

MAGMA ENERGY SWEDEN A.B.

- and -

MAGMA ENERGY CORP.

- and -

GEYSIR GREEN ENERGY EHF

SHARE PURCHASE AGREEMENT
Relating to Shares of
HS ORKA HF.

May 16, 2010

TABLE OF CONTENTS

PART 1 INTERPRETATION.....	2
1.1 DEFINITIONS	2
1.2 SCHEDULE	8
1.3 INTERPRETATION	8
1.4 GOVERNING LAW	9
1.5 SEVERABILITY	9
1.6 ENTIRE AGREEMENT.....	9
1.7 WAIVER.....	9
1.8 ENGLISH LANGUAGE VERSION.....	9
PART 2 PURCHASE AND SALE	10
2.1 PURCHASE AND SALE OF PURCHASED SHARES	10
2.2 PURCHASE AND SALE OF 1 ST TRANCHE SHARES.....	10
2.3 1 ST TRANCHE PAYMENT	10
2.4 PURCHASE AND SALE OF 2 ND TRANCHE SHARES	10
2.5 2 ND TRANCHE PAYMENT.....	10
2.6 PURCHASE AND SALE OF 3 RD TRANCHE SHARES	10
2.7 3 RD TRANCHE PAYMENT	11
PART 3 REPRESENTATIONS AND WARRANTIES OF THE VENDOR	11
3.1 REPRESENTATIONS AND WARRANTIES RELATING TO THE VENDOR.....	11
3.2 OTHER REPRESENTATIONS.....	13
3.3 SURVIVAL.....	13
3.4 RELIANCE	14
PART 4 REPRESENTATIONS AND WARRANTIES OF THE PURCHASER	14
4.1 REPRESENTATIONS AND WARRANTIES OF THE PURCHASER.....	14
4.2 REPRESENTATIONS AND WARRANTIES OF THE GUARANTOR	15
4.3 OTHER REPRESENTATIONS.....	17
4.4 SURVIVAL.....	17
4.5 RELIANCE	17
PART 5 COVENANTS AND ACKNOWLEDGEMENT	18
5.1 COVENANTS OF THE VENDOR	18
5.2 COVENANTS OF THE PURCHASER	20
5.3 MUTUAL COVENANTS.....	20
5.4 PRESS RELEASES	21
5.5 ACKNOWLEDGEMENT OF THE VENDOR	21
5.6 POST-CLOSING COVENANTS	22
PART 6 CLOSING.....	22
6.1 CLOSING DATE AND LOCATION	22
6.2 VENDOR’S CLOSING DOCUMENTS.....	23
6.3 PURCHASER’S CLOSING DOCUMENTS	23
PART 7 MUTUAL CONDITIONS PRECEDENT	23
7.1 MUTUAL CONDITIONS PRECEDENT TO THE CLOSINGS	23

PART 8 CONDITIONS PRECEDENT TO THE PERFORMANCE BY THE PURCHASER OF ITS OBLIGATIONS UNDER THIS AGREEMENT	24
8.1 PURCHASER’S CONDITIONS TO THE CLOSINGS	24
8.2 WAIVER/SURVIVAL	27
8.3 COVENANT OF THE VENDORS	27
PART 9 CONDITIONS PRECEDENT TO THE PERFORMANCE BY THE VENDOR OF ITS OBLIGATIONS UNDER THIS AGREEMENT	27
9.1 VENDOR’S CONDITIONS	27
9.2 VENDOR’S CONDITIONS TO THE 3 RD TRANCHE CLOSING	28
9.3 WAIVER/SURVIVAL	29
9.4 COVENANT OF THE PURCHASER	29
PART 10 INDEMNITIES	29
10.1 INDEMNIFICATION OF PURCHASER	29
10.2 VENDOR’S LIMITATIONS	29
10.3 INDEMNIFICATION OF VENDOR	30
10.4 PURCHASER’S LIMITATION	30
10.5 INTEREST ON LOSSES	30
10.6 TAXES AND VAT	31
10.7 FORCE MAJEURE.....	31
PART 11 GUARANTEE	32
11.1 GUARANTEE	32
11.2 FURTHER ASSURANCES.....	33
11.3 DISCLAIMER	33
PART 12 TERMINATION, AMENDMENT AND WAIVER	33
12.1 TERMINATION.....	33
12.2 NOTICE OF TERMINATION	34
12.3 EFFECT OF TERMINATION	34
12.4 AMENDMENT	34
12.5 EXTENSION AND WAIVER	34
PART 13 DISPUTE RESOLUTION	35
13.1 JURISDICTION OF COURT.....	35
PART 14 GENERAL.....	35
14.1 EXPENSES	35
14.2 TIME.....	35
14.3 NOTICES	35
14.4 FURTHER ASSURANCES.....	37
14.5 ENUREMENT	37
14.6 ASSIGNMENT	38
14.7 COUNTERPARTS.....	38

SCHEDULE A

SHARE PURCHASE AGREEMENT

THIS AGREEMENT is made as of May 16, 2010,

AMONG:

MAGMA ENERGY SWEDEN A.B., a private stock company existing under the laws of Sweden, having its principal place of business at Kungsgatan 42, PO Box 2259 SE-403 14 Göteborg, Sweden,

(the “**Purchaser**”)

AND:

MAGMA ENERGY CORP., a public stock company existing under the laws of Canada, having its principal place of business at 410 – 625 Howe Street, Vancouver, British Columbia, V6C 2T6,

(the “**Guarantor**”)

AND:

GEYSIR GREEN ENERGY EHF, a private limited liability company registered under the laws of Iceland, reg. no. 630605-1210, having its principal place of business at Hafnargata 90, 230 Reykjanesbær,

(the “**Vendor**”)

WHEREAS:

The Parties entered into a term sheet, dated April 30, 2010 (the “**Term Sheet**”) concerning the acquisition by the Purchaser of the entire shareholdings of the Vendor in HS Orka hf, a company registered and organized under the laws of Iceland, Reg. No. 680475-01689, having its principal place of business at Brekkustígur 36, Reykjanesbær (the “**Company**”), entailing the assumption by the Purchaser of an obligation of the Vendor to purchase Shares in the Company and the acquisition of Shares by the Purchaser from the Vendor;

The issued and outstanding share capital of the Company is 6,962,918,548 Shares;

The Purchaser has agreed to assume the obligations of the Vendor contained in a subscription agreement entered into between the Vendor and the Company for the purchase of 208,333,333 Shares representing a further 2.99% of the issued and outstanding Shares, and on May 11, 2010 the Purchaser completed its assumption of the obligation of the Vendor to purchase 208,333,333 Shares;

The Vendor has agreed to sell to the Purchaser and the Purchaser has agreed to purchase from the Vendor, in aggregate, 3,644,863,114 Shares representing 52.35% of the issued and outstanding Shares on the terms and conditions hereinafter set forth;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises and mutual agreements and covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties covenant and agree as follows:

PART 1 INTERPRETATION

1.1 Definitions

In this Agreement the following words and phrases shall have the following meanings:

- (a) **“1st Tranche Closing”** means the completion of the purchase and sale of the 1st Tranche Shares contemplated in this Agreement;
- (b) **“1st Tranche Closing Date”** means July 31, 2010 or such other date as may be agreed to in writing by the Parties;
- (c) **“1st Tranche Closing Time”** means 12:00 noon (Reykjanesbær time) on the 1st Tranche Closing Date or such other time as may be agreed to in writing by the Parties;
- (d) **“1st Tranche Payment”** means an aggregate cash payment of ISK 798,031,182 (seven hundred ninety eight million, thirty one thousand, one hundred and eighty two Icelandic Krónur), being 3.0 ISK for each 1st Tranche Share;
- (e) **“1st Tranche Shares”** means 266,010,394 Shares;
- (f) **“2nd Tranche Closing”** means the completion of the purchase and sale of the 2nd Tranche Shares contemplated in this Agreement;
- (g) **“2nd Tranche Closing Date”** means July 31, 2010 or such other date as may be agreed to in writing by the Parties;
- (h) **“2nd Tranche Closing Time”** means 12:00 noon (Reykjanesbær time) on the 2nd Tranche Closing Date or such other time as may be agreed to in writing by the Parties;
- (i) **“2nd Tranche Payment”** means valid assumption by the Purchaser of the Municipal Bond with a deemed value of ISK 4,485,696,026 (four billion, four hundred eighty five million, six hundred ninety six thousand and twenty six Icelandic Krónur), being 4.5 ISK for each 2nd Tranche Share through: (i) direct assumption of the Municipal Bond; (ii) the Purchaser executing a loan agreement with Reykjanesbær Municipality extinguishing the Municipal Bond, if the Municipality of Reykjanesbær agrees, in writing before the 2nd Tranche Closing Date, to release the pledge of Shares contained in the Municipal Bond; or (iii) a bond issued by the Purchaser to the Vendor on terms identical to the terms of the Municipal Bond, if the Municipality of Reykjanesbær agrees, in writing before the 2nd Tranche Closing Date, to release the pledge of Shares contained in the Municipal Bond;
- (j) **“2nd Tranche Shares”** means 996,821,339 Shares;
- (k) **“3rd Tranche Closing”** means the completion of the purchase and sale of the 3rd Tranche Shares contemplated in this Agreement;
- (l) **“3rd Tranche Closing Date”** means July 31, 2010 or such other date as may be agreed to in writing by the Parties;
- (m) **“3rd Tranche Closing Time”** means 12:00 noon (Reykjanesbær time) on the 3rd Tranche Closing Date or such other time as may be agreed to in writing by the Parties;

- (n) “**3rd Tranche Payment**” means either, at the option of the Purchaser to be determined at any time prior to the 3rd Tranche Closing Date in accordance with the notice requirement in Section 2.7 herein: (i) an aggregate cash payment of ISK 9,766,328,662 (nine billion, seven hundred sixty six million, three hundred twenty eight thousand, six hundred and sixty two Icelandic Krónur), being 4.10 ISK for each 3rd Tranche Share (the “**3rd Tranche Cash Payment Option**”); or (ii) an aggregate cash payment of ISK 4,883,164,331 (four billion eight hundred eighty three million, one hundred sixty four thousand, three hundred and thirty one Icelandic Krónur) (the “**Initial Combined Payment Cash Amount**”) and that number of Magma Shares (the “**Magma Consideration Shares**”) equal to ISK 3,320,551,745 (three billion, three hundred twenty million, five hundred fifty one thousand, seven hundred and forty five Icelandic Krónur) calculated in accordance with the Market Price (the “**3rd Tranche Combined Payment Option**”) and the Deferred Cash Payment;
- (o) “**3rd Tranche Shares**” means 2,382,031,381 Shares;
- (p) “**Affiliate**” means, with reference to any Person: (i) a Subsidiary of such Person; or (ii) a corporation, body corporate, partnership, limited partnership, joint venture, association, trust or other legal entity that is controlled by the same Person that controls such Person. For the purposes of this definition, a Person “**controls**” a corporation, body corporate, partnership, joint venture, association, trust or other legal entity if such Person, directly or indirectly, has the power to direct the management and policies of the corporation, body corporate, partnership, joint venture, association, trust or other legal entity by virtue of: (A) the ownership or direction of voting securities; (B) a written agreement or trust agreement; (C) being the general partner or controlling the general partner of a partnership or limited partnership; or (D) being the trustee of a trust;
- (q) “**Agreement**” shall mean this Share Purchase Agreement;
- (r) “**Assets**” means all material personal property or assets of any nature or kind, other than Property, whether tangible or intangible, corporeal or incorporeal, and includes any interest therein;
- (s) “**Authorization**” means, with respect to any Person, any authorization, order, permit, approval, grant, licence, consent, right, franchise, privilege, certificate, judgment, award, determination, direction or decree of any Government Authority, whether or not having the force of law, having jurisdiction over such Person;
- (t) “**Books and Records**” means all books, accounts, records, files, documents and other written information relating to the Company its business, Assets and Property, which are situated at its offices or are otherwise under its control;
- (u) “**Buildings**” means the power plant, cooling towers, production wells, injection wells, pipelines, transmission facilities, storage facilities, offices and other buildings, structures or infrastructure situate on a Property, including all fixtures and improvements forming part thereof;
- (v) “**Business Day**” means any day (other than a Saturday or Sunday) on which banks are open for business in Reykjavík, Iceland and Vancouver, British Columbia;

- (w) **“Canadian Securities Laws”** means, collectively, the applicable securities laws of the Provinces and Territories of Canada and the respective regulations, rules and instruments made and forms prescribed thereunder together with all applicable published policy statements, blanket orders, rulings and notices of the securities regulatory authorities of the Provinces and Territories of Canada;
- (x) **“Closings”** means the 1st Tranche Closing, the 2nd Tranche Closing and the 3rd Tranche Closing;
- (y) **“Closing Dates”** means the 1st Tranche Closing Date, the 2nd Tranche Closing Date and the 3rd Tranche Closing Date;
- (z) **“Company”** has the meaning ascribed thereto in the Recitals of this Agreement;
- (aa) **“Consents and Notices”** means:
 - (i) all requirements of any Government Authorities;
 - (ii) all Authorizations;
 - (iii) all consents, approvals or notices required to be given to or received from any Person pursuant to a Material Contract;
 - (iv) all filings, registrations or notices to any Government Authority required under Law; and
 - (v) the expiration of all notice periods established under Law, established by any Government Authority or established pursuant to any Material Contract,

necessary to permit the consummation of the transactions contemplated by this Agreement;
- (ab) **“Constitutional Documents”** means the constitutional documents of the Company, as amended, restated or replaced from time to time;
- (ac) **“Deferred Cash Payment”** means an aggregate cash payment of ISK 1,562,612,586 (one billion, five hundred sixty two million, six hundred twelve thousand, five hundred and eighty six Icelandic Krónur) payable on November 30, 2010;
- (ad) **“Deferred Cash Payment Date”** means November 30, 2010 or such other day as may be agreed to in writing by the Parties;
- (ae) **“Disclosure Schedule”** means Schedule A to this Agreement;
- (af) **“Encumbrance”** means any lien, mortgage, charge (fixed or floating), pledge, hypothecation, security interest, title retention right, option, assignment, conditional sale, right to acquire, pre-emptive right, right of first refusal, trust or deemed trust (whether contractual, statutory or otherwise arising), voting trust, pooling agreement, adverse claim, restrictive covenant, limitation, easement, right-of-way, encroachment, burden, joint ownership interest, royalty or other encumbrance of any nature or kind whatsoever or any agreement right or privilege capable of becoming any of the foregoing;

- (ag) “**Environmental Laws**” means all applicable Laws in Iceland relating to health and safety, the protection or preservation of the environment or the manufacture, processing, distribution, use, treatment, storage, disposal, discharge, transport or handling of Hazardous Substances;
- (ah) “**Environmental Permits**” means all Authorizations required under Environmental Laws in connection with the conduct of the Company’s business;
- (ai) “**Government Authority**” means:
 - (i) any domestic or foreign, national, federal, provincial, state, regional, municipal, county or other local government;
 - (ii) any body exercising any statutory, regulatory, expropriation or taxing authority on behalf or under the authority of any of the governments described in Subsection 1.1(ag)(i) above or any Laws, including any ministry, department, commission, bureau, board, administrative or other agency, regulatory body or instrumentality thereof;
 - (iii) any quasi-governmental or private body exercising any statutory, regulatory, expropriation or taxing authority operating under the authority of any of the governments described in Subsection 1.1(ag)(i) above or any Laws; and
 - (iv) any domestic or foreign judicial, quasi-judicial or administrative court, tribunal, commission, board or panel acting under the authority of any of the governments described in Subsection 1.1(ag)(i) above or any Laws;
- (aj) “**Hazardous Substances**” means any contaminant, pollutant, dangerous substance, liquid waste, industrial waste, hauled liquid waste, toxic substance, special waste, hazardous waste, hazardous material or hazardous substance as defined in or pursuant to any Environmental Law by which the Company is bound or is subject;
- (ak) “**ISK**” means Icelandic Króna, the currency of the Republic of Iceland, issued by the Central Bank of Iceland;
- (al) “**Judgment**” means, any judgment, decree, order, decision, injunction, award or ruling of any Government Authority, arbitrator or arbitration board;
- (am) “**Laws**” means all domestic or foreign federal, national, provincial, state, regional, municipal, local or other constitutions, treaties, laws, statutes, codes, ordinances, decrees, rules, regulations, by-laws, policies, voluntary restraints, guidelines, requirements and any Judgments, including general principles of civil or common law, binding on or affecting the Person referred to in the context in which such word is used;
- (an) “**Magma Shares**” means common shares in the capital of the Guarantor;
- (ao) “**Market Price**” is the ISK equivalent, based on the Canadian dollar conversion rate as of the date hereof, of a 7% discount to the five-day volume-weighted average trading price of the Magma Shares on the TSX prior to the 3rd Tranche Closing Date;

- (ap) **“Materially Adverse”** means, with respect to a Person, a fact, circumstance, term, Asset, agreement, obligation, liability, covenant, sale, disposition, expenditure, event, change, compliance, breach, violation, default or other action, occurrence or effect (collectively, for purposes of this definition, a **“fact”**) that is or would reasonably be expected to be material and adverse to the business condition (financial or otherwise), operations, results of operations, properties, assets, capital, liabilities (contingent or otherwise) (collectively, for purposes of this definition, a **“condition”**) of that Person, taken as a whole, provided that, for all purposes of this Agreement, a fact shall be deemed not to be Materially Adverse to a Person unless the effect of such fact is or would reasonably be expected to be, or, in the case of any fact described in Sections 3.1 or 3.2, is, or would reasonably be expected to be, when combined with any other fact described in Sections 3.1 or 3.2 (without duplication), material and adverse to the condition of such Person, and provided further that a fact shall be deemed not to be Materially Adverse if it consists of, or results from, any change, effect, event, circumstance, action or occurrence: (i) in or relating to the Canadian, United States or Icelandic economy or financial, credit or securities markets in general, including, without limitation, any reduction in major markets indices; (ii) in or relating to currency exchange rates; (iii) reasonably attributable to the announcement of the transactions contemplated by this Agreement; (iv) in or relating to Canadian, United States or Icelandic generally accepted accounting principles, regulatory accounting requirements or international financial reporting standards; or (v) in or relating to any Laws or other requirements of any Governmental Authority of general application or any interpretation thereof by any Governmental Authority; provided, however, that for the purposes of Subsections 1.1(an)(i), (iv) or (v) such fact does not primarily relate only to the Person or disproportionately affect the Person compared to other businesses of similar size operating in the industry in which the Person operates;
- (aq) **“Material Contracts”** means those subsisting agreements, contracts, instruments, leases and other commitment, oral or written, entered into by the Company, which:
- (i) have total payment obligations on the part of the Company that exceed \$1,000,000;
 - (ii) are for a term extending beyond two years after the date of this Agreement; or
 - (iii) have been entered into out of the ordinary course of business;
- (ar) **“Municipal Bond”** means the bond dated July 16, 2009 in favour of the Municipality of Reykjanesbær, payable by the Vendor, with a deemed value of 4,485,696,026 ISK and a principal value of ISK 6.289.942.651;
- (as) **“Parties”** means the Vendor, the Purchaser and the Guarantor;
- (at) **“Person”** includes an individual, corporation, body corporate, partnership, limited partnership, joint venture, association, trust, unincorporated organization or other legal entity or any trustee, executor, administrator or other legal representative thereof;
- (au) **“Proceeding”** means any action, cause of action, suit or proceeding, including appeals or applications for review, before or by any Government Authority, arbitrator or arbitration board or any investigation or inquiry by any Government Authority;

- (av) **“Property”** means all geothermal interests, real property, surface rights, water rights, easements or rights-of-way;
- (aw) **“Public Record”** means the Guarantor’s annual information form dated September 15, 2009, audited annual financial statements for the twelve-months ended June 30, 2009, interim financial statements for the six months ended December 31, 2009, MD&A for the six months ended December 31, 2009 and all of the Guarantor’s technical reports, material change reports and press releases filed with any applicable Canadian securities regulatory authority (including on SEDAR) on or during the 12 months preceding the date hereof;
- (ax) **“Purchase Price”** is the aggregate amount payable by the Purchaser to the Seller comprised of the 1st Tranche Payment, the 2nd Tranche Payment and the 3rd Tranche Payment;
- (ay) **“Purchased Shares”** means, collectively, the 1st Tranche Shares, the 2nd Tranche Shares and the 3rd Tranche Shares, being, in aggregate, 3,644,863,114 Shares representing 52.35% of the issued and outstanding shares of Company as at the date of this Agreement;
- (az) **“Purchaser’s Certificate”** means the certificate to be delivered at Closing under Subsection 9.1(g)(ii);
- (aa) **“Shares”** means the ordinary voting shares in registered form with a nominal value of ISK 1 each in the capital of the Company as issued from time to time;
- (aa) **“Subsidiary”** means in relation to a Person, a corporation, body corporate, partnership, joint venture, association, trust or other legal entity that is: (i) controlled by: (A) such Person; (B) such Person and one or more corporations, bodies corporate, partnerships, joint ventures, associations, trust or other legal entities each of which is controlled by such Person; or (C) two or more corporations, bodies corporate, partnerships, joint ventures, associations, trusts or other legal entities each of which is controlled by such Person; or (ii) a Subsidiary of a corporation, body corporate, partnership, joint venture, association, trust or other legal entity that is such Person’s Subsidiary. For the purposes of this definition, a corporation, body corporate, partnership, joint venture, association, trust or other legal entity is **“controlled”** by another Person if such Person, directly or indirectly, has the power to direct the management and policies of the corporation, body corporate, partnership, joint venture, association, trust or other legal entity by virtue of: (A) the ownership or direction of voting securities; (B) a written agreement or trust agreement; (C) being the general partner or controlling the general partner of a partnership other person or company; or (D) being the trustee of a trust;
- (ab) **“Termination Date”** means July 31, 2010;
- (ac) **“TSX”** means the Toronto Stock Exchange;
- (ad) **“Vendor’s Certificate”** means the certificate to be delivered at Closing under Subsection 8.1(g)(vi); and
- (ae) **“Vendor’s Solicitors”** means the law firm of BBA Legal.

1.2 Schedule

Schedule A to this Agreement is incorporated into and forms an integral part of this Agreement.

1.3 Interpretation

For the purposes of this Agreement, except as otherwise expressly provided herein:

- (a) “**this Agreement**” means this Agreement, including Schedule A hereto, as it may from time to time be supplemented or amended;
- (b) all references in this Agreement to a designated “**Part**”, “**Section**”, “**Subsection**”, or other subdivision, or to the “**Schedule**”, is to the designated Part, Section, Subsection or other subdivision of or Schedule to this Agreement unless otherwise specifically stated;
- (c) the words “**herein**”, “**hereof**” and “**hereunder**” and other words of similar import refer to this Agreement as a whole and not to any particular Part, Section, Subsection or other subdivision or Schedule;
- (d) the singular of any term includes the plural and vice versa and the use of any term is equally applicable to any gender;
- (e) the word “**or**” is not exclusive and the word “**including**” is not limiting (whether or not non-limiting language such as “without limitation” or “but not limited to” or other words of similar import are used with reference thereto);
- (f) all accounting terms not otherwise defined in this Agreement have the meanings assigned to them in accordance with generally accepted accounting principles applicable in the Icelandic, applied on a consistent basis with prior years;
- (g) except as otherwise provided, any reference to a statute includes and is a reference to such statute and to the regulations made pursuant thereto with all amendments made thereto and in force from time to time, and to any statute or regulations that may be passed which have the effect of supplementing or superseding such statute or regulations;
- (h) where the phrase “**to the best of the knowledge of**” or phrases of similar import are used in this Agreement, it shall be deemed to be given by the Person in respect of whom the phrase is used after making such due enquiries as can be reasonably expected to be made by a Person in the same position as the Person in question in order to enable such Person to make the statement or disclosure, except for the purposes of Section 3.1 (j), it shall mean the actual knowledge of Alexander Guðmundsson and Katrín Friðriksdóttir, as board members in the Company, and refers to the knowledge that such individuals actually have as should reasonably be expected of such board members, however and for greater certainty it means that those individuals do not have any knowledge that is contrary to the matter asserted;
- (i) the headings to the Parts, Sections and Subsections of this Agreement are inserted for convenience only and do not form a part of this Agreement and are not intended to interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof;

- (j) any reference to a corporate entity includes and is also a reference to any corporate entity that is a successor to such entity;
- (k) each of the parties acknowledge that this Agreement is the product of arm's length negotiation between the parties, each having obtained its own independent legal advice, and that this Agreement shall be construed neither strictly for nor strictly against any party irrespective of which party was responsible for drafting this Agreement; and
- (l) if any action is required to be taken under this Agreement on a day that is not a Business Day, such action will be required to be taken on the next succeeding day which is a Business Day.

1.4 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Iceland.

1.5 Severability

If an arbitrator, court or other tribunal of competent jurisdiction determines that any one or more of the provisions contained in this Agreement is invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of such provision or provisions shall not in any way be affected or impaired thereby in any other jurisdiction and the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

1.6 Entire Agreement

This Agreement constitutes the entire agreement between the Parties and supersedes all prior agreements and understandings, oral or written, by and between any of the Parties with respect to the subject matter hereof, including the Term Sheet with the exception that Sections IV and V of the Term Sheet shall survive.

1.7 Waiver

If any party breaches any provision of this Agreement, the failure of any other party to require strict performance will not constitute a waiver of such breach or otherwise prejudice the other party from subsequently enforcing the provisions hereof as they relate to the breach in question or any similar or other breach. No waiver of any of the provisions of this Agreement will be deemed to constitute a waiver of any other provision (whether or not similar) of this Agreement, nor will such waiver constitute a continuing waiver unless otherwise expressly provided in writing duly executed by the party to be bound thereby.

1.8 English Language Version

The English language version of this Agreement is the official version of this Agreement. The interpretation of the English version of this Agreement will prevail in the event of any conflict between the interpretation or the provisions of the English language version and the provisions of any translation of this Agreement.

PART 2 PURCHASE AND SALE

2.1 Purchase and Sale of Purchased Shares

Based and relying on the representations and warranties set forth in Parts 3 and 4, the Purchaser agrees to purchase good and marketable title to the Purchased Shares from the Vendor and the Vendor agrees to sell good and marketable title to the Purchased Shares to the Purchaser, free and clear of all Encumbrances, and the Purchaser agrees to pay the Purchase Price on the terms and conditions hereinafter set forth.

2.2 Purchase and Sale of 1st Tranche Shares

The Purchaser will purchase good and marketable title to the 1st Tranche Shares from the Vendor and the Vendor will sell good and marketable title to the 1st Tranche Shares to the Purchaser, free and clear of all Encumbrances, at the 1st Tranche Closing Time.

2.3 1st Tranche Payment

As consideration in full for the purchase of the 1st Tranche Shares, the 1st Tranche Payment will be paid in full by the Purchaser to the Vendor by wire transfer to the following account at the 1st Tranche Closing:

Bank: Islandsbanki, Reykjanesbæ
Account no: 542-26-431
Currency: ISK
Owner: Geysir Green Energy ehf, kt. kt, 630605-1210

2.4 Purchase and Sale of 2nd Tranche Shares

The Purchaser will purchase good and marketable title to the 2nd Tranche Shares from the Vendor and the Vendor will sell good and marketable title to the 2nd Tranche Shares to the Purchaser, free and clear of all Encumbrances except those disclosed in the Disclosure Schedule, at the 2nd Tranche Closing Time.

2.5 2nd Tranche Payment

As consideration in full for the purchase of the 2nd Tranche Shares, the 2nd Tranche Payment will be paid in full at the 2nd Tranche Closing by the Purchaser to the Vendor through: (i) the Purchaser directly assuming the Municipal Bond; (ii) the Purchaser executing a loan agreement with Reykjanesbær Municipality extinguishing the Municipal Bond, if the Municipality of Reykjanesbær agrees, in writing before the 2nd Tranche Closing Date, to release the pledge of Shares contained in the Municipal Bond; or (iii) the Purchaser issuing a bond to the Vendor on terms identical to the terms of the Municipal Bond, if the Municipality of Reykjanesbær agrees, in writing before the 2nd Tranche Closing Date, to release the pledge of Shares contained in the Municipal Bond.

2.6 Purchase and Sale of 3rd Tranche Shares

The Purchaser will purchase good and marketable title to the 3rd Tranche Shares from the Vendor and the Vendor will sell good and marketable title to the 3rd Tranche Shares to the Purchaser, free and clear of all Encumbrances, at the 3rd Tranche Closing Time.

2.7 3rd Tranche Payment

The Purchaser will deliver to the Vendor at least five Business Days before the 3rd Tranche Closing Date a written notice indicating whether the Purchaser will be electing the 3rd Tranche Cash Payment Option or the 3rd Tranche Combined Payment Option.

As consideration in full for the purchase of the 3rd Tranche Shares, the 3rd Tranche Payment, if the Purchaser elects the 3rd Tranche Cash Payment Option, will be paid in full by the Purchaser to the Vendor by wire transfer to the following account at the 3rd Tranche Closing of a cash payment of ISK 9,766,328,662 (nine billion, seven hundred sixty six million, three hundred twenty eight thousand, six hundred and sixty two Icelandic Krónur):

Bank: Islandsbanki, Reykjanesbæ
Account no: 542-26-431
Currency: ISK
Owner: Geysir Green Energy ehf, kt. kt, 630605-1210

If the Purchaser elects the 3rd Tranche Combined Payment Option, the 3rd Tranche Payment will be paid in full by the Purchaser by delivery to the Vendor at the 3rd Tranche Closing the Magma Consideration Shares and the Initial Combined Payment Cash Amount by wire transfer to the following account:

Bank: Islandsbanki, Reykjanesbæ
Account no: 542-26-431
Currency: ISK
Owner: Geysir Green Energy ehf, kt. kt, 630605-1210,

with the Deferred Cash Payment to be paid in full by the Purchaser to the Vendor by wire transfer to the following account at the Deferred Cash Payment Date:

Bank: Islandsbanki, Reykjanesbæ
Account no: 542-26-431
Currency: ISK
Owner: Geysir Green Energy ehf, kt. kt, 630605-1210

PART 3 REPRESENTATIONS AND WARRANTIES OF THE VENDOR

3.1 Representations and Warranties Relating to the Vendor

In order to induce the Purchaser to enter into and to consummate the transactions contemplated by this Agreement, the Vendor represents and warrants to the Purchaser as follows:

- (a) **Title to Shares** – As at the date of this Agreement, the Vendor owns good and marketable title to the Purchased Shares, as legal and beneficial owner thereof, free and clear of all Encumbrances, except as disclosed in the Disclosure Schedule, and the Purchased Shares have been duly and validly issued and are outstanding as fully paid and non-assessable Shares;
- (b) **Existence** – The Vendor is a private limited liability company duly incorporated and validly existing under the laws of Iceland;
- (c) **Power and Capacity** – The Vendor has the requisite corporate power and capacity to enter into this Agreement and all other documents and agreements contemplated herein to which the Vendor is or will be a party, to perform its obligations hereunder and thereunder, and to transfer the legal and beneficial title to, and ownership of, the Purchased Shares to the Purchaser, free and clear of all Encumbrances;
- (d) **Authorization** – The execution and delivery of this Agreement by the Vendor has been duly and validly authorized and no other corporate action or proceedings on the part of the Vendor is necessary to authorize this Agreement and the transactions contemplated hereunder;
- (e) **Residency of Vendor** – The Vendor is a resident of Iceland;
- (f) **Agreements Valid** – This Agreement has been duly and validly executed and delivered by the Vendor and constitutes a legal, valid and binding obligation of the Vendor enforceable by the Purchaser against the Vendor in accordance with its terms, subject to the availability of equitable remedies and the enforcement of creditors' rights generally;
- (g) **No Conflict** – Except as set out in the Disclosure Schedule, the execution and delivery by the Vendor of this Agreement and performance by the Vendor of its obligations hereunder and the transactions contemplated hereby, including the purchase by the Purchaser and sale by the Vendor of the legal and beneficial title to and ownership of the Purchased Shares will not:
 - (i) result in a violation or breach of any provision of, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, purchase, acceleration or cancellation of or under:
 - (1) the Vendor's constitutional documents or any resolution of the Vendor's directors or shareholders;
 - (2) any applicable Law or, to the best of its knowledge, any Judgment; or
 - (3) any Material Contract to which the Vendor is a party;
 - (ii) result in the imposition of any Encumbrance upon any of the Purchased Shares, the Company or any of its Assets or Property;
- (h) **No Finders' Fees** – The Vendor has not taken any action that would result in any commission, finder's fee, fiscal advisory fee or other like payment being payable by the Company, or the Purchaser with respect to any of the transactions contemplated hereby;

- (i) **Consents and Approval** – Except for those set out in the Disclosure Schedule, there is no requirement for the Vendor to give or receive any Consents and Notices or obtain any Authorization in order for the Vendor:
 - (i) to consummate the transactions contemplated by this Agreement, including the purchase by the Purchaser and the sale by the Vendor of the legal and beneficial title to and ownership of the Purchased Shares;
 - (ii) to execute and deliver this Agreement and all of the documents and instruments to be delivered by the Vendor under this Agreement; and
 - (iii) to render this Agreement legal, valid, binding and enforceable against it;
- (j) **No Material Adverse Affect** – no event, condition or occurrence exists, and no information or documentation has been received by the Vendor, that has not been disclosed to the Purchaser, that, after notice or lapse of time or both, has Materially Adversely affected or may Materially Adversely affect, the business, operations, Assets, Buildings, liabilities, capital, prospects, condition (financial or otherwise) or results of operations of the Company;
- (k) **Municipal Bond** – In the event the Purchaser assumes the obligations of the Vendor pursuant to the Municipal Bond through direct assumption of the Municipal Bond, that no default exists pursuant to the terms of the Municipal Bond, the obligations of the Vendor under the Municipal Bond are in good standing in all respects, all stamp duties with regard to the Municipal Bond have been paid by the Vendor before the 3rd Tranche Closing Date, no demand has been made pursuant to the terms of the Municipal Bond and the payments due under the Municipal Bond have not been accelerated; and
- (l) if the Purchaser elects the 3rd Tranche Combined Payment Option, the Vendor further represents and warrants to the Purchaser as follows:
 - (i) **Principal** – the Vendor will receive the Magma Consideration Shares as principal, for its own account and not for the benefit of any other person; and
 - (ii) **Investment Only** - the vendor will receive the Magma Consideration Shares for investment purposes only and not with a view to resale or distribution.

3.2 Other Representations

All statements contained in any certificate delivered by or on behalf of the Vendor pursuant hereto or in connection with the transactions contemplated by this Agreement shall be deemed to be representations and warranties by the Vendor hereunder.

3.3 Survival

The representations and warranties of the Vendor hereunder shall not merge at any of the Closings, shall survive the Closings and the payment of the Purchase Price and shall continue in full force and effect for a period of two years from the date hereof for all matters, except:

- (a) the representations, warranties and covenants of the Vendor with respect to due and valid issuance of the Shares, title to the Shares and the absence of any Encumbrance affecting

such title set out under Subsection 3.1(a) shall survive the Closings and continue in full force and effect indefinitely; and

- (b) a claim for breach of any of the representations or warranties of the Vendor in this Agreement involving fraud or fraudulent misrepresentation on the part of the Vendor may be made against the Vendor at any time following the Closing Dates, subject only to applicable limitation periods imposed by Law.

For the avoidance of doubt, the representations and warranties shall be considered to be made on the 1st Tranche Closing Date, on the 2nd Tranche Closing Date and the 3rd Tranche Closing Date.

3.4 Reliance

The Vendor acknowledges and agrees that the Purchaser has entered into this Agreement relying on the warranties and representations, covenants and other terms and conditions of this Agreement.

PART 4 REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

4.1 Representations and Warranties of the Purchaser

In order to induce the Vendor to enter into and to consummate the transactions contemplated by this Agreement, the Purchaser represents and warrants to the Vendor that:

- (a) **Organization and Good Standing** – The Purchaser is a corporation duly incorporated and validly existing under the Laws of Sweden;
- (b) **Power and Authority** – The Purchaser has the requisite corporate power and capacity to enter into this Agreement and all other documents and agreements contemplated herein to which the Purchaser is or will be a party, to perform its obligations hereunder and thereunder. The execution and delivery of this Agreement by the Purchaser has been duly and validly authorized and no other corporate action or proceedings on the part of the Purchaser is necessary to authorize this Agreement and the transactions contemplated hereunder;
- (c) **Residency of Purchaser** – The Purchaser is a resident of Sweden;
- (d) **Agreement Valid** – This Agreement has been duly and validly executed and delivered by the Purchaser and constitutes a legal, valid and binding obligation of the Purchaser enforceable by the Vendor against the Purchaser in accordance with its terms, subject to the availability of equitable remedies and the enforcement of creditors' rights generally;
- (e) **No Conflict** - The execution and delivery by the Purchaser of this Agreement and performance by the Purchaser of its obligations hereunder and the transactions contemplated hereby, including the purchase by the Purchaser and sale by the Vendor of the legal and beneficial title to and ownership of the Purchased Shares, will not result in a violation or breach of any provision of, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, purchase, acceleration or cancellation of or under:

- (i) the Purchaser's constitutional documents or any resolution of the Purchaser's directors or shareholders;
 - (ii) any applicable Law or any Judgment; or
 - (iii) any material agreement, arrangement or understanding to which the Purchaser or any of its Subsidiaries is a party;
- (f) **No Finders' Fees** – The Purchaser has not taken any action that would result in any commission, finder's fee, fiscal advisory fee or other like payment being payable by the Company, any of its Subsidiaries or the Vendor with respect to any of the transactions contemplated hereby; and
- (g) **Consents and Approval** – Except for those set out in the Disclosure Schedule, there is no requirement for the Purchaser to give or receive any Consents and Notices or obtain any Authorization in order for the Purchaser:
 - (i) to consummate the transactions contemplated by this Agreement, including the purchase by the Purchaser and sale by the Vendor of the legal and beneficial title to and ownership of the Purchased Shares;
 - (ii) to execute and deliver this Agreement and all of the documents and instruments to be delivered by the Purchaser under this Agreement; and
 - (iii) to render this Agreement legal, valid, binding and enforceable against it.

4.2 Representations and Warranties of the Guarantor

In order to induce the Vendor to enter into and to consummate the transactions contemplated by this Agreement, the Guarantor represents and warrants to the Vendor that:

- (a) **Organization and Good Standing** – The Guarantor is a corporation duly incorporated and validly existing under the Laws of British Columbia;
- (b) **Power and Authority** – The Guarantor has the requisite corporate power and capacity to enter into this Agreement and all other documents and agreements contemplated herein to which the Guarantor is or will be a party, to perform its obligations hereunder and thereunder. The execution and delivery of this Agreement by the Guarantor has been duly and validly authorized and no other corporate action or proceedings on the part of the Guarantor is necessary to authorize this Agreement and the transactions contemplated hereunder;
- (c) **Residency of Guarantor** – The Guarantor is a resident of Canada;
- (d) **Agreement Valid** – This Agreement has been duly and validly executed and delivered by the Guarantor and constitutes a legal, valid and binding obligation of the Guarantor enforceable by the Vendor against the Guarantor in accordance with its terms, subject to the availability of equitable remedies and the enforcement of creditors' rights generally;
- (e) **No Conflict** – The execution and delivery by the Guarantor of this Agreement and performance by the Guarantor of its obligations hereunder and the guarantee provided by

the Guarantor, will not result in a violation or breach of any provision of, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, purchase, acceleration or cancellation of or under:

- (i) the Guarantor's constitutional documents or any resolution of the Guarantor's directors or shareholders;
 - (ii) any applicable Law or any Judgment; or
 - (iii) any material agreement, arrangement or understanding to which the Guarantor is a party;
- (f) **No Finders' Fees** – The Guarantor has not taken any action that would result in any commission, finder's fee, fiscal advisory fee or other like payment being payable by the Company, any of its Subsidiaries or the Vendor with respect to any of the transactions contemplated hereby;
- (g) **Consents and Approval** – Except for those set out in the Disclosure Schedule, there is no requirement for the Guarantor to give or receive any Consents and Notices or obtain any Authorization in order for the Guarantor:
 - (i) to consummate the transactions contemplated by this Agreement, including the guarantee provided by the Guarantor;
 - (ii) to execute and deliver this Agreement and all of the documents and instruments to be delivered by the Guarantor under this Agreement; and
 - (iii) to render this Agreement legal, valid, binding and enforceable against it; and
- (h) **Issuance of Magma Consideration Shares** - if the Purchaser elects the 3rd Tranche Combined Payment option, the Guarantor has full corporate power and authority to issue the Magma Consideration Shares, and at the 3rd Tranche Closing Time the Magma Consideration Shares will be duly and validly allotted and issued as fully paid and non-assessable Magma Shares;

In addition to the foregoing, if the Purchaser elects the 3rd Tranche Combined Payment Option, the Guarantor represents and warrants to the Vendor that:

- (i) **Share Capital** – the authorized capital of the Guarantor consists of an unlimited number of Shares, of which 248,577,974 Shares were issued as of May 16, 2010, and the outstanding Shares of the Company are fully paid and non-assessable;
- (j) **Absence of Options** – other than as previously disclosed to the Vendor or as disclosed in the Public Record, there are no options, warrants or any other financial instruments or convertible securities issued or outstanding which are convertible or exercisable into Magma Shares;
- (k) **Financial Statements** – the financial statements of the Guarantor present fairly, in all material respects, the financial position of the Guarantor and its subsidiaries on a consolidated basis as at the dates set out therein and the results of their operations and the

changes in their financial position for the periods then ended, in accordance with Canadian generally accepted accounting standards;

- (l) **Public Disclosure** - the Public Record, taking into account any published amendments made to previously filed documents, is in all material respects accurate and omits no material facts, the omission of which makes such Public Record or any particulars therein, misleading or incorrect at the date hereof;
- (m) **No Material Adverse Affect** – no event, condition or occurrence exists, and no information or documentation has been received by the Guarantor, that has not been disclosed to the Vendor, that, after notice or lapse of time or both, has Materially Adversely affected or may Materially Adversely affect, the business, operations, Assets, Buildings, liabilities, capital, prospects, condition (financial or otherwise) or results of operations of the Guarantor;
- (n) **No Prospectus Required** – the Guarantor is entitled to avail itself of the applicable prospectus and registration exemptions available under applicable Canadian securities laws in respect of the distribution of Magma Consideration Shares;
- (o) **Conditional Listing of the Magma Consideration Shares** – the Guarantor will have obtained, prior to the 3rd Tranche Closing Time, conditional approval of the TSX for the listing of the Magma Consideration Shares; and
- (p) **Resale of the Magma Consideration Shares** – as at the 3rd Tranche Closing Date the Magma Consideration Shares will be subject to a four-month and one day hold period in accordance with National Instrument 45-102 *Resale of Securities*, and certificates representing the Magma Consideration Shares will bear a restrictive legend to that effect.

4.3 Other Representations

All statements contained in any certificate or other instrument delivered by or on behalf of the Purchaser or the Guarantor pursuant hereto or in connection with the transactions contemplated by this Agreement shall be deemed to be representations and warranties by the Purchaser or the Guarantor, as the case may be, hereunder.

4.4 Survival

The representations and warranties of the Purchaser and the Guarantor hereunder shall not merge at any of the Closings, shall survive the Closings and the purchase of the Purchased Shares, and shall continue in full force and effect for the benefit of the Vendor for a period of two years from the date hereof for all matters, except a claim for breach of any of the representations or warranties of the Purchaser or the Guarantor in this Agreement involving fraud or fraudulent misrepresentation on the part of the Purchaser or the Guarantor may be made against the Purchaser or the Guarantor, as the case may be, at any time following the Closing Date, subject only to applicable limitation periods imposed by Law.

4.5 Reliance

The Purchaser and the Guarantor acknowledge and agree that the Vendor has entered into this Agreement relying on the representations and warranties, covenants and other terms and conditions of this Agreement.

PART 5
COVENANTS AND ACKNOWLEDGEMENT

5.1 Covenants of the Vendor

The Vendor covenants and agrees that during the period from the date of this Agreement to the latest of the 1st, 2nd or 3rd Tranche Closing Time, the Vendor shall:

- (a) **Access** – Upon a request from the Purchaser, use its reasonable efforts to obtain permission from the Company for the Purchaser and its employees, agents, technical and professional advisors and other representatives to have access during normal business hours to the premises, the key employees, the Books and Records, and the Assets and Property of the Company, and, upon further request from the Company, the Vendor shall use its reasonable efforts to cause the Company's officers, employees, professional advisors or agents to furnish to the Purchaser such financial, technical and operating data and other information with respect to the business, Assets and Property of the Company as the Purchaser shall from time to time reasonably request to enable confirmation of the matters represented and warranted in Part 3 and to keep generally informed as to the Company's business. It is also the intention of the Parties that the Purchaser will be entitled to meet with Government Authorities that currently regulate the Company's business, Assets and Property;
- (b) **Confer** – Confer on a regular basis with the Purchaser with respect to the status of the conditions precedent to the Closings and operational matters concerning the Company, and its business, Assets and Property;
- (c) **Conduct of the Company's Business** – Except as otherwise provided in this Agreement, use commercially reasonable efforts to cause the Company to:
 - (i) conduct its business in the ordinary and usual course in accordance with past practices;
 - (ii) use its commercially reasonable efforts to maintain all existing policies of insurance on its business, Assets and Property;
 - (iii) comply with all Laws, including Environmental Laws, and all Authorizations, including Environmental Permits, governing or affecting it or its business, Assets and Property, except for failures to comply which, individually or in the aggregate, would not have a Materially Adverse effect on the Company;
 - (iv) pay and discharge all its liabilities or obligations in the ordinary and usual course of business consistent with past business practice, except for such liabilities or obligations as may be contested in good faith;
 - (v) not take any action or omit to take any action which would, or would reasonably be expected to, result in a breach of or render untrue any representation, warranty or covenant of the Vendor contained herein;
 - (vi) use commercially reasonable efforts to ensure that all Authorizations required to permit it to carry on its business as currently conducted have been received or given; and

- (vii) use commercially reasonable efforts to preserve intact its business, Assets, Property, operations and affairs, and promote and preserve the goodwill of its employees, suppliers, power, purchasers and others having business relations with the Company;
- (d) **Notice of Material Developments** – Notify the Purchaser as soon as the Vendor has determined that a state of facts exists which results in, or can reasonably be expected to result in:
 - (i) any representation or warranty of the Vendor set forth in this Agreement being untrue or incorrect in any material respects, except as a result of the purchase and sale of the Purchased Shares;
 - (ii) the breach of any covenant of the Vendor set forth in this Agreement;
 - (iii) the non-fulfillment of any condition for the benefit of the Purchaser set forth in this Agreement; or
 - (iv) Materially Adverse effect on the Company, except for the transactions contemplated by this Agreement;
- (e) **No Shop** – Not, directly or indirectly, solicit, initiate or encourage submissions of inquiries, proposals, or offers from any other Person or group of Persons relating to, not participate in any negotiations regarding, not furnish to any other person or group of persons any information with respect to, and not otherwise co-operate in any way, or assist or participate, facilitate or encourage, any:
 - (i) sale of any Shares or other securities of the Company to any Person or group of Persons, other than to the Purchaser pursuant to this Agreement;
 - (ii) sale of any material Assets or Property of the Company, other than in the ordinary course of business, to any Person or group of Persons other than the Purchaser; or
 - (iii) acquisition, merger, amalgamation, consolidation, or business combination between the Company and any Person or group of Persons other than the Purchaser,

which could reasonably be expected, directly or indirectly, to interfere with, or be inconsistent with the consummation of the transactions contemplated by this Agreement;
- (f) **Consents and Notices** – Use commercially reasonable efforts to ensure that all Consents and Notices have been received or given, as the case may be, all in form and substance satisfactory to the Purchaser, acting reasonably;
- (g) **Necessary Steps** – Use commercially reasonable efforts to take all actions, steps and proceedings that are necessary or desirable to approve and authorize, and to validly and effectively undertake, the completion of the transactions contemplated by this Agreement;

- (h) **Agreements** – unless it has received the prior written consent of the Guarantor, not cause the Company to enter into, terminate or waive any provision of or vary any Material Contract and, for greater certainty, shall not cause the Company to enter into any or commit to enter into any power purchase agreement or similar arrangement with Nordural Helguvik ehf or any Subsidiary or Affiliate or related party of Nordural Helguvik ehf; and
- (i) **Representations and Warranties** – Use commercially reasonable efforts to ensure that immediately prior to each Closing Time the representations and warranties of the Vendor set out in this Agreement will be true and correct in all material respects.

Notwithstanding the foregoing, the Vendor may refrain from taking any action required to be taken by, or take any action restricted by, this Section 5.1 with the prior consent of the Purchaser.

5.2 Covenants of the Purchaser

The Purchaser covenants and agrees with the Vendor that during the period from the date of this Agreement to the latest of the 1st, 2nd or 3rd Tranche Closing Time, the Purchaser shall:

- (a) **Notice of Material Developments** – Notify the Vendor as soon as the Purchaser or any of its directors, officers, employees, agents or technical and professional advisors have determined that a state of facts exist which results in, or will result in:
 - (i) any representation or warranty of the Purchaser set forth in this Agreement being untrue or incorrect in any material respects;
 - (ii) the breach of any covenant of the Purchaser set forth in this Agreement; or
 - (iii) the non-fulfillment of any conditions for the benefit of the Vendor set forth in this Agreement;
- (b) **Consents and Notices** – Use commercially reasonable efforts to assist the Vendor to ensure that all Consents and Notices have been received or given, as the case may be, all in form and substance satisfactory to the Vendor, acting reasonably;
- (c) **Necessary Steps** – Use commercially reasonable efforts to take all necessary actions, steps and proceedings to approve and authorize, and to validly and effectively undertake the completion of the transactions contemplated by this Agreement; and
- (d) **Representations and Warranties** – Use commercially reasonable efforts to ensure that immediately prior to each Closing Time the representations and warranties of the Purchaser set forth in this Agreement will be true and correct in all material respects.

Notwithstanding the foregoing, the Purchaser may refrain from taking any action required to be taken, or take any action restricted by, this Section 5.2 with the prior consent of the Vendor.

5.3 Mutual Covenants

Each of the Parties covenants and agrees that, during the period from the date of this Agreement to the latest of the 1st, 2nd or 3rd Tranche Closing Time, such Party will, and in the case of the Vendor will cause the Company to:

- (a) **Satisfy Conditions** – Use all reasonable commercial efforts to satisfy or cause the satisfaction of the mutual conditions precedent that are set out in Part 7 (and in the case of the Vendor, the conditions precedent that are set out in Part 8, and in the case of the Purchaser, the conditions precedent that are set out in Part 9) and to take, or cause to be taken, all other actions and do, or cause to be done, all other things necessary under applicable Laws to consummate the transactions contemplated by this Agreement, including using reasonable commercial efforts to:
 - (i) ensure that all Consents and Notices are given or received, as the case may be;
 - (ii) defend vigorously all Proceedings adversely affecting such Party's ability to complete any of the transactions contemplated by this Agreement; and
 - (iii) have lifted or rescinded any Judgment entered against any Party, the Company or any of their Affiliates which adversely affects the ability of such Person to complete any of the transactions contemplated by this Agreement;
- (b) **Cooperation** – Use all reasonable commercial efforts to cooperate with the other Party in connection with the performance by the other Party of its obligations under this Part 5;
- (c) **Negotiated Restructuring** – If for any reason whatsoever the transactions contemplated by this Agreement cannot be completed as contemplated by this Agreement, negotiate with the other Party in good faith to restructure the proposed transaction on a mutually acceptable basis; and
- (d) **Other Actions** – Use all reasonable commercial efforts to ensure compliance with all the conditions in Parts 7, 8 and 9.

5.4 Press Releases

Unless otherwise required by Law or by any Government Authority (including, the requirements of the TSX that are applicable to the Purchaser or its Affiliates), all press releases or other similar public written communications of any sort by the Vendor or the Purchaser relating to the transactions contemplated by this Agreement, and the method of release for publication thereof will be subject to the consent of the other Party, such consent not to be unreasonably withheld or delayed. Each Party will deal expeditiously with any request from the other Party for such a press release or written communication. The Parties will cooperate in relation to other public communications with respect to this Agreement and the transactions contemplated by this Agreement with a view to achieving consistency in the content of such communication and ensuring that such communications are consistent with the aims and intent of this Agreement.

5.5 Acknowledgement of the Vendor

The Vendor understands and acknowledges that the Magma Consideration Shares, if issued in connection with the 3rd Tranche Combined Payment Option, will be subject to certain resale restrictions under applicable Canadian Securities Laws and it is the responsibility of the Vendor to find out what those restrictions are and to comply with them, and the Vendor agrees to comply with such restrictions. The Vendor also acknowledges that it has been advised to consult its own legal advisors with respect to applicable resale restrictions and that it is solely responsible (and neither the Purchaser nor the Guarantor is in any manner responsible) for complying with such restrictions.

For purposes of complying with applicable Canadian Securities Laws and National Instrument 45-102 - *Resale of Securities*, the Vendor understands and acknowledges that upon their issuance, the certificates representing the Magma Consideration Shares shall bear the following legends:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE ●, 2010.”,

with the ● completed to reflect a date that is four months plus one day following the 3rd Tranche Closing Date, and the certificates representing the Magma Consideration Shares shall bear the following additional legend:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE LISTED ON THE TORONTO STOCK EXCHANGE (“TSX”), HOWEVER, THE SAID SECURITIES CANNOT BE TRADED THROUGH THE FACILITIES OF THE TSX SINCE THEY ARE NOT FREELY TRANSFERABLE, AND CONSEQUENTLY ANY CERTIFICATE REPRESENTING SUCH SECURITIES IS NOT “GOOD DELIVERY” IN SETTLEMENT OF TRANSACTIONS ON TSX.”

5.6 Post-Closing Covenants

The Vendor covenants and agrees that, if the Magma Consideration Shares are issued pursuant to the 3rd Tranche Combined Payment Option, the Vendor will notify and consult with the Guarantor before disposing of any of the Magma Consideration Shares and will use its commercially reasonable efforts to conduct any sale of such Magma Consideration Shares in a manner so as not to unduly disrupt the market for the Magma Shares. Notwithstanding the foregoing obligation to notify and consult with the Guarantor, the Vendor is under no obligation to accept or implement any suggestion or recommendation of the Guarantor with respect to any sale of the Magma Consideration Shares.

PART 6 CLOSING

6.1 Closing Date and Location

The transactions contemplated by this Agreement shall be completed as follows:

- (a) the 1st Tranche Closing shall be completed at the 1st Tranche Closing Time on the 1st Tranche Closing Date at the offices of the Vendor’s Solicitors at Höfðatorg, 18th floor, 105 Reykjavík, Iceland, or at such other time or at such other location as may be mutually agreed upon in writing by the Parties;
- (b) the 2nd Tranche Closing shall be completed at the 2nd Tranche Closing Time on the 2nd Tranche Closing Date at the offices of the Vendor’s Solicitors at Höfðatorg, 18th floor, 105 Reykjavík, Iceland, or at such other time or at such other location as may be mutually agreed upon in writing by the Parties; and
- (c) the 3rd Tranche Closing shall be completed at the 3rd Tranche Closing Time on the 3rd Tranche Closing Date at the offices of the Vendor’s Solicitors at Höfðatorg, 18th floor,

105 Reykjavík, Iceland, or at such other time or at such other location as may be mutually agreed upon in writing by the Parties.

6.2 Vendor's Closing Documents

At each Closing, the Vendor shall deliver, or cause to be delivered, to the Purchaser the documents set forth in Subsection 8.1(g), (h) and (i) to perfect the purchase and sale intended hereby.

6.3 Purchaser's Closing Documents

At each Closing, the Purchaser shall deliver to, or cause to be delivered to, the Vendor or its appointee the documents set forth in Subsection 9.1(g) and (i) and:

- (a) at the 1st Tranche Closing, a wire transfer in the amount of the 1st Tranche Payment in accordance with Section 2.3 and Subsection 9.1(h)(i);
- (b) at the 2nd Tranche Closing, evidence of valid assumption by the Purchaser of the Municipal Bond or delivery of a bond issued by the Purchaser to the Vendor on terms identical to the terms of the Municipal Bond; and
- (c) at the 3rd Tranche Closing, a wire transfer of the amount equal to the 3rd Tranche Cash Payment Option amount, if the Purchaser elects the 3rd Tranche Cash Payment Option, or delivery of the Magma Consideration Shares and wire transfer of the Initial Combined Payment Cash Amount, if the Purchaser elects the 3rd Tranche Combined Payment Option, in accordance with Section 2.7 and Subsection 9.1(h)(iii).

PART 7 MUTUAL CONDITIONS PRECEDENT

7.1 Mutual Conditions Precedent to the Closings

The obligations of the Parties to complete:

- (a) the purchase and sale of the 1st Tranche Shares and the other transactions to be performed as at the 1st Tranche Closing pursuant to this Agreement, shall be subject to the satisfaction of, or compliance with, at or before the 1st Tranche Closing Time;
- (b) the purchase and sale of the 2nd Tranche Shares and the other transactions to be performed as at the 2nd Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 2nd Tranche Closing Time; and
- (c) the purchase and sale of the 3rd Tranche Shares and the other transactions to be performed as at the 3rd Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 3rd Tranche Closing Time,

of each of the following conditions precedent:

- (d) **Consents and Notices** – All Consents and Notices have been received or given, as the case may be, in form and substance satisfactory to each of the Parties, acting reasonably, other than Consents and Notices which are routinely delivered post-Closing;

- (e) **No Prohibitions** – No Law or Judgment will have been enacted, entered, promulgated or enforced by any Government Authority which enjoins or prohibits the sale and purchase of any of the Purchased Shares or the consummation of any of the other transactions contemplated by this Agreement;
- (f) **Pre-emptive Rights** - All pre-emptive rights of the Company and of its shareholders shall have lapsed, or the Company or such shareholders of the Company, as applicable, shall have provided written notice of waiver of such rights;
- (g) **Creditors** – All approvals, consents and waivers of any creditor of the Company required for the transactions contemplated by this Agreement, and the waiver of any pledge of Purchased Shares to any creditor of the Vendor, including, but not limited to, pledges of Shares to the Municipality of Reykjanesbær and Islandsbanki hf., which approvals, consents and waivers shall be in form and substance satisfactory to each of the Parties, shall have been received;
- (h) **No Proceedings** – No Proceeding will have been instituted or be pending for an injunction to restrain, or a declaratory judgment in respect of damages on account of or relating to, the sale and purchase of any of the Purchased Shares or any of the other transactions contemplated by this Agreement and, to the best of the Parties' knowledge, no such Proceeding will have been threatened or announced; and
- (i) **No Termination** – This Agreement will not have been terminated pursuant to Part 12.

PART 8

CONDITIONS PRECEDENT TO THE PERFORMANCE BY THE PURCHASER OF ITS OBLIGATIONS UNDER THIS AGREEMENT

8.1 Purchaser's Conditions to the Closings

The obligation of the Purchaser to complete:

- (a) the purchase and sale of the 1st Tranche Shares and the other transactions to be performed as at the 1st Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 1st Tranche Closing time;
- (b) the purchase and sale of the 2nd Tranche Shares and the other transactions to be performed as at the 2nd Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 2nd Tranche Closing Time; and
- (c) the purchase and sale of the 3rd Tranche Shares and the other transactions to be performed as at the 3rd Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 3rd Tranche Closing Time,

of each of the following conditions precedent:

- (d) **Truth and Accuracy of Representations of the Vendor at Closing** – The representations and warranties of the Vendor made in Part 3 shall be true and correct in all respects as at each of the Closings and with the same effect as if made at and as of each of the Closings, except as a result of the purchase and sale of the 1st Tranche Shares

contemplated in Section 2.2 and the purchase and sale of the 2nd Tranche Shares contemplated in Section 2.4;

- (e) **Performance of Obligations** – The Vendor shall have performed and complied with all the obligations, covenants and agreements to be performed and complied with pursuant to this Agreement as of each of the Closings;
- (f) **Absence of Materially Adverse Change** – No event shall have occurred, or condition or situation shall have arisen which might reasonably be expected to have a Materially Adverse effect upon the Company;
- (g) **Closing Documentation** – The Purchaser shall have received from the Vendor the following Closing documentation:
 - (i) certified copies of resolutions of the directors of the Vendor, in form and substance satisfactory to the Purchaser, acting reasonably, approving this Agreement, the execution and delivery of this Agreement and the sale of the Purchased Shares from the Vendor to the Purchaser;
 - (ii) certified copies of resolutions of the directors of the Company, in form and substance satisfactory to the Purchaser, acting reasonably, authorizing the transfer of the Purchased Shares, free and clear of all Encumbrances, to, and registration of the Purchased Shares in the name of, the Purchaser and the inscription on the share certificates representing the Purchased Shares in the name of the Purchaser or the issuance of new share certificates representing the Purchased Shares in the name of the Purchaser;
 - (iii) at the 1st Tranche Closing, share certificates in the name of the Vendor representing:
 - (A) the 1st Tranche Shares duly endorsed for transfer; and
 - (B) duly executed share certificates representing the 1st Tranche Shares issued or registered in the name of the Purchaser, free and clear of all Encumbrances;
 - (iv) at the 2nd Tranche Closing:
 - (A) share certificates in the name of the Vendor representing the 2nd Tranche Shares duly endorsed for transfer;
 - (B) share certificates in the name of the Vendor representing the 2nd Tranche Shares issued or registered in the name of the Purchaser, free and clear of all Encumbrances except those disclosed in the Disclosure Schedule;
 - (C) evidence of the valid transfer of the Municipal Bond;
 - (D) an indemnity from the Vendor indemnifying the Purchaser from all Proceedings, liabilities, claims demands, damages, losses, costs and expense (including legal fees on a solicitor and own client basis) suffered or incurred by the Purchaser, directly or indirectly, arising in connection

with or in any way relating to any act or omission of the Vendor in connection with the Municipal Bond; and

- (E) should the Purchaser assume the obligations of the Vendor pursuant to the Municipal Bond, a certificate from the Municipality of Reykjanesbær certifying that:
 - (I) the Municipality of Reykjanesbær is the sole beneficiary under the Municipal Bond and the Municipality of Reykjanesbær has not assigned or otherwise transferred its rights under the Municipal Bond;
 - (II) the Municipality of Reykjanesbær consents to the assumption by the Purchaser of the Vendor's obligations under the Municipal Bond;
 - (III) no default exists pursuant to the terms of the Municipal Bond and the obligations of the Vendor under the Municipal Bond are in good standing in all respects; and
 - (IV) the assumption by the Purchaser of the Vendor's obligations under the Municipal Bond does not constitute a default pursuant to the terms of the Municipal Bond;
- (v) at the 3rd Tranche Closing, share certificates in the name of the Vendor representing:
 - (A) the 3rd Tranche Shares duly endorsed for transfer; and
 - (B) the 3rd Tranche Shares issued or registered in the name of the Purchaser, free and clear of all Encumbrances;
- (vi) a certified copy of the shareholders' register of the Company recording that the Purchaser is the registered holder of:
 - (A) as of the 1st Tranche Closing, the 1st Tranche Shares;
 - (B) as of the 2nd Tranche Closing, the 2nd Tranche Shares; and
 - (C) as of the 3rd Tranche Closing, the 3rd Tranche Shares;
- (vii) a certificate executed by the Vendor certifying that the Purchaser's conditions in subsections 8.1(d) to 8.1(i) have been satisfied;
- (viii) copies of all necessary Consents, Notices and waivers, including those set out in Subsections 7.1(d), 7.1(f) and 7.1(g), all in form and substance satisfactory to the Purchaser, acting reasonably;
- (h) **Legal Opinion** – The Purchaser shall have received an opinion satisfactory to it, acting reasonably, from the Vendor's Solicitors as to: the due incorporation, valid existence and due registration of the Vendor; the due incorporation, valid existence and due registration

of the Company; the corporate power and capacity of the Vendor to own the Purchased Shares and to enter into and perform its obligations under this Agreement; the due authorization, execution and delivery of this Agreement by the Vendor; this Agreement constituting a valid and binding obligation of the Vendor enforceable against the Vendor in accordance with its terms; the execution and delivery of this Agreement not constituting a breach or default under the constitutional documents of the Vendor, the Constitutional Documents or any applicable Laws; no Authorizations being required to permit the Vendor to enter into and perform its obligations under this Agreement, except those, if any, that have been obtained; all corporate steps and proceedings having been taken by the Vendor and the Company to transfer the Purchased Shares to the Purchaser; and

- (i) **Municipal Bond Consents** - the Purchaser shall have received all consents required for the valid transfer of the Municipal Bond.

8.2 Waiver/Survival

The conditions set forth in this Article 8 are for the exclusive benefit of the Purchaser and may be waived by the Purchaser in writing in whole or in part on or before each of the Closing Dates. Notwithstanding any such waiver, the completion of the purchase and sale contemplated by this Agreement by the Purchaser shall not prejudice or affect in any way the rights of the Purchaser in respect of the warranties and representations of the Vendor in this Agreement, and the representations and warranties of the Vendor in this Agreement shall survive the Closings and payment of the Purchase Price for the applicable period set out in Section 3.4.

8.3 Covenant of the Vendors

The Vendor covenants to deliver all of the certification documents, instruments and other items set out in Subsections 8.1(f) and (g).

PART 9

CONDITIONS PRECEDENT TO THE PERFORMANCE BY THE VENDOR OF ITS OBLIGATIONS UNDER THIS AGREEMENT

9.1 Vendor's Conditions

The obligation of the Vendor to complete:

- (a) the purchase and sale of the 1st Tranche Shares and the other transactions to be performed as at the 1st Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 1st Tranche Closing Time;
- (b) the purchase and sale of the 2nd Tranche Shares and other transactions to be performed as at the 2nd Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 2nd Tranche Closing Time; and
- (c) the purchase and sale of the 3rd Tranche Shares and other transactions to be performed as at the 3rd Tranche Closing pursuant to this Agreement shall be subject to the satisfaction of, or compliance with, at or before the 3rd Tranche Closing Time,

of each of the following conditions precedent:

- (d) **Truth and Accuracy of Representations of the Purchaser at Closing** – The representations and warranties of the Purchaser made in Part 4 shall be true and correct in all respects as of the date of this Agreement and shall be true and correct in all material respects as at each of the Closings and with the same effect as if made at and as of each of the Closings;
- (e) **Truth and Accuracy of Representations of the Guarantor at Closing** – The representations and warranties of the Guarantor made in Part 4 shall be true and correct in all respects as of the date of this Agreement and shall be true and correct in all material respects as at each of the Closings and with the same effect as if made at and as of each of the Closings;
- (f) **Performance of Obligations** – The Purchaser shall have performed and complied with all the obligations, covenants and agreements to be performed and complied with by it pursuant to this Agreement as of each of the Closings;
- (g) **Closing Documentation** – The Vendor shall have received from the Purchaser the following Closing documentation:
 - (i) certified copies of resolutions of the directors of the Purchaser, in form and substance satisfactory to the Vendor, acting reasonably, approving this Agreement, the execution and delivery of this Agreement and the purchase of the Purchased Shares by the Purchaser from the Vendor; and
 - (ii) a certificate executed by the Purchaser certifying that the Vendor's conditions in Subsections 9.1(d) and (e) have been satisfied;
- (h) **Purchase Price** – The Purchase Price shall have been delivered as follows:
 - (i) at the 1st Tranche Closing, the 1st Tranche Payment shall be delivered in accordance with Section 2.3;
 - (ii) for the 2nd Tranche Closing, the 2nd Tranche Payment shall be delivered in accordance with Section 2.5; and
 - (iii) for the 3rd Tranche Closing, the 3rd Tranche Payment shall be delivered in accordance with Section 2.7;
- (i) **Legal Opinion** – If the Purchaser elects the 3rd Tranche Combined Payment Option the Vendor shall have received an opinion satisfactory to it, acting reasonably, from the Guarantor's solicitors as to: the due allotment and issuance of the Magma Consideration Shares as fully paid and non assessable Magma Shares, the issuance of the Magma Consideration Shares being exempt from the prospectus registration requirements under Canadian Securities Laws and the first trade of the Magma Consideration Shares.

9.2 Vendor's Conditions to the 3rd Tranche Closing

If the Purchaser elects the 3rd Tranche Combined Payment Option, the purchase and sale of the 3rd Tranche Shares and other transactions to be performed as at the 3rd Tranche Closing pursuant to this Agreement shall be subject to the receipt by the Vendor of conditional approval of the TSX for the listing of the Magma Consideration Shares.

9.3 Waiver/Survival

The conditions set forth in this Article 9 are for the exclusive benefit of the Vendor and may be waived by the Vendor in writing in whole or in part on or before the Closing Date. Notwithstanding any such waiver, completion of the purchase and sale contemplated by this Agreement by the Vendor shall not prejudice or affect in any way the rights of the Vendor in respect of the warranties and representations of the Purchaser set forth in this Agreement, and the representations and warranties of the Purchaser in this Agreement shall survive the Closing and payment of the Purchase Price for the applicable period set out in Section 4.4.

9.4 Covenant of the Purchaser

The Purchaser covenants to deliver all of the certification documents, instruments, payments and other items set out in Subsection 9.1(g) and (h).

PART 10 INDEMNITIES

10.1 Indemnification of Purchaser

Whether or not the transactions contemplated by this Agreement are completed, but subject to the limitations set out in Section 10.2, the Vendor covenants and agrees with the Purchaser to indemnify the Purchaser against all Proceedings, liabilities, claims, demands, damages, losses, costs and expenses (including legal fees on a solicitor and own client basis) suffered or incurred by the Purchaser, directly or indirectly, by reason of or arising out of:

- (a) any warranties or representations on the part of that Vendor hereunder being untrue;
- (b) a breach of any covenant or agreement on the part of that Vendor made or to be observed or performed under this Agreement,

except for any indirect or consequential loss or damage, loss or damage resulting from loss of profits or business interruption loss,

which liabilities, claims, demands, actions, causes of action, damages, losses, costs and expenses are collectively referred to as the “**Purchaser’s Losses**”.

10.2 Vendor’s Limitations

The indemnity obligations of the Vendor under Section 10.1 shall be limited in the following respects:

- (a) the Vendor shall only be liable for Purchaser’s Losses in respect of which a claim for indemnity is made by the Purchaser on or before the applicable expiry dates for the survival of the Vendor’s representations and warranties as set out in Part 3 and the maximum aggregate indemnification obligation of the Vendor in respect of any and all Purchaser’s Losses shall be equal to the Purchase Price;
- (b) no obligation on the part of the Vendor to indemnify the Purchaser for Purchaser’s Losses shall arise until each individual claim exceeds the sum of the equivalent of 0,5 per cent of the Purchase Price in ISK and such individual claims in the aggregate exceed the amount equivalent of 3 per cent of the Purchase Price in ISK. The Purchaser may in such

instances make such a claim for Purchaser's Losses against the Vendor and then only in respect of amounts in the excess of such sums; and

- (c) the Purchaser shall have no right to indemnification in respect of any inaccuracy or breach of representation or warranty to the extent that the Purchaser, pursuant to the Due Diligent Review, had knowledge, as of the date hereof, that such representation and warranty was inaccurate as of the date hereof.

10.3 Indemnification of Vendor

Subject to the limitations set out in Section 10.4, the Purchaser covenants and agrees with the Vendor to indemnify the Vendor against all Proceedings, liabilities, claims, demands, damages, direct losses, costs and expenses (including legal fees on a solicitor and own client basis) suffered or incurred by the Vendor, directly or indirectly, by reason of or arising out of:

- (a) any warranties or representations on the part of the Purchaser or Guarantor hereunder being untrue; or
- (b) a breach of any covenant or agreement on the part of the Purchaser or Guarantor made or to be observed or performed pursuant hereto;

which liabilities, claims, demands, actions, causes of action, damages, losses, costs and expenses are collectively referred to as "**Vendor's Losses**".

10.4 Purchaser's Limitation

The indemnity obligations of the Purchaser under Section 10.3 shall be limited in the following respects:

- (a) the Purchaser shall only be liable for Vendor's Losses in respect of which a claim for indemnity is made by the Vendor on or before the applicable expiry dates for the survival of the Purchaser's or Guarantor's representations and warranties as set out in Part 4 and the maximum aggregate indemnification obligation of the Purchaser in respect of any and all Vendor's Losses shall be equal to the Purchase Price;
- (b) no obligation on the part of the Purchaser to indemnify the Vendors under Section 10.3 shall arise until each individual claim exceeds the sum of the equivalent of 0.5 per cent of the Purchase Price in ISK and such individual claims in the aggregate exceed the amount equivalent of 3 per cent of the Purchase Price in ISK. The Vendor may in such instances make such a claim for Vendor's Losses against the Purchaser and then only in respect of amounts in the excess of such sums; and
- (c) the Vendor shall have no right to indemnification in respect of any inaccuracy or breach of representation or warranty to the extent that the Vendor had knowledge, as of the date hereof, that such representation and warranty was inaccurate as of the date hereof.

10.5 Interest on Losses

The amount of any Purchaser's Losses or Vendor's Losses in respect of which indemnification is claimed under this Part 10 will bear interest in accordance with Icelandic Law.

10.6 Taxes and VAT

The Parties acknowledge and agree that in the event any person shall be entitled to be indemnified against any losses, there shall be included in the indemnified amount an amount equal to any taxes and VAT or other taxes that may be payable by the recipient of the indemnification payment.

10.7 Force Majeure

- (a) A Party, provided that it has complied with the provisions of Clause 10.7(c), shall not be in breach of this Agreement, nor liable for any failure or delay in performance of any obligations under this Agreement (and, subject to Clause 10.7(d), the time for performance of the obligations shall be extended accordingly) arising from or attributable to acts, events, omissions or accidents beyond its reasonable control ("**Force Majeure Event**"), including but not limited to any of the following:
 - (i) acts of God, including but not limited to fire, flood, earthquake, volcanic eruption, windstorm or other natural disaster;
 - (ii) war, threat of or preparation for war, armed conflict, imposition of sanctions, embargo, breaking off of diplomatic relations or similar actions;
 - (iii) terrorist attack, civil war, civil commotion or riots;
 - (iv) nuclear, chemical or biological contamination or sonic boom;
 - (v) mandatory compliance with any Law (including a failure to grant any licence or consent needed or any change in Icelandic Law or regulation or interpretation of the Law from the date of this Agreement);
 - (vi) fire, explosion or accidental damage;
 - (vii) loss at sea;
 - (viii) extreme adverse weather conditions;
 - (ix) collapse of building structures, failure of plant machinery, machinery, computers or vehicles;
 - (x) any labour dispute, including but not limited to strikes, industrial action or lockouts;
 - (xi) non-performance by suppliers or subcontractors; and
 - (xii) interruption or failure of utility service, including but not limited to electric power, gas or water.
- (b) The corresponding obligations of the other Party will be suspended to the same extent as those of the Party first affected by the Force Majeure Event.
- (c) Any Party that is subject to a Force Majeure Event shall not be in breach of this Agreement provided that:

- (i) it promptly notifies the other Party in writing of the nature and extent of the Force Majeure Event causing its failure or delay in performance;
 - (ii) it could not have avoided the effect of the Force Majeure Event by taking precautions which, having regard to all the matters known to it before the Force Majeure Event, it ought reasonably to have taken, but did not; and
 - (iii) it has used all reasonable endeavours to mitigate the effect of the Force Majeure Event to carry out its obligations under this Agreement in any way that is reasonably practicable and to resume the performance of its obligations as soon as reasonably possible.
- (d) If the Force Majeure Event prevails for a continuous period of more than six months, any Party may terminate this Agreement by giving 14 days' written notice to the other Party. On the expiry of this notice period, this Agreement will terminate. Such termination shall be without prejudice to the rights of the Party in respect of any breach of this Agreement occurring prior to such termination.

PART 11 GUARANTEE

11.1 Guarantee

The Guarantor covenants and agrees to fully guarantee the obligations of the Purchaser in this Agreement and to duly, punctually and fully perform, discharge and pay all present and future obligations (the “**Obligations**”) of the Purchaser contained in this Agreement, in the event that the Purchaser fails to duly, punctually and fully perform, discharge or pay, in whole or in part, any Obligation under this Agreement. In the event that the Purchaser so fails to perform, discharge or pay any such Obligation, the Guarantor immediately shall duly, punctually and fully perform, discharge and/or pay such Obligation. The Guarantor agrees that (i) the Obligations of the Guarantor pursuant to this guarantee are absolute, unconditional, irrevocable and continuing and shall not in any way or to any extent be discharged, impaired or otherwise affected except by due, punctual and full performance and/or payment thereof by the Guarantor in accordance with this guarantee, provided that the Guarantor expressly reserves to itself the right to exercise any and all defences which would be available to the Purchaser and which are not in derogation of the Guarantor's agreements under this Section, (ii) the Guarantor shall be liable pursuant to this guarantee for the Obligations as primary obligor and not merely as a surety, and (iii) the Guarantor shall duly and punctually fully perform, discharge and/or pay any and all Obligations immediately upon demand from the Vendor, provided that the Vendor shall have first demanded that the Purchaser perform or pay the Obligations and the Purchaser has failed to do so in a punctual manner. The Vendor shall not be bound to exhaust its recourse against the Purchaser before becoming entitled to performance or payment from the Guarantor under this guarantee. The Obligations of the Guarantor to perform or pay under its guarantee will not be limited or reduced by any changes in the Purchaser's name or any reorganization or amalgamation of the Purchaser with any one or more other corporations. The obligation of the Guarantor to perform or pay under this guarantee will not be limited or reduced as a result of the termination, invalidity or unenforceability of any right of the Vendor against the Purchaser due to any lack or limitation of status or of the power of the Vendor or as a result of the bankruptcy, insolvency, winding-up or similar proceedings involving the Purchaser.

11.2 Further Assurances

The Guarantor shall from time to time at the request of the Vendor execute and deliver such further assurances as the Vendor may reasonably require, including confirmation from time to time of Guarantor's joint and several liability with respect to the Obligations.

11.3 Disclaimer

In the event of disclaimer of this Agreement by a trustee in bankruptcy or in connection with insolvency, then if requested by the Vendor the Guarantor shall, to the extent permitted by Law, execute and deliver new agreements with the Vendor on the same terms and conditions as this Agreement, as supplemented, modified and amended from time to time.

PART 12 TERMINATION, AMENDMENT AND WAIVER

12.1 Termination

- (a) This Agreement may be terminated at any time prior to the 1st Tranche Closing Time:
 - (i) by written agreement between the Vendor and the Purchaser;
 - (ii) by the Vendor or the Purchaser, if the transactions contemplated by this Agreement have not been consummated on the Termination Date;
 - (iii) by the Vendor or the Purchaser (provided that the terminating party is not then in material breach of any representation, warranty, agreement, term or covenant contained in this Agreement) if there has been a material breach of any representation, warranty, agreement, term or covenant contained in this Agreement on the part of the other party, and:
 - (A) such breach has not been cured by the 1st Tranche Closing Time; or
 - (B) such breach has not been cured or best efforts are not being employed to cure such breach, within 30 Business Days after notice is given to the Party committing such breach.
- (b) The obligation of the Vendor and the Purchaser to complete the 2nd Tranche Closing may be terminated at any time prior to the 2nd Closing Tranche Closing Time:
 - (i) by written agreement between the Vendor or the Purchaser;
 - (ii) by the Vendor or the Purchaser, if the mutual conditions precedent set forth in Part 7 have not been satisfied on or before the Termination Date (other than as a result of a breach of this Agreement by the terminating party); or
 - (iii) by the Vendor or the Purchaser, if any of such party's conditions precedent for 2nd Tranche Closing have not been satisfied or waived on or before the Termination Date.
- (c) The obligation of the Vendor and the Purchaser to complete the 3rd Tranche Closing may be terminated at any time prior to the 3rd Closing Tranche Closing Time:

- (i) by written agreement between the Vendor and the Purchaser;
- (ii) by the Vendor or the Purchaser, if the mutual conditions precedent set forth in Part 7 have not been satisfied on or before the Termination Date (other than as a result of a breach of this Agreement by the terminating party); or
- (iii) by the Vendor or the Purchaser, if any of such party's conditions precedent for 3rd Tranche Closing have not been satisfied or waived on or before the Termination Date.

12.2 Notice of Termination

Any termination of this Agreement pursuant to Section 12.1 will be effective upon the delivery of notice by the terminating party to the other Party.

12.3 Effect of Termination

In the event of termination of this Agreement by any Party pursuant to Section 12.1, this Agreement will forthwith become void and have no effect, and there will be no liability or obligation on the part of any Party to proceed with the transactions contemplated by this Agreement, except that neither the Purchaser nor the Vendor will be released or relieved from their respective obligations pursuant to Section 5.4 or from any liability arising from the breach by such party of any of its representations, warranties, agreements, terms or covenants under this Agreement and Part 10 will continue to apply to any such liability.

12.4 Amendment

The Agreement may not be modified or amended except by an instrument in writing duly executed by or on behalf of all of the Parties.

12.5 Extension and Waiver

At or any time prior to the Closing Dates, the Purchaser or the Vendor may to the extent legally allowed:

- (a) extend the time for the performance of any of the obligations or other acts of the other Party;
- (b) waive any inaccuracies in the representations and warranties made by the other Party; and
- (c) waive compliance with any of the agreements, covenants or conditions for the benefit of such Party contained herein.

Any agreement on the part of the Purchaser or the Vendor to any such extension or waiver will be valid only if set forth in an instrument in writing signed on its or their behalf, respectively.

PART 13
DISPUTE RESOLUTION

13.1 Jurisdiction of Court

The District Court of Reykjavík, Iceland, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Agreement and the Parties agree to submit to the jurisdiction of this court.

PART 14
GENERAL

14.1 Expenses

All costs and expenses incurred in connection with the preparation of this Agreement and the transactions contemplated by this Agreement shall be paid by the Party incurring such expenses.

14.2 Time

Time shall be of the essence hereof.

14.3 Notices

Any notice or other communication given or made under or in connection with the matters contemplated by this Agreement shall, unless expressly provided otherwise, be in writing and addressed as follows:

If to the Purchaser, addressed to:

MAGMA ENERGY SWEDEN A.B.
410-625 Howe Street,
Vancouver B.C., Canada V6C 2T6

Fax: +(604) 687-7041
Attention: Lyle Braaten

With a copy (for informational purposes) to:

MAGMA ENERGY CORP.
410-625 Howe Street,
Vancouver B.C., Canada V6C 2T6

Fax: +(604) 687-7041
Attention: Lyle Braaten

With an additional copy (for informational purposes) to:

Lögfræðistofa Reykjavíkur
Borgarúni 25
105 Reykjavík-Iceland

Fax: +354 515 7401
Attention: Ástríður Gísladóttir hrl.

And

Borden Ladner Gervais LLP
1200 Waterfront Centre
200 Burrard Street
P.O. Box 48600
Vancouver, B.C., Canada V7X 1T2

Fax: +(604) 687-1415
Attention: Fred R. Pletcher

If to the Guarantor, addressed to:

MAGMA ENERGY CORP.
410-625 Howe Street,
Vancouver B.C., Canada V6C 2T6

Fax: +(604) 687-7041
Attention: Lyle Braaten

With an additional copy (for informational purposes) to:

Lögfræðistofa Reykjavíkur
Borgarúni 25
105 Reykjavík-Iceland

Fax: +354 515 7401
Attention: Ástríður Gísladóttir hrl.

And

Borden Ladner Gervais LLP
1200 Waterfront Centre
200 Burrard Street
P.O. Box 48600
Vancouver, B.C., Canada V7X 1T2

Fax: +(604) 687-1415
Attention: Fred R. Pletcher

If to the Vendor, addressed to:

GEYSIR GREEN ENERGY EHF.,
Hafnargata 90, #230 Reykjanesbær, Iceland

Fax: +354 412 2001
Attention: Chief Executive Officer

With a copy (for informational purposes) to:

BBA Legal
Hofðatorg 12
105 Reykjavik
Fax: 550 0505
Attention: Atli Bjorn Thorbjornsson hdl.

or at such other address as the party to whom such writing is to be given shall have last notified to the Party giving the same in the manner provided in this Section 14.3. Any notice delivered by courier or facsimile to the Party to whom it is addressed shall be deemed to have been given and received on the Business Day next following the day it was delivered or telecopied.

14.4 Further Assurances

The Parties shall with reasonable diligence, do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and each Party shall provide such further documents or instruments required by the other party as may be reasonably necessary or desirable to give effect to the purpose of this Agreement and carry out its provisions whether before or after the Closing Dates.

14.5 Enurement

This Agreement and each of the terms and provisions hereof shall inure to the benefit of and be binding upon the Parties and their respective heirs, executors, administrators, personal representatives, successors and permitted assigns.

14.6 Assignment

This Agreement and the rights, duties and obligations of any party hereunder are not assignable without the prior written consent of the other Party hereto.

14.7 Counterparts

This Agreement may be executed in as many counterparts as may be necessary and each such counterpart agreement so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument. This Agreement and any counterpart thereof may be delivered by facsimile and when so delivered shall be deemed to be an original.

IN WITNESS WHEREOF the Parties have duly executed this Agreement as of the day and year first above written.

MAGMA ENERGY SWEDEN A.B.

Per: (signed) Lyle Braaten (c/s)
Authorized Signatory

MAGMA ENERGY CORP.

Per: (signed) Ross J. Beaty (c/s)
Authorized Signatory

GEYSIR GREEN ENERGY EHF

Per: (signed) Alexander Guðmundsson (c/s)
Authorized Signatory

SCHEDULE A
VENDOR DISCLOSURE SCHEDULE
to
Share Purchase Agreement
Dated as of 16 May 2010
by and between
Geysir Green Energy ehf. and Magma Energy Sweden A.B

This Vendor Disclosure Schedule has been prepared and delivered in accordance with the Share Purchase Agreement referred to above (the “Agreement”) and is the Disclosure Schedule referred to in the Agreement. Words and expressions used in this Disclosure Schedule have the same meanings as set out in the Agreement, unless the context otherwise requires.

The headings contained in this Disclosure Schedule are for convenience of reference only and shall not be deemed to modify or affect the interpretation of the information contained in this Disclosure Schedule.

Any information disclosed in any section of this Disclosure Schedule shall be deemed to be disclosed and incorporated into any other section of the Disclosure Schedule where such disclosure would be appropriate and readily apparent.

Where brief particulars only of a matter are set out or referred to in this Disclosure Schedule it is assumed that the Purchaser does not require any further details.

The disclosure of any matter or document in this Disclosure Schedule shall neither imply any warranty or representation not expressly given in the Agreement nor be taken as extending the scope of any warranty or representation given in the Agreement.

(a) General Disclosures

The Purchaser shall be deemed to have full knowledge of, and this Disclosure Schedule shall be deemed to include, all information disclosed in or available to the Purchaser by virtue of:

- (i) the Agreement and any other agreements, documents or letters entered into pursuant to or in connection with the Agreement ;
- (ii) the following:
 - (iii) the memorandum and articles of the Company; and
 - (iv) the Company’s accounts,

prior to the 1st Tranche Closing Date, all matters appearing at the Companies Registry or at any other registry open to public inspection, excluding registries of the Icelandic local magistrates and the state land register (FMR).

(b) Special Disclosures

Headings below reflect the relevant sections of the Agreement where Disclosure is required:

2.4

The 2nd Tranche Shares are pledged to the Municipality of Reykjanesbær as security for the Municipal Bond

3.1 (a)

At the date of the Agreement, the 1st Tranche Shares and 3rd Tranche Shares are pledged to Íslandsbanki hf. and the 2nd Tranche Shares are pledged to the Municipality of Reykjanesbær.

3.1 (g) and (i)

The approval of the Municipality of Reykjanesbær is required for the transfer of the 2nd Tranche Shares.

The approval of Íslandsbanki hf. is required for the transfer of the 1st Tranche Shares and the 3rd Tranche Shares.