

## **CORPORATE PARTICIPANTS**

**Ross Beaty**

*Chairman & Chief Executive Officer*

**Sandra Lim**

*Chief Financial Officer*

**Andrea Zaradic**

*Vice-President, Operations & Development*

**Alison Thompson**

*Vice-President, Corporate Relations*

## **CONFERENCE CALL PARTICIPANTS**

**Sean Peasgood**

*Wellington West*

**Steven Li**

*Raymond James*

**Jeremy Mersereau**

*National Bank Financial*

**Thomas Daniels**

*Thomas Weisel Partners*

**Matt Gowing**

*Mackie Research Capital*

**Sumeet Mahesh**

*Dundee Securities*

**Veny Aleksandrov**

*Pritchard Capital*

**Mac Whale**

*Cormark Securities*

**Adrian Day**

*Adrian Day Asset Management*

## **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. Ross Beaty. Please go ahead, sir.

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**Ross Beaty, Chairman & Chief Executive Officer**

Well good morning ladies and gentlemen. Welcome to Magma Energy's conference call for financial and operating results for the quarter ended December 31, 2009, our second quarter of fiscal 2010.

I would first like to draw your attention to the forward-looking statements on our news release. I always talk about what I hope will happen but the future always bears surprising uncertainty so actual results may differ from my hopes and expectations as of today.

Joining me today are Sandra Lim, our CFO; Andrea Zaradic, our Vice-President of Operations and Development; and Alison Thompson, our Vice-President of Corporate Relations. I will start things off and then turn the call over to Andrea and Sandra for short summaries of operating and financial results.

To sum things up I would say that we had a very good quarter. Our Soda Lake plant performed well; our Soda Lake expansion program made a huge stride forward, as Andrea will discuss shortly; we won two \$5 million exploration grants for our Soda Lake and McCoy properties in Nevada; we raised \$20 million in new equity for our Iceland deal; we closed two agreements that collective gained us a 41 percent interest in HS Orka, the large Iceland geothermal company; we were co-awarded two concessions in Nicaragua; and just after the end of the quarter we were awarded the Pellado concession in Chile where we had previously outlined a 160-megawatt inferred resource as part of the 320-megawatt Mariposa geothermal resource that straddles the boundary between the Maule and Pellado concessions.

Magma's mission is to be one of the world's preeminent geothermal power companies; a pure play specifically focused on delivering to equity investors the best possible exposure to geothermal power. How we are going to achieve our mission is to develop in parallel the

as large a geothermal production base as possible and as large an in-ground geothermal resource base as possible. So far I think we are executing well in our mission. Since going public in early July Magma has increased its geothermal power production from 11 megawatts to 86 megawatts and its geothermal resources from 199 megawatts to 786 megawatts. This is powerful growth by any measure. During 2010 I expect we will continue to grow in both areas, at existing assets and in newly-acquired ones.

Looking at our assets in more detail I am now going to turn the call over to Andrea Zaradic who will fill you in on what we're up to at Soda Lake. Andrea?

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**Andrea Zaradic, Vice-President, Operations & Development**

Thank you, Ross.

Following our last update provided on November 16<sup>th</sup> last year we completed our analysis of potential rework options that were identified for one of our two newly-drilled production wells known as Well # 45A. As previously reported, we had good reason to believe that this production well, which was completed in June of last year, was connected to the Soda Lake reservoir. Following an extensive review of options we decided to move forward with an oil and gas well stimulation technique known as deflagration, which, to the best of our knowledge, had not been used on a well in the geothermal industry. In early December of 2009 we mobilized a drill rig and proceeded to remove the perforated liner from the well as a preparatory step ahead of deflagration. Following two deflagrations which were designed to target the known loss circulation zone in the well we successfully achieved commercial flow. Immediately following the successful deflagration we proceeded to conduct several flow tests in order to characterize the well. We are now happy to conclude that the well has demonstrated a deliverability of 1,200 gallons per minute of geothermal brine at 385 degrees Fahrenheit, which equates to approximately 3 megawatts of net power output from the Soda Lake facility. In early January we placed an order for the down-hole pump. All other necessary mechanical and electrical equipment has been ordered and work has commenced on the new well field piping required to connect this production well to the current facility. We expect this well to be on line and in production by the end of April 2010. It is worthy to note that since we added deflagration as a well stimulation technique to our toolbox of rework options there have been others in the industry who have now followed in

these footsteps with what we understand to be successful results.

Several months ago we also embarked upon an extensive analysis of the current well field in order to determine options for increasing productivity from the existing field. As part of this analysis we considered bringing back into service a previously decommissioned well in the field known as well # 4133. This well was taken out of service in 2002 primarily due to poor pump performance and sat idle until today. In late December we proceeded to conduct several down-hole pressure and temperature surveys on the well and much to our pleasure learned that the well had maintained a robust temperature profile. We proceeded to remove the defunct pump from the well as a preparatory step to flow testing and in so doing we were very pleasantly surprised to find a steam well in what was previously a liquid-producing well. After much analysis we believe that a steam cap has formed in this area of the Soda Lake reservoir and to the best of our knowledge this is a unique phenomenon within this type of field in Nevada. The well is currently under flow test and has been flowing continuously since January 26<sup>th</sup>. Over the next month we will continue to characterize this well but preliminary results indicate that with its very high (inaudible) it will provide the balance of power, approximately 3 to 4 net megawatts, required to bring Soda Lake up to its nameplate capacity, thus achieving the resource requirements for the phase-one expansion. In parallel to this ongoing testing program we have also been in discussions with Ormat, the original equipment manufacturer, to determine the most effective means by which to incorporate steam into our binary plant. Our goal is to have this well on line by midsummer of this year. It is worthy to note that we are all tremendously excited about this new resource discovery at Soda Lake and I want to commend our Reno and Soda Lake based teams for their exceptional and ongoing efforts over the last six months.

I want to now comment very briefly on the second production well that was completed in August of last year known as well # 41B-33. This is the deepest well drilled to date in the Soda Lake field at just slightly under 9,000 feet. Following the successful results at our first well and after much intense analysis we moved forward with a program in late January to attempt another well stimulation by utilizing deflagration. Although the characteristics of this well were quite different, we proceeded with a step-by-step program of injection tests followed by several deflagrations. Following three deflagrations and five injection tests we once again characterized the well by conducting several down-hole pressure and temperature surveys and learned that

through this rework program we appear to have positively impacted the hydrology of the well. The rework program is still underway and it is still premature to predict any final outcome, but we are hopeful that based on these interesting results that this well may in fact be used as a very much needed deep injector in the field. We will continue to provide updates on this program as more definitive results come available.

In parallel to our well stimulation programs we have also commenced negotiations with NV Energy and others for the sale of our expanded power output from Soda Lake.

Just briefly on plant operations, the Soda Lake facility generated just slightly under 59,000 megawatt hours of energy in 2009, achieving 94 percent of the energy production budget with a plant availability of 99 percent. One major plant shutdown occurred in September and October, which was time utilized to incorporate several improvements and upgrades to the facility in order to prepare it for the introduction of the new production wells. As previously reported, these upgrades in efficiency improvements resulted in an additional 1 net megawatt of power output from the facility, which is expected to further increase once the facility is operated at its nameplate capacity.

Also as previously reported we have commenced work on an updated resource and reserve assessment and have solicited the services of our reservoir engineering group, Golder Associates, in conjunction with GeothermEx. This updated assessment will be used as an input to the phase-two expansion program at Soda Lake and is expected to be complete by the end of March.

In terms of budget, we have spent \$12.4 million to date as of the end of January on the phase-one program out of a budget of \$18.2 million and the program is still on target to achieve that budget.

Our key next steps are the completion of the phase-one program; our continued negotiations with NV Energy; beginning the preparation of the application of the ARR energy grant, which consists of 30 percent of capital costs spent on the expansion; and determining the extent of the phase-two expansion program and step-out drilling at Soda Lake.

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**Ross Beaty, Chairman & Chief Executive Officer**

Thank you very much, Andrea. I am sure you can detect in Andrea's words her excitement and pleasure, I think, about the successful results we've had in the last couple

of months at Soda Lake. And any interested party who hears this call and wants to have a look at some of these wells, we have the first well up on our website, a nice video from this when it was just flow tested in December. A very cool video. And we have a photograph of the steam well, which is also a beautiful, beautiful shot, and that's on our website, magmaenergycorp.com.

Okay, thanks again. I will now talk a little bit about our exploration programs, which of course, ah, exploration is a key driver of shareholder value creation and a very key part of our business plan.

In Chile we are busy exploring our newly-acquired Pellado project. We completed recently a 15-kilometre drill road that will allow us to drill four slim holes over the next few months into the 320-megawatt Mariposa geothermal resource. Each hole will be about 1,500 metres deep and we hope these will better define the resource and its power-generating potential. The site is really excellent for large-scale power production. We have strong support from local landowners, the local community, and the Chilean government and hope we can really advance this project rapidly during the year. Our budget for this work totals \$15 million for 2010.

In Nevada we are also very busy with permitting an initial geophysics and geological studies. We are prioritizing our Soda Lake property of course but our next property to be drilled will be the Desert Queen property about 40 kilometres north of Soda Lake where we hope to begin a slim hole drilling program by late March.

Our new U.S. exploration manager, Dick Benoit, is a wonderful addition to our exploration management team. Dick has spent 35 years in geothermal exploration in the U.S. and internationally and brings to Magma a really encyclopaedic knowledge of U.S. geothermal exploration. Dick's current focus is to go through our large property portfolio in Nevada, Utah and Oregon and highlight the best targets for our future exploration while simultaneously seeking to improve the quality of our property portfolio through new acquisitions.

Moving to Iceland now, as you know, we now hold a 41 percent interest in HS Orka with another 2 percent coming to us in March. We hold a further option for another 5 percent interest exercisable by 2011 and we ultimately hope to acquire at least a 50 percent stake so we can consolidate HS Orka's financial results into ours.

Since we closed our main purchase deal only in December we can only add a couple of weeks of HS Orka's results to our financial results and therefore HS Orka's results in our second quarter are not too

meaningful; in fact, they are somewhat complicated and confusing quite frankly due to some large non-cash items that affect the results. So to help you understand our quarterly financials I am now going to turn the call over to Sandra Lim, Magma's Chief Financial Officer. Sandra?

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**Sandra Lim, Chief Financial Officer**

Thanks, Ross.

Just a brief comment on accounting principles: HS Orka reports under IFRS, international financial reporting standards; Magma of course reports under Canadian GAAP. The financial information for HS Orka in Magma's financials have been reconciled to Canadian GAAP and I'll explain some of the main differences shortly.

Just a brief overview of Orka's 2009 operations: The net income from HS Orka's operations increased significantly from a loss of \$96 million in fiscal 2008 to a net profit of \$54 million in fiscal 2009. The driving factor was the recovery of aluminum prices during 2009, which increased both revenues and the value of the embedded derivatives in Orka's sales contracts. Revenues increased by \$5 million year on year. The change in the embedded derivatives was much more significant, a gain of \$56 million in 2009 versus a loss of \$22 million for 2008. This was the complicated part of the statements that Ross referred to. HS Orka has four purchase power contracts under which the sales prices are indexed to the price of aluminum. These contracts therefore contain embedded derivatives. The embedded derivatives are fair valued at each reporting date with the changes in value recognized as a gain or loss in the income statements. The accounting for embedded derivatives is the same under both IFRS and under Canadian GAAP.

Three other factors contributed to Orka's net profit for fiscal 2009. Finance expenses decreased significantly from \$94 million in 2008 to \$19 million in 2009. This was mainly due to a decrease in foreign exchange losses on long-term loans that Orka has that are denominated in foreign currencies. In 2008 the Icelandic krona decreased significantly in value against these currencies (inaudible) strengthening in 2009 which resulted in lower foreign exchange losses. In addition, HS Orka sold certainly land holdings for a gain of \$6 million. The land is being leased back over a 65-year term. There were no land sales in 2008. HS Orka also recorded equity earnings from an investment of \$1.8 million versus a loss of \$2.1 million for 2008.

So I'll take you through just GAAP differences. There are three main GAAP differences between IFRS and

Canadian GAAP. Under Canadian GAAP the gain on sales of land is recognized over the term of the leaseback period; therefore, under Canadian GAAP we only recognize \$44,000 of the \$6 million gain that Orka had recognized. Under IFRS HS Orka re-values its fixed assets, records additional depreciation on the revaluation. This is not allowed under Canadian GAAP and therefore depreciation expense under Canadian GAAP is lower. There are also certain pension liabilities that are recognized under IFRS but not under Canadian GAAP which resulted in a reversal of certain pension costs. So, all in all, due to these accounting differences, EBITDA under Canadian GAAP was about \$359,000 higher than under IFRS; however, the net income for the year was \$5 million lower.

The equity pickup by Magma, as Ross has said, is only for a two-week period, December 14<sup>th</sup> to December 31<sup>st</sup>. Under accounting rules we are recording this investment under the equity method. After adjusting for the GAAP differences the result was a loss of \$1.9 million for the two-week period. The loss was primarily due to the loss on the value of the embedded derivatives of about \$2.5 million due to the decline in aluminum prices in December. However, the aluminum price is still higher than one year ago. The London Metal Exchange has estimated aluminum prices to increase over the next ten years, which should bode well for the future operations of HS Orka and for Magma.

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**Ross Beaty, Chairman & Chief Executive Officer**

Thank you very much, Sandra.

So just to kind of wrap up here, the focus of our company right now really is in three areas: Nevada, Chile, and Iceland. And I just want to emphasize again what our strategy is: to build ourselves as a large, pure-play, custom-created geothermal power company.

In the 20 months—we've only been in existence for about 20 months, 20 to 21 months now—we have established major platforms in these three areas, the three of the world's great geothermal power regions: the U.S., the Southern Andes of South America, and of course Iceland. To build a big company we need to work in places that have big resources and well-established power markets. We've had a great start and we are totally focused on rapid execution of our business plan.

The other key asset of Magma is its people and you will note our news release of last week where I outlined a number of management changes and additions. These include our addition of a really outstanding team in

Iceland. They will seek to boost our geothermal development business in Iceland and they will also help our international work. I'm also really pleased about the promotion of Andrea Zaradic and Cathy Hickson to lead our operations and discovery work internationally. I am sad at the retirement of Frank Monastero from his position as president of Magma U.S., but I will be able to take advantage of Frank's expertise in future as an advisor and I certainly wish him well in the future. I also thank him again for his great contribution to our early growth and our initial public offering. I'm also delighted that another U.S. geothermal legend, Dick Benoit, has joined us as U.S. Exploration Manager. With our strong management team and our growing portfolio of operating, developing, and exploration assets, I look forward with great confidence to a continuation in 2010 of the strong growth we have enjoyed to date.

Thank you again for joining this call and I will now open the call to questions.

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#### **Operator**

Thank you. For telephone participants, if you do wish to ask a question and you are using a speakerphone, please lift the handset before making your selection. You may press star one on your telephone keypad to ask a question and if at any time you wish to cancel your question you may 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. Thank you for your patience.

The first question is from Sean Peasgood from Wellington West. Please go ahead.

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#### **Sean Peasgood, Wellington West**

Good morning everybody. I guess my first question is more of a general question. You know, we've heard from a few of your peers recently that costs are starting to go up in the drilling and exploration phases of these projects and I'm just wondering what you're seeing out there, if you're seeing some costs increasing, if you're seeing the opposite, and then where you think those costs could go over the next few quarters.

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#### **Ross Beaty, Chairman & Chief Executive Officer**

Do you have a comment on that, Andrea?

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#### **Andrea Zaradic, Vice-President, Operations & Development**

Yeah. I guess, Sean, my comment to that is no. We haven't really seen any increase in costs. Our average drilling cost at Soda Lake is about \$4 million per well, that's what we had budgeted and that's where we're coming in at. The market right now is fairly competitive in terms of availability of contractors. I guess the issue still is equipment lead times is always an issue, but that's not a cost component. I think in general I would say no, we have not seen that trend.

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#### **Sean Peasgood, Wellington West**

Okay, great. And then I guess if you haven't seen the trend it's hard to talk about where you see it going but are the demand for rigs increasing to the point where you would expect those costs to increase or, you know, is there enough slack in the work right now that costs are staying, you think they're going to stay stable.

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#### **Andrea Zaradic, Vice-President, Operations & Development**

We're definitely taking advantage of a bit of a downtime right now for sure but, you know, as any industry gets busier costs are always concurrently going up with that, that's pretty much the norm, but I'd say at this point in time no, that's not the case.

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#### **Ross Beaty, Chairman & Chief Executive Officer**

I think just another plug might be for, again, the quality of the management team, is to say that we're on budget. We set this budget a year ago, we're right on budget, and we build in contingencies and we build in realistic pricing to our estimates. So I don't know what other companies are doing but I think that's a testament to certainly Andrea's group skill and good management.

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#### **Sean Peasgood, Wellington West**

Okay. And then moving on to the acquisition side of things, you know, you have your new property in Chile, Iceland is coming on line and you're looking to gain a bigger foothold there; just wondering how many properties and new properties do you think you can bring on line this year and then how many—you said you're going to develop them in parallel, which we're you're doing now, how many of those do you think you can

actually work on concurrently with the amount of people you have today and then, you know, what are your plans for bringing more people into the company?

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**Ross Beaty, Chairman & Chief Executive Officer**

Sure. Well that's 100 percent the burden of management and the benefit of management. You know, we don't want to be overextended, we don't want to get ahead of ourselves, the devil is in the detail, if you look after the detail the big picture looks after itself, we just have to be very, very cautious that we manage our existing projects well and we don't try to get overextended. Having said that, we have a very, very good team of people, we are well financed, and we believe we have adequate access to additional capital, not only on the equity side but also on the debt side, and we are, you know, we're in good shape right now. I would say we're not overstressed at all; we are working within our means, within our management team's ability.

Really the addition of the management changes you read about last week, especially the Iceland team, you know, offers us a lot more bench strength on the human resources side. But, you know, it's a constant challenge, we just have to be really careful that we don't get ahead of ourselves. And I would say so far results speak for themselves. We've had a great year and we had a great quarter and I expect we're going to continue that success.

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**Sean Peasgood, Wellington West**

And then maybe just lastly, you have about \$55 million in cash now, you know, you spent a lot on the acquisition this quarter and you've talked about how much more you have to spend at Soda Lake, I think it's roughly about \$6 million for phase one. Just trying to get a sense over the next couple of quarters what you think your burn rate is going to be and where you're going to end up with that cash balance, how far that can take you.

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**Ross Beaty, Chairman & Chief Executive Officer**

Well we went public last summer with a fairly clear description of how we expected to finance our growth and our operations and I would say we're very much on target with that use of proceeds. We should have enough to carry us well through 2010 and into 2011. And beyond that we will have to seek other sources of capital, not necessarily equity but to some degree we're going to be looking to recover some money we spent in Nevada from

the energy grant, also potentially leveraging up Soda Lake with some debt and pulling back some of our equity to redeploy elsewhere, and so on.

So, you know, we're doing this as we go. We'll not run out of money, don't worry. We are very, very prudent in how we budget and how we spend and we won't get ahead of ourselves. So we are obviously matching our growth with the financial horsepower to achieve the results which we are seeking and obviously if we're trying to build ourselves as a very large geothermal producer we're not going to be able to do that with just our existing cash, but don't look for any equity issue any time soon.

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**Sean Peasgood, Wellington West**

Great, thanks a lot.

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**Operator**

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

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**Steven Li, Raymond James**

Thank you. Ross, just, um, you gave us an update on Desert Queen, just wanted to know if you have an update on McCoy and Thermo. How should we think about the continued exploration of these properties or are they lower priorities today? Thanks.

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**Ross Beaty, Chairman & Chief Executive Officer**

Okay, thanks, Steven. They're lower than Soda Lake and Desert Queen because those are the properties we're able to drill most quickly.

McCoy, because it's a relatively isolated area with no previous significant impact of any kind and it's on BLM land, the first burden is to permit the work that we intend to do, and that work includes extensive geophysics and drilling in several phases. So this work just requires more delays with permitting. In the meantime we're doing the non-invasive or non-impacting geophysics and surface geology where we can, getting all that data put together.

Same with Thermo. Thermo actually we're taking a slightly different view. We're kind of watching what Raser is doing because we have, that resource is within the thermal resource that is currently being produced from by Raser Technologies out of Salt Lake, and we're kind of

seeing how they're doing with their work. So that's kind of on the backburner quite frankly.

But the other Nevada properties we have are really quite actively being worked on. You know, where we can permit, where we have intentions to have active field programs this year, both geophysics and drilling, we are very actively permitting. This is not a process that's a simple thing to do. There's long, you know, extensive amounts of EIS work that needs to be done to get permits, it's quite a chore in the U.S., and we don't see any impediments but it does take time and that's why we're moving to things like Desert Queen which is actually partly private and partly BLM land and we're going to be drilling on the private land because we don't have the same kind of permitting obligations as we do on the public land.

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**Steven Li, Raymond James**

Okay, great. And then just one other question: The (inaudible) energy grants, do you know when you will be receiving them?

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**Ross Beaty, Chairman & Chief Executive Officer**

The energy grants are 30 percent of qualifying expenditures on the expansion of Soda Lake. So we are going to complete that work probably by midyear, midyear this year, and as soon as we're done we will then put our application in and hopefully have a successful reimbursement of those funds or recovery of 30 percent of those costs sometime later in 2010. That's our hope. Then you have the second type of grants, which are the co-funded drilling and exploration grants that we received last fall on the McCoy and Soda Lake properties. Well, again, those are sort of cost share programs, as we spend the money I believe we'll make the application to have reimbursement of the cost from those programs. And that's \$10 million from that.

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**Steven Li, Raymond James**

Okay, thanks.

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**Operator**

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

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**Jeremy Mersereau, National Bank Financial**

Good morning everyone. I just had a quick question on the HS Orka. You mentioned that the aluminum pricing declined in December and I'm wondering at what point aluminum pricing is priced as far as how you go about re-jigging the valuation of those derivatives.

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**Sandra Lim, Chief Financial Officer**

The source of the aluminum prices is the London Metal Exchange. So it's not our calculations, it's straight from the London Metal Exchange.

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**Jeremy Mersereau, National Bank Financial**

Okay. Maybe it's just the—I just pulled out some data here and it looks like it's actually up in December so that's why I was wondering.

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**Sandra Lim, Chief Financial Officer**

Well our data shows that it actually went down in December.

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**Jeremy Mersereau, National Bank Financial**

Okay. All right. As far as Chile is concerned, just wondering if you could maybe give us a little bit more colour on what's going on with the ministry there. I think last call you said they were in the process of clearing up the backlog there; I was wondering if you have any update on that.

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**Ross Beaty, Chairman & Chief Executive Officer**

Sure. Thank you, Jeremy. I think you're referring really to the other side of the resource, which is now on the Maule side, where we now have the exploration rights to the Pellado concession and that's where we'll be drilling, initially at least, in February and March. In fact, I think we're—are we drilling as of today or...? We're mobilizing the rig right now, so it's a very, very active program on the Pellado side.

We applied, as some people may recall, we applied in July for an exploitation concession on what we had previously owned there, which was an exploration right on the Maule side of the resource, the Maule concession.

So the Maule concession, the exploration rights ended in July and we applied for an exploitation concession to allow us to build a 50-megawatt power plant, which was our initial idea of sort of a phase one power generation facility at Maule. And that was before we knew we were going to win the Pellado concession (inaudible).

So that has been in the Ministry of Energy Works now for six or seven months and we've been monitoring their progress. As you said, they did have quite a backlog. They're working very hard to open up the country to geothermal exploration and development and they've issued a number of new exploration concessions recently, including our Pellado concession, which we won in January. We've been waiting for the approval of our exploitation concession and so far, while it hasn't been announced publicly in Chile, we have been informed that we are likely to receive it sometime soon. This is obviously not done until it's done. It has to receive a bunch of things. It has to be signed by the minister, it has to be (inaudible), it has to be published and so forth under the Chilean rules, but let's just say at this moment we are optimistic that we will receive the exploitation right and it will be timely because we will be ready to drill on the Maule side of the resource in March or April, and so we're very much looking forward to receiving that right.

The beautiful thing about that of course is it will be—it's the government authorization that will allow us to actually construct a power plant on that resource and since the resource is now so big and so much bigger than we expected when we first got this work going, you know, we're very, very happy to, we will be very happy to see that when it comes in. And it could be any day, it could be any week, but we don't expect it'll be any month.

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**Jeremy Mersereau, National Bank Financial**

Great. And I guess just one last question.

You might have covered this in some of the prepared statements but the revised resources that you would have for your Nevada assets, do you know when you would be able to provide them based on the Canadian code?

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**Andrea Zaradic, Vice-President, Operations & Development**

The timeline for the updated resource assessment on Soda Lake is the end of March, Jeremy.

**Jeremy Mersereau, National Bank Financial**

Okay. And the other ones?

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**Ross Beaty, Chairman & Chief Executive Officer**

We don't have any other work going on in Nevada that would be any kind of modification to the historical results we published last year.

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**Jeremy Mersereau, National Bank Financial**

I see. Okay, thank you.

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**Ross Beaty, Chairman & Chief Executive Officer**

Yeah. I mean the main work of course is Soda Lake right now and that's both resource, in-ground resource, (inaudible) size and improved quality of resource from what we published last year and, more importantly, I think it's getting that plant up to capacity so we can actually produce the power and boost our EBITDA from that project so dramatically.

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**Jeremy Mersereau, National Bank Financial**

Great. Thanks.

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**Operator**

Thank you. The next question will be from Thomas Daniels from Thomas Weisel Partners. Please go ahead.

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**Thomas Daniels, Thomas Weisel Partners**

Hi, Ross and everybody. Thanks for taking my question.

First I guess it kind of relates back to a previous question in terms of the HS Orka's PPAs and on the metal exchange. We're just kind of trying to figure out how to model this and I was wondering is there a way you can give us, you know, what was the average aluminum price and then how does that equate to an average, you know, dollar per megawatt hour price. And then obviously with the floors and the ceilings at \$1,750 and \$3,250 is there any way we can equate that to, you know, a floor and a ceiling dollars per megawatt hours as well?

**Sandra Lim, Chief Financial Officer**

Well, as you can see, it's a very complicated calculation. We have models—the numbers regarding the embedded derivatives, if that's what you're referring to, are actually prepared by HS Orka and audited by their auditors.

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**Ross Beaty, Chairman & Chief Executive Officer**

Who are KPMG.

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**Sandra Lim, Chief Financial Officer**

Who are KPMG. Their source of metal prices is the London Metal Exchange. They are using different interest rates obviously for the different terms of each of their contracts. So, as I said, it's a fairly complicated calculation and each contract is valued separately depending on its term and depending on the price formula.

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**Ross Beaty, Chairman & Chief Executive Officer**

Tom, I think just to add to that maybe, it is going to be a bit of a mess I'm afraid to say. And the problem here really comes down to the recent accounting changes, I would say a few years ago, which require companies to mark to market these derivatives. And it's a complete—I would have to say as a non-accountant I just find it incredibly misleading and a retrograde step for the accounting industry that companies have to do this, because it makes what is otherwise a relatively ordinary quarter let's say to analyze, how much you actually generated and what your income was off of that into an impossible thing to really calculate based on these goofy derivative mark to markets. And in our case this goes out 20 years. We have to do a mark to market of 20 years of future cash flow changes based on, you know, theoretical, or let's just say currently predicted aluminum markets going out the next 20 years. It's nuts. That changes every single day and it has nothing to do whatsoever with our current quarter cash flows. So it just means that earnings—and you could almost say the same thing about the foreign exchange losses or gains. Again, these go out the length of the contract. So they're very, very hard things to model properly and when you finally come up with a number it's a very artificial number. It's a theoretical number that bears very little to do with how the business is going from a day-to-day standpoint.

Of course this rant I'm making right now you could say that kind of rant applies to all kinds of businesses,

certainly (inaudible) the metals business when you have hedge contracts and so on, so it's just... I don't know. Just to me it means the earnings statements become less and less meaningful and the focus really has to be on how much cash did you generate, what was the EBITDA from the operation, and I think that will be the focus of our presentations going forward. While we will try to explain how the earnings impact happens plus or minus, the truth is the earnings numbers, at least from Iceland, aren't really going to be super material and could be potentially very misleading. So, in other words, the exact thing that the accounting industry is trying to avoid is happening and I've been, you know, it's been a pet peeve of mine for the last few years, but until they change it those are the rules we're stuck with.

So what we're going to do—these results are our first results post acquisition of HS Orka. Ideally we get to 50 percent at least of HS Orka and we can consolidate the results into ours, you're going to see a lot more flow through from their actual results onto our actual results and not have to put these one-liners in that are somewhat confusing. And as we evolve in 2010 I think we will get better at reporting the results from Iceland, better at reporting their actual true impact on our financial condition, and I hope that you can live with us until that happens, recognizing it's a bit of a work in progress to kind of communicate this.

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**Thomas Daniels, Thomas Weisel Partners**

Yeah, no, that's perfect, I appreciate all that colour, we were just trying to exactly figure that out, but I imagine as it goes forward we'll be able to kind of compare previous results and back into it, so that's great.

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**Ross Beaty, Chairman & Chief Executive Officer**

Yeah. This quarter is kind of a who-cares quarter because it was just two weeks, but it will be more and more important to us as we go into the future and, of course, hopefully, as we increase our interest in the company.

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**Thomas Daniels, Thomas Weisel Partners**

Okay, great. that's all I need. Just one more question in regards to the HS Orka expansion, I believe it's around 230 megawatts. When we were in Iceland I thought I might have heard that, you know, the first megawatts wouldn't require any more drilling or capital expenditures. You know, the 180 megawatts—first off, is that correct,

and then the 180 megawatts after that, you know, would you guys help HS Orka raise the money to expand when you're at 41 percent or would you wait to 50 percent before you guys helped them finance that expansion. You know, how do we think about that?

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**Ross Beaty, Chairman & Chief Executive Officer**

Okay. That's a big question and it has what could be a big answer, but I'm not going to make a big one, I'm going to make it short. This is all a work in progress. I think until we actually make formal decisions on what we're going to do there are a bunch of things that have to happen. We have to sort of get proper budgets for what needs to be done to implement the expansions, and the expansions are all in phases. While the total is 230 megawatts of desired resource expansion here in the next five years, and that's what's been modelled to date, this will happen in increments.

The first phase is 80 megawatts, the next phase is 43.5 I think, and it goes on like that. And even within the first phase there's a 50 megawatt phase component and there's a 30 megawatt component and they have separate capital costs and separate requirements for steam. In fact, for that first 80 megawatts the only requirement is for I think about another 30 megawatts of drilling of holes that are not otherwise known resources or otherwise known, 30 out of 80. So that might be as little as three holes if the traditional success rate in Iceland continues. And that program is in progress right now, it's into the planning stages. I think they're planning on five holes actually to get there. They have drilled some holes successfully already, they have some steam behind pipe already, the turbines have actually been ordered, they're on their way from Japan, some payments have been made for those turbines and some have yet to be made. There's a lot of debate of course how much of this expansion can be leveraged and how much will have to come from the equity of the owners of HS Orka. There's also flux in the ownership because the owner of Geysir Green Energy, which owns the other 55 percent, is a large Icelandic bank, which is potentially going to be divesting that stake in whole or in part during 2010.

So there's a lot of moving parts right now and obviously we're very active on this. We have two representatives on a five-person board of directors. We're very much up to speed on things. We're negotiating power purchase contracts with Nordural, the aluminum smelter that's going to take the expansion power. There's a whole bunch of moving parts and I guess we'll give you details

as we go and as events happen during the years that are material.

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**Thomas Daniels, Thomas Weisel Partners**

Great, thanks, Ross. I appreciate that. That's it for me.

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**Operator**

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

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**Matt Gowing, Mackie Research Capital**

Hello. Thanks for taking my question. A question on this well 41B-33. You're hopeful that you can use that well as a reinjector. If you can use that well, will that be sufficient additional reinjection for the phase-one program to get to 23 megawatts gross or will you still need to look for additional reinjection?

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**Andrea Zaradic, Vice-President, Operations & Development**

Well that's what we have to determine, Matt. Currently the field has four injection wells, all of which are capable of taking the expanded flow out of the plant, but the important thing to understand with respect to reinjection is you have to reinject in order to maintain pressure support to your field by minimizing cooling or eliminating cooling.

So that's really the key here, is determining whether we can maintain the field in the long-term by injecting correctly into the field. So this is still very much a work in progress.

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**Ross Beaty, Chairman & Chief Executive Officer**

And I guess just (inaudible) is you might remember after we drilled those two wells we went back and we really looked at the whole field for an assessment of the production and the injection strategy, and this is now moving towards the latest phase of that work, or the last phase maybe, and if we can use that hole as an injector than it could potentially be a really great boost to the whole field for the long term.

**Matt Gowing, Mackie Research Capital**

Great. And kind of a related and follow-on question, you're guiding to end of March to have this reservoir modelling completed and potentially a resource report at that time. Has your preliminary work indicated whether you're at say the mid to upper end of this additional 6 to 22 megawatt gross range or is it really too early to tell at this point?

**Andrea Zaradic, Vice-President, Operations & Development**

I really don't want to say anything, Matt, until we finish the work. And I really want to emphasize to you as well that it's not just a resource assessment, it's also a reserve assessment.

Again, I know that you've heard that message from us before but it's important to understand the difference between a resource and a reserve. And the key behind getting the reserve assessment is having this working model of the field. So ask me at the end of March and I'll have an answer for you.

**Matt Gowing, Mackie Research Capital**

Great. Thanks, Andrea, I'll do that.

**Operator**

Thank you. The next question will be from Sumeet Mahesh from Dundee Securities. Please go ahead.

**Sumeet Mahesh, Dundee Securities**

Hi. Can you provide more colour on the White Horse property which was written off in this last quarter?

**Ross Beaty, Chairman & Chief Executive Officer**

So you'd like a comment on that?

**Sumeet Mahesh, Dundee Securities**

Yeah. Like what exactly was done there and why did you decide to write it off?

**Ross Beaty, Chairman & Chief Executive Officer**

Okay. So under that contract we had an obligation to make a payment of \$318,000 by January or February this year, so we had a certain amount of work that we sort of rushed ahead with on that last year, and essentially what we saw from that work was not as encouraging as what we'd hoped to see from it and rather than make that payment we decided to drop the property and return it to the owner.

We are going through all of our acquisitions, all of our properties of course in the same way. We want to winnow out properties that we don't think hold as much potential as other ones that we hold and really focus on the best we've got and minimize our ongoing care and maintenance and acquisition cost quite frankly. So it's (inaudible). We have 18 or 19 Nevada properties I think, or western U.S. properties, and that was one that didn't come up to muster and then we dropped it.

**Sumeet Mahesh, Dundee Securities**

Okay. So only the geophysical and geochemical work was done on it, after which you decided to drop it?

**Ross Beaty, Chairman & Chief Executive Officer**

Geochemical work and a lot of appraisal of the database on the property.

**Sumeet Mahesh, Dundee Securities**

Okay, thank you.

**Operator**

Thank you. As a reminder, if you have a question you may press star one. The next question will be from Veny Aleksandrov of Pritchard Capital. Please go ahead.

**Veny Aleksandrov, Pritchard Capital**

Good morning. I have a question on the PPA that you're about to sign for the Soda Lake expansion. I understand that you cannot give us a lot of details but can you give us a timeframe when do you expect to have this signed?

**Ross Beaty, Chairman & Chief Executive Officer**

I chuckle because, you know, we're dealing with NV Energy, which is a large utility, and so, Veny, I really can't give you a detail. We're trying to get it as fast as we can. We have submitted the very detailed application for a new PPA. We are trying to wrap the new power that we are supplying to the grid into a potentially a little bit longer term contract for the existing power and increase the power price that we receive to some degree, and so that's all in process of negotiation right now with NV Energy. What I can tell you is that they are very anxious to get our power. They've been very keenly increasing their geothermal power production in Nevada and are aggressively seeking more. They're a fine utility. We've been customers of theirs for a long time and we have a good working relationship with them.

We are able to deliver all the new power—as soon as we generate new power at Soda Lake we are able to deliver that into our existing contract at existing rates, so it's not like we cannot sell them power until we get a new contract, but obviously we want the new contract to go for many, many years at a much higher rate than we get today and that's why we need to negotiate a new contract. But as soon as we produce more megawatts at Soda Lake we push them into the grid and you will see progressively as 2010 goes on our revenue from Soda Lake increasing and thus our EBITDA from Soda Lake increasing almost proportionately, because we have no additional overhead and all of the additional revenue we get from the Soda Lake megawatt expansion is going to report to the bottom line net cash generated for us.

**Veny Aleksandrov, Pritchard Capital**

Thank you, I understand. And then more of a modelling question: What's the normalized quarterly level of operating expenses going forward?

**Ross Beaty, Chairman & Chief Executive Officer**

Veny, the normal—sorry, can you restate the question and I'll get Andrea to answer it if she can?

**Veny Aleksandrov, Pritchard Capital**

The normalized quarterly level of operating expenses that we should be modelling going forward.

**Ross Beaty, Chairman & Chief Executive Officer**

I think you mean average—

**Veny Aleksandrov, Pritchard Capital**

Yeah, just average per quarter, yeah.

**Sandra Lim, Chief Financial Officer**

For Soda Lake?

**Veny Aleksandrov, Pritchard Capital**

No, no, for the company as a whole.

**Sandra Lim, Chief Financial Officer**

For the company. Well, you know, we've had obviously in this first year with our listing, etcetera, we have some extraordinary G&A expenses, etcetera.

You know, you could use what we've done for the six months. I would say that with the addition of new staff, etcetera, the burn rate should, you know, I'm hoping of course that it goes down but it's not a normal six months for us. You know, you can use an average and that would give you a good indication. And read our IPO for our estimated expenses. But we are growing and we do expect some extraordinary expenses.

**Veny Aleksandrov, Pritchard Capital**

Okay, thank you.

**Operator**

That was a nice answer, Sandra. Perfect.

**Operator**

Thank you. The next question will be from Mac Whale from Cormark Securities. Please go ahead.

**Mac Whale, Cormark Securities**

Hi, good afternoon. Just a quick question on the, ah, you've given an aluminum price projection and I'm wondering if you can give us a sensitivity, say, for every \$100 per tonne of aluminum price change what you see in the dollar per megawatt hour.

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**Sandra Lim, Chief Financial Officer**

I'm not sure that we've calculated in that detail yet. We are working on various models for Orka and we're not quite down into that detail yet.

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**Mac Whale, Cormark Securities**

If we look at the production for Orka, and I know you get a lot more revenues, not a lot more but you get revenue from other sources than just power, if we do some estimates based on that would we be very far off in using that projection at higher aluminum prices.

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**Sandra Lim, Chief Financial Officer**

I think you'd be close. The—there is about 5 percent of Orka's revenues that come from things other than—

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**Ross Beaty, Chairman & Chief Executive Officer**

(Inaudible)

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**Sandra Lim, Chief Financial Officer**

That's right, yeah. So there's a trading unit, etcetera. Not a significant part. Certainly if you use the aluminum prices and try to model on that, that will give you a very good idea of what Orka's revenues will be going forward.

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**Mac Whale, Cormark Securities**

And then how does the curve change with the level of the aluminum price? I would imagine it would tail off as the sensitivity at, say, \$2,500 a tonne would be different at \$2,000 a tonne. Is that correct? And would it be lower?

**Sandra Lim, Chief Financial Officer**

No, that's not correct.

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**Andrea Zaradic, Vice-President, Operations & Development**

There's no cap to the price, Mac. I mean it's tied to aluminum price, there's a minimum but there's no ceiling, so in effect they are directly correlated.

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**Mac Whale, Cormark Securities**

No, but I'm not talking about a ceiling, I'm talking about a sliding scale. Because typically, I mean you would have a windfall kind of profit if it just kept going higher and higher. Presumably your customer would know that and would negotiate some sort of slide to the scale.

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**Andrea Zaradic, Vice-President, Operations & Development**

Yeah, there is a slight slide to the scale but, again, there's no ceiling to it. It does continue to go up with the aluminum price.

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**Ross Beaty, Chairman & Chief Executive Officer**

I mean, yeah, this is why it's going to be kind of hard to model, because, sure, if you assume a steadily rising aluminum price we will have extraordinary gains every single quarter. Every single quarter. And, by the same token, if we have some slide to the aluminum price in a specific quarter there will be an extraordinary loss. And it won't be very meaningful, neither the loss nor the gain, because it's not reflective of that quarter's results, it's reflective of that quarter's results plus every quarter for the next 15 or 20 years.

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**Mac Whale, Cormark Securities**

No, but I'm trying to separate out the, if we're going to model EBITDA I'm trying to separate out—you know, I agree with you, I mean I don't really care about the derivative in that, I'm trying to separate that out from pure revenue and pure cost and what the actual mechanism is to determine just the dollar per megawatt just on the revenue side. So forget about the derivative.

**Ross Beaty, Chairman & Chief Executive Officer**

Yeah. So I think the best thing to do is to take a snapshot in time and assume a specific aluminum price, let's just say 22 to 50 or something like that, and say, yeah, that's a reasonable price, that's what I think it's going to be steady state for the next 20 years out and then model what we kick out on that basis.

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**Mac Whale, Cormark Securities**

Okay. And is there a sensitivity on your cost? Because...like is it a significant one? Because I think there's some power purchase agreements that you actually enter on the cost side, right?

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**Ross Beaty, Chairman & Chief Executive Officer**

No.

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**Mac Whale, Cormark Securities**

There isn't any?

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**Ross Beaty, Chairman & Chief Executive Officer**

No, there's no sensitivity in the cost at all as far as I know.

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**Mac Whale, Cormark Securities**

Okay.

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**Ross Beaty, Chairman & Chief Executive Officer**

Just on the revenue.

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**Mac Whale, Cormark Securities**

Okay, thank you.

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**Operator**

Thank you. The next question will be from Adrian Day from Adrian Day Asset Management. Please go ahead.

**Adrian Day, Adrian Day Asset Management**

Yeah, good morning. I have two questions if I may.

The first one kind of follows up a little bit with a previous question. I'm just wondering if you're looking at more acquisitions, would they be properties or might they even be companies, and are you willing or prepared at this time to go into different countries.

And then I guess the flip side of that, Ross, is when you're looking to get rid of some of the properties that aren't what you want, is there a ready market for other people buying them?

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**Ross Beaty, Chairman & Chief Executive Officer**

Good questions, Adrian, and very nice to hear from you.

So just to step back to remember our mission, we're trying to build ourselves as a globally important company, preeminent company in the geothermal power industry. So just like building a gold company or an oil company or gas company, the best way to go big is to go to places in the world that have big resources and big power production potential inside markets that are reasonable and relatively orderly places to work.

So in the geothermal industry there are maybe ten places in the world that just have colossal potential for geothermal power. Iceland is one; Africa is another, the central Rift Valley of Africa; Indonesia; the Philippians; Western U.S., particularly California; Central America; South America in the Chilean, Peruvian and (inaudible) region. So what we are trying to do is build ourselves platforms in the most important of those areas where we have reasonable prospects of a good business, where we can acquire resources that are large and we can build power plants that operate well and we don't have to be constantly worrying about political turmoil and so forth.

So we have certainly looked in the last year and a half since we started. We must have looked at 35 or 40 different opportunities in many, many countries, in many regions of the world. All around the Pacific Rim, Papua New Guinea, in New Zealand, in the Caribbean, all kinds of places. And we basically did one deal. We acquired this interest in Iceland, which really fit so many of our target strategies. It was just a core, core place to go.

We're going to continue that work. We are always looking at opportunities. I was in the Philippians in fact just two weeks ago looking at some interesting opportunities that came to us and that are being bid by the government.

And, you know, again, Philippians, just to cite an example, it's the second largest geothermal power producing country in the world after the United States and it has plenty of additional reserve potential. In fact, I don't think we'll be doing anything there, we didn't like the thing we went to look at, but that didn't mean we shouldn't go there.

Once again, and this comes back to an earlier question, we've got to be very cognizant of our management horsepower. We don't want to spread ourselves too thin. We've got to be very aware of our financial horsepower. We don't want to be overspending, over committing. These are all important things. So we look at both projects that are presented to us, sometimes those projects are standalone, sometimes they're bid by national governments, sometimes they're in private companies, sometimes they're the companies themselves. This is no different than any business development team in any resource company seeking to grow through acquisition.

But suffice it to say, you know, we've done one deal in the last year and a half. That's not to say we wouldn't do another deal tomorrow but we've got nothing that we're likely to do any time soon. There are all sorts of reasons why things don't get to the point of making a deal and at the end of the day it's a risk and reward matrix you have to look at. And we have a relatively low risk tolerance and a relatively high reward expectation so, you know, that cuts out an awful lot of projects pretty quickly.

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**Adrian Day, Adrian Day Asset Management**

Okay. And is there a good market to sell projects you don't want?

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**Ross Beaty, Chairman & Chief Executive Officer**

Yeah, the geothermal industry is not tiny but it's not big either. There are, within the geothermal industry, ah, it's an hourglass shape. I think I've mentioned this before. It's an hourglass shape. There are some very large companies that are kind of utilities or big, you know, really big companies that don't have any desire to really get into the exploration phase and they just want to buy properties in order to grow that are well defined. So, yes, that would be a market that we may sell into if we found a project that didn't fit our needs for one reason or another but had a confirmed resource on it.

And at the other end of the spectrum there's a whole bunch of small companies, but—when I say a whole

bunch I don't mean 30 or 40, I mean, you know, I don't know, maybe 10 or 15. I mean that's it. It's a relatively small industry. So you've got to be pretty careful when you look at opportunities. Some of those small companies are challenged, they're challenged financially and they're challenged technically, and they aren't great buyers of projects that we might want to sell.

So, yes, there is a market for those, Adrian, and I hope we'll be able to show you in the next year or two that we've made some creative deals with some companies to joint venture or to sell properties that don't fit us and/or have a different risk environment than we're prepared to handle. Just watch this space is the best answer to that question I think.

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**Adrian Day, Adrian Day Asset Management**

Great, thank you.

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**Operator**

Thank you. There are no further questions registered so I'll turn the meeting back to you, Mr. Beaty.

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**Ross Beaty, Chairman & Chief Executive Officer**

Very good. Well one hour later. I really appreciate your time and your tolerance of hearing the answers to the good questions we got. I would like to thank all of you for joining us today and, with that, I'll call the conference call to an end. Thank you very much.

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**Operator**

Thank you. The conference call has concluded. Please disconnect your lines at this time. Thank you for your participation.