million at the end of December to positive $19, is there a major component of that—

Sandra Lim, Chief Financial Officer

Yes, a large component are these bonds that HS Orka has, bonds receivable, that were generated about a year and a half ago, and the intent for those bonds is to sell them.

MacMurray Whale, Cormark Securities

I understand, thanks.

Ross Beaty, Chairman & Chief Executive Officer

And a good chunk of them have already been sold and there's about $18 million left or so, Sandra?

Sandra Lim, Chief Financial Officer

Yeah, I think maybe slightly less. Something like that.

MacMurray Whale, Cormark Securities

And you may have given this number, I couldn't find it anywhere, but for 2009 the total gigawatt hours produced at Okra?

Ross Beaty, Chairman & Chief Executive Officer

I think, Andrea, you had that number?

Andrea Zaradic, Vice-President, Operations & Development

2009 was just over 1,300 gigawatt hours.

MacMurray Whale, Cormark Securities

Thank you.

Ross Beaty, Chairman & Chief Executive Officer

1,358 specifically.

MacMurray Whale, Cormark Securities

And then lastly at Soda Lake, Andrea, you spoke about the deep well that you're putting in, and I think you mentioned more drilling. I'm wondering on the injection front how confident are you that the reinjection is actually getting down to the depth that you're drilling to on this new hole that you've added?

Andrea Zaradic, Vice-President, Operations & Development

Well, Mac, we're actually just in the process of hooking up that well to be a deep injector so we haven't actually started a long-term injection program into it quite yet. We will be doing this within the next couple of weeks and testing it over the next month or so. So I'll provide more updates on that later.

MacMurray Whale, Cormark Securities

Okay. I think that's all I have. Thank you.

Operator

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

The next question is from Matt Gowing of Mackie Research Capital. Please go ahead.

Matt Gowing, Mackie Research Capital

Hello. Good morning all. Could you just repeat, ah, or maybe you said the book value you're going to book the Geysir Green bond, that $36 million in the press release?

Ross Beaty, Chairman & Chief Executive Officer

Correct.

Matt Gowing, Mackie Research Capital

So that's the number you'll book. And on this last quarter, the $316 million of finance costs, is that consisting all of the cash interest payments?

Ross Beaty, Chairman & Chief Executive Officer

Not $316 million. Do you mean 316 million ISK?

Matt Gowing, Mackie Research Capital

Yeah, ISK. Wondering what the quarterly cash interest payments from HS Orka are.

Ross Beaty, Chairman & Chief Executive Officer

Sandra?

Sandra Lim, Chief Financial Officer

Yes, that's from their financial statements. Is that where you've seen that number?

Matt Gowing, Mackie Research Capital

Yes. The profit and loss statement.

Sandra Lim, Chief Financial Officer

Yes. On the P&L that's an accrued interest amount.

Matt Gowing, Mackie Research Capital

Okay. So the quarterly cash payments to service the liabilities?

Sandra Lim, Chief Financial Officer

That's correct, yes.

Matt Gowing, Mackie Research Capital

Okay. And outside of HS Orka could you just let us know what the CapEx budget is for the rest of 2010?

Ross Beaty, Chairman & Chief Executive Officer

Well that's what John McIlveen said and I stammered and stuttered because I wasn't actually—I can't give him that number off the top of my head. Unless do you have the number, Sandra?

Sandra Lim, Chief Financial Officer

It's all changed a little but, you know, from in terms of I guess timing wise, but we were estimating about a $15 million project at Maule and about $20 million each in Nevada, but that is a little bit slower than we had anticipated and it all depends on just the timing. Currently, as Andrea mentioned, we are through the permitting process. And so for the remainder of 2010 that's a little bit hard to say. We are a little bit dependent on the permitting process. We've already started the work on Desert Queen. McCoy is next. Some of these factors are a little bit out of our hands at this time.

Ross Beaty, Chairman & Chief Executive Officer

Sure. And the other thing I want to remind all the listeners on this call about is our strategy for Nevada is to take advantage of existing incentives and to recycle our equity as much as we can. The best and most readily available way to do that is not only the $10 million in Department of Energy cash grants that will help us finance $5 million, $5 million at each Soda Lake and McCoy, so we'll be spending $0.50 of every $1 for drilling under those programs on those two properties. And then we expect to get back a third or approximately 30 percent under the treasury grant system for what we've already invested in Soda Lake. So let's just say we go to the full $18 million budget to complete phase one, we expect to get 30 percent of that back in a cash grant. At that point we're also, and we're initiating this now, we're looking at leveraging up Soda Lake by putting on some conventional project debt that will be able to pull, we think, you know, as we've invested—if we complete the phase one expansion where we spend the full $18 million on the expansion, we've already invested $17 million in buying the business, we'll have invested $35 million in equity. We might get back say $6 million through the Treasury grant. That would leave $29 million against a project that has the potential to kick out $6 or $7 million in EBITDA for a long, long time.

So the question at that point will be how much can we leverage that project up and pull our equity out so we can redeploy it elsewhere in Nevada. If we can get $15 or $20 million, which we think is very reasonable on a project that's going to generate $6 or $7 million in EBITDA, then we'll have been able to pull out about $25 million in cash from Soda Lake, including the energy grant, and redeploy that elsewhere. So just because we have these cash needs does not mean we need to raise new equity.

Matt Gowing, Mackie Research Capital

Great. Thanks for that. And a question relating to your land acquisitions at Desert Queen and Granite Springs that was talked about in your MD&A. Can you just provide some colour on how many acres or hectares were acquired at those two concessions?

Ross Beaty, Chairman & Chief Executive Officer

We got four sections at DQ, which we're—Desert Queen, unfortunately, is in what they call the checkerboard in Nevada so that you only kind of, every second section you can acquire, and we've done some private deals, some BLM deals, and then we've got some more BLM land and we've got a couple more sections to acquire to really put that package together. So there's about 2,000 acres there, 2,500 acres, in that range, new ground at Desert Queen, and Granite Springs is relatively small.

One or two sections we've got, I don't know, but that was a very cheap transaction. And just, again, filling in corners of the resource that we want to explore that we don't have tenure on. We didn't have tenure on until we got those pieces of ground.

Matt Gowing, Mackie Research Capital

Great, thanks. And just related to the phase one Soda Lake expansion, what's your best guess in terms of a date that you think you'll have the phase one now done?

Ross Beaty, Chairman & Chief Executive Officer

Andrea?

Andrea Zaradic, Vice-President, Operations & Development

Well, Matt, phase one right now is still underway, so our best estimate for completion would be towards the end of this third quarter, beginning of next quarter.

Matt Gowing, Mackie Research Capital

Okay. Thanks very much.

Operator

Thank you. The next question is from Sean Peasgood of Wellington West. Please go ahead.

Sean Peasgood, Wellington West Capital Management

Good morning. I just want to go over the cash requirements and inflows again if we can just quickly. It sounds like you have about $31 million in cash now and I think you just said that you're going to get $10 million in the grant and then $5 million from Soda Lake once it comes on line, the 30 percent back, and then you can then lever that up and get another $25 million. So is there anywhere else you can get money to come into the business this year? Because that would be about $71 million. And then I'm just trying to work all the inflows versus the outflows.

Ross Beaty, Chairman & Chief Executive Officer

Yeah, sure. Well we actually have a kind of a long-term business plan through 2013. We've done a couple, we've done one through 2015 and another one through 2013 to try to address that exact question of how much are we going to spend and how much are we going to need. So we've included in our—and this is very much a work in progress. I'm just going to give you some really general numbers here. The reality will definitely change and I think everybody should appreciate that loud and clear. The target for us to have by the end of 2013 is 307 megawatts producing. 307. By the end of 2015 we have the potential, mostly coming out of Chile and Iceland, to produce 643 megawatts. To go to 307 by 2013 we'll require approximately $451 million. We think we will be able to finance that with $138 million of equity and $264 million of debt. And that equity includes $78 million for the current purchase of HS Orka. This particular interest. We have also assumed we are going to receive $49 billion in Treasury grants plus DOE drilling grants, and that would be for Soda Lake, McCoy, and one other property that we think we will be able to get going in time to get that treasury grant by the end of 2013.

If we add on another, say, $50 million of G&A, $40 million I should say of G&A for the next three years, the total cash need will be $491 million. We believe we can finance this through existing cash in HS Orka of $40 million, existing corporate cash of $40 million. We include $40 because that was the number as of the end of Q1. The difference between the $40 cash and the $31 million of working capital at the end of Q1 is because we've already assumed we're going to pay $9 million of the cash for HS Orka. So I don't want to double count that cost. So $40 million of existing cash in HS Orka, $49 million of existing corporate cash, cash flow from operations in addition to what we need to service debt of $41 million between now and the end of 2013 coming out of HS Orka, the Treasury grants and the DOE grants which we intend to apply for, some of which we've already been granted, $49 million, new equity of $57 million between now and the end of 2013, and new debt of $264 million. This is mostly for Iceland, of course, and these two projects which we think we're going to advance in Nevada. We think those are reasonable numbers based on—I think we did the estimate based on a one-third equity two-thirds debt in some cases and 65/35 in other cases. And that's a number obviously that's a fluid number.

So the equity needed to go to power production of 307 million could be as little as $57 million in addition to what we have right now. Now that's assuming we decide to own 100 percent of HS Orka. And I'll say that the most reasonable way for us to extend our existing equity as far as we can is to bring in a partner here in Iceland, to continue to try to seek an Icelandic co-investor to own this business so that we can reduce our need for equity for the purchase and reduce our need for any further equity for the expansions that are coming up in the next few years.

We are quite—well I am quite confident we will have a number of parties who would be interested in buying an interest here, some Icelandic, some potential offshore. We've already had several expressions of interest from interested parties who want to own a chunk of this business that's managed by us. Whether we do that now, whether we buy it now with our equity and then do that in the fall, whether we arrange bridge financing, if we think that's a likely scenario, I really can't say. I will be able to do that when we announce how we finance this at the end of July. But there is a good chance we'll be able to extend our equity as much as we can, eliminate or minimize the need for new equity.

And the real trade off here for us is, you know, what you get for owning 100 percent versus what you give up if you drop down less than 100 percent and use third party funds rather than our own equity. It's going to depend on capital markets, it's going to depend on how our share price goes, how investors see this deal we've done. We think it's a fabulous deal obviously for Magma shareholders. We're just going to have to wait and see what the reaction is in the market over the next month or two and how good a deal or not good a deal we can do if we try to sell down a piece of the business.

In principal, you know, if you're trying to build a really big primary focused geothermal power company you really want to own the whole thing. On the other hand, if you're trying to really maximize the return to your shareholders maybe that's not a perfect strategy in every case. There's also issues of risk and reward and diversification we have to take into account. So we're looking at all of that right now. The first thing we needed to do was to tie this down, get a price, get a deal done, sign it up, get on with things, and that's what we've done now. We're very, very pleased with this deal here. And now we have to decide how we're going to finance it and potentially who we're going to bring in to join us as a co-investor here.

Sean Peasgood, Wellington West Capital Management

Okay, great. Thanks. That was helpful. As far as a target, do you have any target that you would be willing to part with or is it just too early for that kind of colour?

Ross Beaty, Chairman & Chief Executive Officer

Much too early. Sorry.

Sean Peasgood, Wellington West Capital Management

Okay. And then—

Ross Beaty, Chairman & Chief Executive Officer

Sorry, maybe I can give you colour. I think of all of our preferences, and this speaks more to the political world here in Iceland as much as sort of the best price maybe, but certainly we would prefer to have an Icelandic partner. The second choice would be a strategic partner that is able to pay a little bit of a premium over, say, a regular financial investor. And there are strategic investors that we could attract to this business to co-own it with us. So those are preferred partners.

Sean Peasgood, Wellington West Capital Management

Okay. And then just looking at the HS Orka statements here, under other income is a $7.6 million line there, and I'm just wondering if you can talk about what's in that number. I haven't had a chance to actually pull down their numbers yet so I'm just wondering if you can provide some insight there.

Sandra Lim, Chief Financial Officer

Is that the March 31st statements or the...?

Sean Peasgood, Wellington West Capital Management

Yeah, March 31st.

Sandra Lim, Chief Financial Officer

They've got other income of, um, basically they've got financial income. They've got these bonds and the bulk of that is probably interest income accrued on those bonds.

Sean Peasgood, Wellington West Capital Management

Okay, great. Okay, that's it for me. Thanks a lot.

Operator

Thank you. There are no further questions registered at this time. I would like to return the meeting to Mr. Beaty.

Ross Beaty, Chairman & Chief Executive Officer

Okay. Thank you very much, operator, and thanks everyone for listening in. We've gone an hour; I think that's long enough.

If anybody has any further questions, Alison Thompson is available by email or by telephone. She's here in Iceland for the next day or two and then she'll be in Toronto going through the results with some of the analysts and, by all means, feel free to call her at any time.

Thank you very much for joining us today and good day.

Operator

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