SHARE SALE AND PURCHASE AGREEMENT

This share sale and purchase agreement (the "**Agreement**") is entered into on 31 August 2009 by and between:

1. Hafnarfjarðarkaupstaður, an Icelandic municipality, Icelandic register number 590169-7579, with its registered address at Strandgata 6, 220 Hafnarfjörður, Iceland, ("**HFJ**" or the "**Seller**"); and
2. Magma Energy Sweden A.B. Swedish register number 556783-6209, 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 "**Buyer**");

(each a "**Party**" and collectively the "**Parties**").

The Parties have agreed as follows:

1 Background

1.1 HS Orka hf., a limited liability company incorporated under the law of the Republic of Iceland, Icelandic register number 680475-0169, with its registered address at Brekkustígur 36, 260 Reykjanesbær, Iceland, (the "**Company**") has a share capital of ISK 6,118,387,000 – Icelandic króna six thousand one hundred and eighteen million three hundred eighty seven thousand 00/100 – divided into as many shares with each share equal to ISK 1 – Icelandic króna one 00/100.

1.2 The Seller has in the recent weeks, with the assistance of Arctica Finance hf. ("**Arctica**") and Arctica Law ehf., carried out a sales process with the aim of selling part of or all of the Seller's shareholding in the Company.

1.3 The Seller owns 47,166,031 shares in the Company which are registered in the Seller's name in the Company's shareholders' registry (the "**Seller's Shares**").

1.4 The Seller has, subject to the conditions precedent listed in Clause 4 in this Agreement having been satisfied or waived, granted Orkuveita Reykjavíkur the right to acquire from the Seller 896,154,577 shares in the Company, which shares are currently registered in the Seller's name in the Company's shareholders' registry.

1.5 The Seller agrees to sell and the Buyer agrees to purchase the Seller's Shares on the terms and conditions set out in this Agreement (the "**Transaction**").

2 Sale and Purchase

2.1 Upon the terms and subject to the conditions set forth in this Agreement, the Seller hereby sells and transfers the full ownership of the Seller's Shares, free and clear of any pre-emptive rights in favour of the Company or any shareholders of the Company, all mortgages, charges, pledges, liens and other security interests, or any rights or privileges capable of becoming any of the foregoing ("**Encumbrances**") (other than the pledge to be made by the Buyer in favour of the Seller pursuant to the Share Pledge Agreement, as defined below) and together with all rights attached and accruing thereto, to the Buyer, and the Buyer purchases and accepts the transfer of the full ownership of the Sellers' Shares from the Seller, on either (i) the day falling 5 (five) business days after fulfilment of the conditions set out in Clause 4 below or (ii) such other date as the Parties may agree on in writing (the “**Closing Date**”).

2.2 Each of the Parties shall execute such documents and other papers and take such actions, as may be reasonably required or desirable to carry out the provisions of this Agreement and the transactions contemplated hereby.

2.3 The Seller hereby waives any right of pre-emption that it has in connection to the Seller’s Shares under the articles of association of the Company or otherwise with respect to the transfer of the Seller’s Shares contemplated under this Agreement. Furthermore, the Seller also waives any right of pre-emption that it has or may have in connection to any shares issued by the Company whereby the Buyer is the acquirer of such shares in the Company.

3 Purchase Price and Payment

3.1 The aggregate consideration for the purchase of the Seller’s Shares (the “**Purchase Price**”) shall be an amount equal to ISK 6.31 for each of the Seller’s Shares, and shall be paid as set out in Clauses 3.2 and 3.3.

3.2 Payment of the Purchase Price shall be by: (i) wire transfer of ISK 89,285,297 to such bank accounts as designated in writing by Arctica (on behalf of the Seller) at least 3 (three) business days before the Closing Date; and (ii) delivery to Arctica (on behalf of the Seller) of a bond issued by the Buyer in favour of the Seller, in the form as set forth in Appendix II to this Agreement (the “**Bond**”), legally binding and duly signed by a representative/s of the Buyer, registered in the name of the Seller and evidencing an aggregate indebtedness of an amount in USD equivalent to ISK 208,332,359 calculated using the mid rate for the USD/ISK exchange rate as posted on the Central Bank of Iceland’s website at 11:00 2 (two) business days prior to the Closing Date.

3.3 At Closing the Buyer shall pay, without any set-off, deduction or counterclaim, the Purchase Price. The Purchase Price shall be allocated and distributed to the Seller in accordance with the provisions above.

3.4 If the payment of the Purchase Price is not effected in its entirety on the Closing Date or if the Buyer does not fulfil its other obligations under this Agreement, and the reason therefore is not attributable to the Seller, the Seller shall be entitled, in its discretion, to:

a. Rescind this Agreement and claim damages from the Buyer for any loss that the Seller can prove has occurred as a result of the Buyer not fulfilling its obligations hereunder; or

b. demand payment and withhold delivery of the Seller’s Shares until full payment is received, in which case the unpaid part of the Purchase Price from time to time shall carry annual default interest at a rate in accordance with paragraph 1, article 6, of the act no. 38/2001, on interests and indexation, commencing on the Closing Date until the day on which full payment is made.

3.5 If the Seller’s Shares, free and clear of all Encumbrances are not received by the Escrow Agent (as defined below) pursuant to the terms of the Escrow Agreement (as defined below), on the

Closing Date, and the reason therefore is not attributable to the Buyer, the Buyer shall be entitled, in its discretion, to:

a. Rescind this Agreement and claim damages from the Seller for the breach contemplated in this Clause 3.5, for any loss that the Buyer can prove has occurred as a result of the Seller not fulfilling its obligations hereunder; or

b. demand delivery of the Seller's Shares and withhold delivery of the Purchase Price until the Seller's Shares have been received by the Buyer.

4 Conditions Precedent to Closing

4.1 The Parties' respective obligation to complete and consummate the transfer of the Seller's Shares under this Agreement is conditional upon all of the following:

4.1.1 In accordance with article 9 in the Company's articles of association, the Company and the Company's shareholders, excluding the Seller, shall have waived or not used their pre-emptive right within the stipulated time period to purchase the Seller's Shares in accordance with the aforementioned article. Immediately after the Parties have signed this Agreement, the Seller shall notify the Company and, if not done by the Company following notification to it, each shareholder of the Company, of the proposed transfer of the Seller's Shares according to this Agreement, and to that effect use the format set out in Appendix I to this Agreement. It is a condition by all Parties that all of the Seller's Shares are sold and transferred from the Seller to the Buyer in accordance with this Agreement, and not a part of the Seller's Shares.

4.1.2 The Buyer shall have delivered in a form acceptable to the Seller documentary evidence that the relevant corporate body of the Buyer has approved this Agreement and authorized the signatory to execute this Agreement.

4.1.3 All (i) requirements of any Icelandic governmental authorities, (ii) authorizations, consents approvals or notices required to be given to or received from any person pursuant to a material contract, and (iii) filings, registrations or notices to any Icelandic governmental authority required under law, necessary to permit the consummation of the transactions contemplated by this Agreement ("**Consents and Notices**") shall 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.

4.1.4 No 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) relating to the sale and purchase of any of the Seller's Shares or any of the other transactions contemplated by this Agreement ("**Proceeding**") will have been instituted or are pending for an injunction to restrain, and no declaratory judgment in respect of damages on account of or relating to the sale and purchase of any of the Seller's Shares or any of the other transactions contemplated by this Agreement will have been entered, and, to the best of the Parties' knowledge, no such Proceeding will have been threatened or announced.

4.1.5 The Parties shall have performed and complied with all material covenants and agreements required by this Agreement to be performed by the Parties prior to or at Closing.

4.2 The obligation of the Buyer to complete the purchase of the Seller's Shares and the other transactions to be performed as at the Closing pursuant to this Agreement is conditional upon the following:

a. The representations and warranties of the Seller made in Clause 7 shall be true and correct in all respects as at the Closing.

b. The Seller shall have performed and complied with all the obligations, covenants and agreements to be performed pursuant to this Agreement as of the Closing.

c. The Company shall have performed and complied with all the obligations, covenants and agreements to be performed pursuant to this Agreement as of the Closing.

d. The existing issues under the Company's credit facilities will have been resolved in form and substance satisfactory to the Buyer acting reasonably. The Buyer is aware that such resolution may include a reasonable increase in the interest rate margin on the credit facilities and the pledge of certain of the Company's assets as collateral for the credit facilities, provided that such resolution does not have a material effect on the valuation of the Company's shares.

e. The Buyer shall have received from the Seller or the Company, the Company's financial statements and auditors' reports which meet the requirements of Part 8 of National Instrument 51-102 – Continous Disclosure Obligations promulgated by the Canadian Securities Administrators, in form and substance satisfactory to the Buyer, acting reasonably.

f. Magma Energy Corp. ("**Magma**"), the Buyer's parent corporation, will have received the requisite approval of the Toronto Stock Exchange with respect to the transactions contemplated by or in connection with this Agreement.

g. The Escrow Agent (as defined below) shall have executed the Escrow Agreement (as defined below).

4.3 The obligation of the Seller to complete the sale of the Seller's Shares and the other transactions to be performed as at the Closing pursuant to this Agreement is conditional upon the following:

a. The representations and warranties of the Buyer made in Clause 8 shall be true and correct in all respects as at the Closing.

b. The Buyer shall have performed and complied with all the obligations, covenants and agreements to be performed pursuant to this Agreement as of the Closing.

c. The Company shall have performed and complied with all the obligations, covenants and agreements to be performed pursuant to this Agreement as of the Closing.

d. The Escrow Agent (as defined below) shall have executed the Escrow Agreement (as defined below).

5 Termination prior to Closing

5.1 This Agreement may be terminated at any time prior to Closing only as follows:

a. By mutual written consent of the Buyer and the Sellers.

b. By each of the Parties if any of the conditions precedent to their obligations hereunder as set out in Clauses 4.1-4.3 of this Agreement have not been met as of December 15, 2009 and have not been waived in writing by the other Parties, unless the Parties agree otherwise.

5.2 In the event of any termination of this Agreement pursuant to Clause 5.1 above, no Party shall be liable or have any other obligations to the other Parties under this Agreement, provided, however, that such termination shall not relieve any Party for any prior breach of this Agreement.

5.3 Notwithstanding termination of this Agreement, Clauses 9 (Indemnification), 10 (Confidentiality) and 14 (Governing Law and Disputes) shall remain in full force and effect.

6 Closing

6.1 Subject to the terms, conditions, and undertakings of this Agreement, consummation of the transactions contemplated by this Agreement, including without limitation the transfer of full ownership of the Seller's Shares, (the "**Closing**") shall take place at the offices of Arctica Finance hf., Smáratorg 3, 12th Floor, Kópavogur, Iceland, starting at 10 a.m. (or such other place as the Parties may agree upon) on the Closing Date.

6.2 At Closing, the Buyer shall:

a. Execute and deliver a statement to the effect that the conditions precedent specified in Clause 4.2 are fulfilled, to the extent such conditions are under the Buyer's control.

b. Pay the Purchase Price in full in accordance with Clauses 3.2 and 3.3.

c. Execute and deliver any and all appropriate documents necessary to transfer and perfect title to the Seller's Shares.

d. Execute a share pledge agreement, in the form as set forth in Appendix III to this Agreement (the "**Share Pledge Agreement**"), whereby the Seller's Shares are pledged to the Seller with first priority right, as security for the full payment of the Bond (the Seller's Shares the "**Pledged Shares**" for the purposes of this Clause 6.2).

e. Execute an escrow agreement (the "**Escrow Agreement**") among the Buyer, the Seller and Reykjavik Law Firm as escrow agent (the "**Escrow Agent**") relating to the possession and release of the Pledged Shares as set forth in Appendix IV.

6.3 At Closing, the Seller shall:

a. Execute and deliver a statement to the effect that the conditions precedent specified in Clause 4.3 are fulfilled, to the extent such conditions are under the Seller's control.

b. Following confirmation of payment of the Purchase Price in full, deliver to the Escrow Agent the share certificates in respect of the Seller's Shares registered in the name of the Seller, duly endorsed for transfer to the Buyer.

c. Execute and deliver any and all appropriate documents necessary to transfer and perfect title to the Seller's Shares.

d. Execute the Share Pledge Agreements.

e. Execute the Escrow Agreement.

7 Representations and Warranties of the Seller

Subject to the disclosures, conditions and limitations set out in this Agreement and its appendices, the Seller represents and warrants to the Buyer, that the statements set out in the subsequent provisions of this Clause 7 are correct at the date of this Agreement and at the Closing Date.

7.1 <u>The Seller's Rights and Powers</u>

7.1.1 The Seller has the requisite power and authority to execute and perform this Agreement and any other documents and instruments to be executed by the Seller under this Agreement and all necessary corporate and other actions to authorize and empower the Seller's execution and performance have been taken.

7.1.2 This Agreement constitutes, and the other documents and instruments to be executed by the Seller under this Agreement will (when executed) constitute valid and binding obligations of the Seller in accordance with their respective terms.

7.1.3 The Seller's execution and performance of this Agreement or any document or instrument to be executed by the Seller under it do not and will not:

a. Result in a breach of its constitutional documents.

b. Result in a breach of any resolution adopted by its respective municipal authority.

c. Result in a breach of any judgement, order or decree of any competent court or governmental, regulatory or other authority by which the Seller is bound or of any agreement to which the Seller is a party or by which the Seller is bound.

d. Result in a breach of any material statute, law or regulation applicable to the Seller.

7.2 <u>The Seller's Shares</u>

7.2.1 The Seller owns and has good and marketable title to the Seller's Shares, free and clear of all Encumbrances.

7.2.2 Otherwise than as stated in this Agreement, the Seller is entitled to consummate the transactions contemplated by this Agreement without the approval or consent of any third party and is otherwise not required to make any filing with, give any notice to, or obtain any consent from any governmental, regulatory or other authority in connection with the execution of this Agreement or the completion and consummation of the transaction contemplated by this Agreement, including the Icelandic Competition Authority (Icel. Samkeppniseftirlitið), other than those which have already been obtained or are otherwise stated in this Agreement.

7.3 No Other Representations or Warranties

7.3.1 The Buyer agrees and accepts that the Seller has made no, and the Buyer has not relied on any, express or implied representation or warranty other than the representations and warranties of the Seller contained in this Clause 7 and no action or omission by the Seller shall be construed as implying any representation or warranty.

8 Representations and Warranties of the Buyer

The Buyer represents and warrants to the Seller that the statements set out in the subsequent provisions of this Clause 8 are correct at the date of this Agreement and at the Closing Date.

8.1 The Buyer's Right and Power

8.1.1 The Buyer has the requisite power and authority to execute and perform this Agreement and any other documents and instruments to be executed by the Buyer under this Agreement.

8.1.2 The Buyer meets with the requirements of subsection 2 of paragraph 1 of article 4 of Icelandic law no. 34/1991, on Investment by Non-residents in Business Enterprises, and therefore the purchase by the Buyer of the Sellers' Shares is in accordance with that law.

8.1.3 This Agreement constitutes, and the other documents and instruments to be executed by the Buyer under this Agreement will (when executed) constitute, valid and binding obligations of the Buyer in accordance with their respective terms.

8.1.4 Otherwise than stated in this Agreement, and subject to the conditions in Clause 4.2(e) – (f) having been met, the execution and performance by the Buyer of this Agreement or any other documents or instruments to be executed by the Buyer under it do not and will not:

a. Result in a breach of the Buyer's articles of association or other constitutional documents.

b. Result in a breach of any resolution adopted by the shareholders or board of directors of the Buyer.

c. Result in a breach of any judgement, order or decree of any competent court or governmental, regulatory or other authority by which the Buyer is bound or of any agreement to which the Buyer is a party or by which the Buyer is bound.

d. Result in a breach of any material statute, law or regulation applicable to the Buyer or the Company.

8.1.5 Otherwise than stated in this Agreement, and subject to the conditions in Clause 4.2(e) – (f) having been met, the Buyer is entitled to consummate the transactions contemplated by this Agreement without the approval or consent of any third party and is otherwise not required to make any filing with, give any notice to, or obtain any consent from any governmental, regulatory or other authority in connection with the execution of this Agreement or the completion and consummation of the transaction contemplated by this Agreement, including the Icelandic Competition Authority (icel. Samkeppniseftirlitið), other than those which have already been obtained, are otherwise stated in this Agreement or are required in the ordinary course under the continuous disclosure requirements of Canadian securities laws. Any required notification to be made to relevant competition or securities authorities according to law or to a relevant stock exchange shall be made by the Buyer as soon as possible and the Parties shall use all reasonable endeavours to complete the notification without delay.

8.2 Liquid Assets

8.2.1 The Buyer has sufficient liquid assets to complete the Transaction described in this Agreement.

8.3 No Other Representations or Warranties

8.3.1 The Seller agrees and accepts that the Buyer has made no, and the Seller has not relied on any, express or implied representation or warranty other than the representations and warranties of the Buyer contained in this Clause 8 and no action or omission by the Buyer shall be construed as implying any representation or warranty.

9 Indemnification

9.1 The Seller and the Buyer agree that the representations and warranties of the Seller contained in Clause 7 are the only representations and warranties by the Seller with respect to the Seller's Shares, the Company and otherwise in connection with the transfer of the Seller's Shares under this Agreement. The Buyer confirms that it has not relied on any warranty, indemnity, covenant, undertaking or liability under any statute or legal principle which is not expressly contained in this Agreement.

9.2 In this Agreement, "Loss" means all loss, damage, cost and expense (including without limitation reasonable attorney's fees), except for any indirect loss, and "Claim" means any claim by the Buyer against the Seller under this Agreement.

9.3 If any of the representations and warranties of the Seller contained in Clause 7 are incorrect, or if the Seller commits another breach of this Agreement, the Seller shall, in its sole discretion and as the Buyer's sole and exclusive remedies, either (i) rectify, within a reasonable period after the date such Claim was duly notified pursuant to Clause 9.6(a) and to the reasonable satisfaction of the Buyer, the facts or circumstances giving rise to such incorrectness or breach, or (ii) subject to the limitations provided for in Clause 9.6(a), pay Loss compensation on a ISK by ISK basis to the Buyer with an amount corresponding to the Loss suffered by the Buyer as a consequence of the facts or circumstances giving rise to such incorrectness or breach. Nothwithstanding the foregoing, a breach of Clause 7.2.1 in this Agreement shall not be subject to the provisions of Clause 9.6 in this Agreement.

9.4 Without prejudice to any of the foregoing, any payment made by the Seller in respect of any Claim shall be in the form of a reduction of the Purchase Price or, at the Buyer's option, in the form of damage.

9.5 The Buyer shall actively and in good faith seek to mitigate the Loss.

9.6 The Seller shall not be liable in respect of any Claim as stated below:

a. To the extent notice of the relevant facts or circumstances giving rise to such Claim, accompanied by reasonable particulars thereof specifying the nature of the claim and, as far as practicable, the amount of the Loss giving rise to the Claim, is not received by the Seller without delay after the Buyer became, or should reasonably have become, aware of the facts or circumstances giving rise to the Claim, and in no event later than 3 (three) months after the Closing Date.

b. To the extent that the facts, matters or circumstances giving rise to the Claim were known, or reasonably should have been known, to the Buyer prior to the execution of this Agreement.

10 Confidentiality

10.1 The Parties agree to use their best efforts to keep the existence and contents of this Agreement strictly confidential and to not disclose any information pertaining to this Agreement except to such of its board members, councillors/members of municipal executive board, officers, employees, accounting, legal and financial advisors as is necessary in order to evaluate this Agreement. Furthermore, the Parties are aware that the Company and/or the shareholders of the Company may demand a copy of this Agreement in order for them to decide on whether or not exercise or waive their pre-emptive rights in accordance with the Company's articles of association.

11 Announcements

11.1 Unless otherwise required by law or by any government authority or stock exchange (including the requirements of the Toronto Stock Exchange that are applicable to the Buyer or Magma), (i) all press releases, public announcements or public relations activities by the Parties with regard to this Agreement or the Transaction contemplated by it shall be mutually approved by the Seller and the Buyer in advance of such release or announcement, such approval not to be unreasonably withheld or delayed, and (ii) all press releases and public announcements by the Parties with regard to this Agreement shall be issued simultaneously.

12 Notices

12.1 All notices, requests, demands, approvals, waivers and other communications required or permitted under this Agreement must be in writing in the Icelandic or English language and shall be deemed to have been received by a Party when:

a. Delivered by registered post, unless actually received earlier, on the 3rd (third) business day after the date of posting, if posted within Iceland, or the 5th (fifth) business day, if posted to or from a place outside Iceland.

b. Delivered by hand, on the day of delivery.

12.2 All such notices and communications shall be addressed to the Parties' registered address, as set out above, or to such other addresses as may be given by written notice in accordance with this Clause.

13 Miscellaneous

13.1 Each Party shall pay their own costs and expenses in connection with the preparation for and completion of the Transaction contemplated by this Agreement, including but not limited to all fees and expenses of their own representatives, agents, brokers, legal and financial advisers and authorities.

13.2 Changes and additions to this Agreement, including to this Clause 13.2, must be in writing and duly executed by all Parties.

13.3 Time shall be of the essence hereof.

13.4 If any provision of this Agreement or the application of it shall be declared or deemed void, invalid or unenforceable in whole or in part for any reason, the Parties shall amend this Agreement as shall be necessary to give effect to the spirit of this Agreement so far as possible. If the Parties fail to amend this Agreement, the provision which is void, invalid or unenforceable, shall be deleted and the remaining provisions of this Agreement shall continue in full force and effect.

13.5 This Agreement contains the entire agreement between the Parties with respect to the subject matter of this Agreement and supersedes all previous and contemporaneous negotiations and understandings between the Parties, whether written or oral.

13.6 This Agreement shall be binding upon and inure to the benefit of the successors of the Parties, but shall not be assignable by any of the Parties without the prior written consent of the other Parties.

14 Governing Law and Disputes

14.1 This Agreement shall be governed by and construed in accordance with the law of the Republic of Iceland.

14.2 The Parties agree that they will comply with, and will ensure that their directors, officers and employees all comply with, all applicable laws, rules and regulations in the relevant territories in relation to this Agreement, including, in particular, in respect of all announcements made or documents published in connection therewith.

14.3 In the event of any dispute between the Parties in connection with this Agreement, the Parties shall endeavour to settle the dispute by mutual consent. In the event that no consensus can be reached, each Party may submit the dispute to the courts of Iceland, in which case the issue shall be referred to the District Court of Reykjavík, Iceland, which shall have exclusive jurisdiction to settle any dispute which may arise in connection with this Agreement as well as any agreements and/or contracts made between the Parties in relation to this Agreement.

In the presence of two witnesses this Agreement is signed in (two) copies by the lawful agents of the Parties, one copy to be retained by each Party.

/*Signed*/	**/*Signed*/**
Hafnarfjörður, Iceland, 31 August 2009 **On behalf of Hafnarfjarðarkaupstaður**	**Kelowna, B.C., Canada, 30 August 2009** **On behalf of Magma Energy Sweden A.B.**

Appendix I

HS Orka hf.
- c/o Board of Directors
Brekkustíg 36
260 Reykjanesbær
[If applicable, insert name and address of shareholders of HS Orka hf.]

[Place], [date]

Notice of a change of ownership of shares in HS Orka hf.

With reference to article 9 of HS Orka hf.'s articles of association, the company's board of directors is hereby notified of that Hafnarfjarðarkaupstaður, State Reg. 590169-7579, (the "Seller") have entered into a share sale and purchase agreement dated [date] (the "Agreement"), whereby the Seller sells and transfers shares (the "Seller's Shares") in HS Orka hf. to Magma Energy Sweden A.B. Swedish Reg. No. 556783-6209, 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 "Buyer"), on the condition that all pre-emptive rights with regard to all the Seller's Shares are waived by all relevant parties.

Prior to this notice being sent to you, a separate notice has been sent by the Seller and/or Orkuveita Reykjavíkur ("OR"), whereby HS Orka hf. was notified of the execution of a transfer of 896,154,577 shares (the "Transaction Shares") in HS Orka hf. from the Seller to OR, in relation to a transaction dated in July 2007 (the "Transaction"). The Transaction was duly notified to HS Orka hf. on 10 January 2008 and HS Orka hf.'s board of directors waived its pre-emptive rights with respect to the Transaction Shares, at its meeting dated 12 February 2008. Furthermore, HS Orka hf. sent on 16 January 2008 a letter to other shareholders informing them of the Transaction and their pre-emptive rights related thereto.

To the extent it is required, this notice also applies to the Transaction Shares in the event you consider that a new notice is required in relation to the sale of the Transaction Shares between the Seller and OR.

The total number of the Seller's Shares are 47,166,031.

According to the Agreement, the price per share is ISK 6.31, payable as set forth in the Agreement. The purchase price is due within 5 (five) business days after the pre-emptive right holders have waived their right or the time period for utilizing the pre-emptive right has expired. Otherwise, with regard to the rights and obligations of the parties to the Agreement, reference is made to the enclosed copy of the Agreement. Should a pre-emptive right holder of the Seller's Shares decide to execute its pre-emptive right, the pre-emptive right holder becomes a party to the Agreement instead of the Buyer, with the same rights and obligations.

The Seller hereby requests that HS Orka hf.'s board of directors make a decision, as soon as possible, on whether to exercise the company's pre-emptive right with regard to the Seller's Shares. Furthermore, the Seller requests that HS Orka hf.'s board of directors give notice to the shareholders of the company, excluding the Seller, informing them of their pre-emptive rights, thereby giving them the opportunity to exercise their pre-emptive rights with regard to the Seller's Shares.

Should HS Orka hf. or other pre-emptive right holders with regard to the Seller's Shares wish to exercise their pre-emptive rights, a notification to that effect must have reached the Seller within 2 (two) months as of the date HS Orka hf. has received this notice. A notification of a pre-emptive right holder exercising his pre-emptive right shall be sent to:

Arctica Finance hf.
- f.a.o. Mr. Baldur Stefansson
Smáratorgi 3, 12th floor
201 Kópavogi
Iceland

On behalf of Hafnarfjarðarkaupstaður

Appendix II

[Form of Bond Certificate]

MAGMA ENERGY SWEDEN A.B.

[US$ _________] SECURED BOND

DUE: AUGUST ___ 2016

For value received, 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 ("Magma Sweden") hereby acknowledges itself indebted and promises to pay to [Orkuveita Reykjavíkur] and its successors and assigns ("[OR]") or to the holder of this Secured Bond ([OR] or such subsequent holder hereinafter referred to as the "Holder") upon the order in writing of the Holder, at [address of Holder] or such other address as the Holder may direct by written notice to Magma Sweden, the principal amount of [US$ ____________], as may be adjusted according to the terms hereof, in lawful money of United States of America (the "Principal Amount") on August ___, 2016 (the "Maturity Date"), together with interest at the rate of 1.5% per annum (the "Interest Rate"), calculated on the basis of a 360-day year and the number of days elapsed, accruing from and including August ___, 2009 (the "Closing Date") on the Principal Amount outstanding from time to time.

On each three (3) month anniversary of the Closing Date while this Secured Bond is outstanding, any portion of the Principal Amount outstanding and interest accrued thereon may be prepaid to the Holder, without notice, bonus or penalty.

Beginning on [the date which is twelve (12) months from the Closing Date], the outstanding Principal Amount will be adjusted annually based on the average of the 3-months seller price of aluminum (as posted on the London Metal Exchange website for the first business day of each month) for the prior twelve (12) month period (the "Average Monthly Aluminum Price"), provided that if the Average Monthly Aluminum Price exceeds US$ 3,250 per tonne, the Average Monthly Aluminum Price shall be deemed to be US$ 3,250 per tonne, and if the Average Monthly Aluminum Price is less than US$ 1,750 per tonne, the Average Monthly Aluminum Price shall be deemed to be US$ 1,750. The adjusted Principal Amount of this Secured Bond will be calculated by multiplying: (i) the original Principal Amount of this Secured Bond, less the sum of all Adjusted Pre-Payments, if any, by (ii) the sum of (a) one, plus (b) the Aluminum Price Index. The Aluminum Price Index will be calculated by multiplying (i) the Aluminum Price Factor by (ii) 0.50. The Aluminum Price Factor will be calculated by subtracting (i) US$ 1,750 from (ii) the Average Monthly Aluminum Price, and dividing the difference by US$ 1,750. Each Adjusted Pre-Payment will be calculated by dividing the amount of such pre-payment made on this Secured Bond by (i) one, plus (ii) the Aluminum Price Index calculated using the Average Monthly Aluminum Price on the first business day of each month for the twelve (12) months prior to the pre-payment.

Interest is payable on the average daily Principal Amount outstanding for the previous twelve (12) month period, annually on August ___ of each year until and including the Maturity Date; provided that, for the purpose of calculating interest payable, any pre-payments of Principal Amount during such 12 month period shall be adjusted by multiplying such amount by a fraction, the numerator of which is (i) one, plus (ii) the Aluminum Price Index at the beginning of such twelve (12) month interest period, and the denominator of which is (iii) one, plus (iv) the Aluminum Price Index calculated using the Average Monthly Aluminum Price on the first business day of each month for the twelve (12) months prior to the pre-payment. Magma Sweden has the option of deferring any one, two or three, but no more than three, interest payments at any time. Magma Sweden may exercise such option by not paying any such interest payment when due. If Magma Sweden exercises such option, each deferred interest payment will be added to the Principal Amount and interest will accrue thereon at the Interest Rate.

The Principal Amount and interest owing under this Secured Bond shall be paid without any set-off or abatement.

Within 30 days of each anniversary of the Closing Date (each such anniversary is referred to as a "**Valuation Date**"), Magma Sweden shall, at its own cost, deliver to the Holder a report ("**Appraisal**") of an appraiser setting out the aggregate value, as of the Valuation Date, of (i) the collateral subject to the security interest created by the Pledge (as defined below) and (ii) any other collateral pledged to the Holder (such aggregate value is referred to as the "**Value of the Pledged Shares**"). For greater certainty, any dividends required to be held in escrow under this Secured Bond shall be included in the Value of the Pledged Shares. The appraiser shall be appointed by Magma Sweden, but independent from Magma Sweden and its affiliates, and acceptable to Holder acting reasonably, and in performing the Appraisal, the appraiser shall use reasonable parameters and assumptions provided by Magma Sweden in accordance with industry standards for a valuation of collateral of such type.

Any dividends received by Magma Sweden from HS Orka hf. attributable to the Pledged Shares shall be held in escrow in accordance with the Share Pledge Agreement (as defined below) until the next Valuation Date. If on such Valuation Date, the Coverage Ratio (as defined below) is equal to or greater than 1.3 to 1.0, the dividends held in escrow shall be released to Magma Sweden, except to the extent required to maintain the Coverage Ratio on such Valuation Date at 1.3 to 1.0.

If the ratio of the Value of the Pledged Shares shown in any Appraisal to the Principal Amount of the Secured Bond on the Valuation Date used for such Appraisal (the "**Coverage Ratio**") is less than 1.00 to 1.00, Magma Sweden shall ensure that, within 3 (three) months of the first anniversary of such Valuation Date, the Coverage Ratio determined as at such date is at least 1.10 to 1.00 and within 3 (three) months of the second anniversary of such date, the Coverage Ratio determined as at such Valuation Date is at least 1.30 to 1.00. If on any Valuation Date, the Coverage Ratio is equal to or greater than 1.30 to 1.00, Magma Sweden shall have no further obligation under this provision unless the Coverage Ratio falls below 0.9 to 1.0 on a subsequent Valuation Date. Magma Sweden, may, at any time in order to comply with its obligations under this provision, pledge additional shares of HS Orka hf. or such other collateral acceptable to the Holder acting reasonably, which shall then become part of the Pledge (as defined below). The value of any shares of HS Orka hf. so pledged will be determined using the same per share value of the HS Orka hf. shares set out in the most recent Appraisal, and the value of any other collateral so pledged shall be determined by agreement between Magma Sweden and the Holder, acting reasonably.

Each of the events set out below is an event of default ("**Event of Default**"):

a. **Overdue payments:** Magma Sweden fails to pay any amount payable by it under this Secured Bond when due.

b. **Default under Share Pledge Agreement:** Magma Sweden breaches in any way its obligations according to the share pledge agreement made by Magma Sweden in favour of [OR] dated [Closing Date] (the "Share Pledge Agreement"), regarding shares in HS Orka hf., always provided that Magma Sweden in the event of such breach (in the sole opinion of the Holder, acting reasonably) has not remedied such breach within 30 days from the date Magma Sweden receives notice thereof.

c. **Change of ownership:** Any person, or combination of persons acting jointly or in concert, acquires shares of Magma Sweden entitling the holders of such shares to cast more than 50% of the votes carried by all shares of Magma Sweden having the right to vote for the election of directors of Magma Sweden.

d. **Delisting:** Shares of Magma Energy Corp. cease to be traded on any recognized stock exchange.

e. **Disposal of assets of HS Orka hf.:** Magma Sweden enters into a transaction in which Magma Sweden acquires material properties or assets of HS Orka hf. except upon fair and reasonable terms no less favorable to HS Orka hf. than would be obtainable in a comparable arm's length transaction with a person other than Magma Sweden.

f. **Legal process:** Any judgment or order made against Magma Sweden is not stayed or complied with within thirty days unless the same is being contested in good faith by appropriate proceedings. A creditor attaches or takes possession of, or a distress, execution, sequestration or other process is levied or enforced upon or against, any of the undertakings, assets, rights or revenues of Magma Sweden and is not discharged within thirty days, unless the same is being contested in good faith by appropriate proceedings.

g. **Insolvency; compositions:** Magma Sweden stops or suspends payment of any of its indebtedness or is unable or admits inability to pay any of its indebtedness as it falls due or commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness or proposes or enters into any composition or other arrangement for the benefit of its creditors generally or any class of creditors or proceedings are commenced by Magma Sweden under any law, regulation or procedure relating to reconstruction or readjustment of its indebtedness. Proceedings are commenced against Magma Sweden under any law, regulation or procedure relating to reconstruction or readjustment of its indebtedness, and such proceeding is not stayed within thirty days, unless such proceeding is being contested in good faith by appropriate proceedings.

h. **Bankruptcy or insolvency proceedings by Magma Sweden:** Magma Sweden takes any action or any legal proceedings are started by Magma Sweden or other steps are taken by Magma Sweden for (i) Magma Sweden to be adjudicated or found bankrupt or insolvent, (ii) the winding-up or dissolution of Magma Sweden or (iii) the appointment of a liquidator, administrator, trustee, receiver or similar officer of Magma Sweden or the whole or any part of its respective undertaking, assets, rights or revenues.

i. **Bankruptcy or insolvency proceedings against Magma Sweden:** Any legal proceedings are started by any party other than Magma Sweden or other steps taken by any party other than

Magma Sweden for (i) Magma Sweden to be adjudicated or found bankrupt or insolvent, (ii) the winding-up or dissolution of Magma Sweden or (iii) the appointment of a liquidator, administrator, trustee, receiver or similar officer of Magma Sweden or the whole or any part of its respective undertaking, assets, rights or revenues, and such steps or proceedings are not stayed within thirty days, unless such steps or proceedings are being contested in good faith by appropriate proceedings.

Any costs, taxes, charges and expenses (including external and internal legal fees) incurred by the Holder in connection with the enforcement and preservation of the Holder's rights under this Secured Bond, shall be payable by Magma Sweden on the date of incurrence.

In the case of any Event of Default, as described above, and at any time thereafter if any such event shall then be continuing, the Holder may by notice to Magma Sweden accelerate all debt owing pursuant to this Secured Bond and declare it to be immediately due and payable whereupon the same shall become immediately due and payable together with all interest accrued thereon and all other amounts payable hereunder. In such events Magma Sweden shall pay penalty interest on such amount or accelerated amount from the due date until payment is received by the Holder. The penalty interest shall be 5.0% per annum.

This Secured Bond is issued pursuant to a Share Sale and Purchase Agreement entered into on [August] ___, 2009 among Magma Sweden, [OR, Hafnarfjarðarkaupstaður and Sandgerðisbær].

The Holder may from time to time and at any time transfer this Secured Bond or any part thereof.

This Secured Bond shall be secured by a Share Pledge Agreement (the "Pledge") pursuant to which Magma Sweden shall grant to [OR] a security interest in certain shares of HS Orka hf. described therein as collateral, and all proceeds thereof.

Notwithstanding any other provision of this Secured Bond, the Holder's recourse under this Secured Bond shall be limited to enforcement of the Pledge only. The Holder shall have no additional recourse against Magma Sweden. If the Holder shall take judgment against Magma Sweden in respect of its obligations and liabilities under this Secured Bond, the Holder will not seek to effect recovery from Magma Sweden under any such judgment otherwise than from the realization of the security constituted by the Pledge, and the Holder will not register, record or file any such judgment or any notice thereof in any office or registry against Magma Sweden or its property and assets, other than the collateral subject to the security interest created by the Pledge.

Magma Sweden shall pay all stamp duties on the Secured Bond.

The laws of Iceland will apply to the interpretation and enforcement of this Secured Bond. Any dispute arising from this Secured Bond may be brought before the Reykjavík District Court in accordance with the rules of Chapter XVII of Act No. 19/1991, on Civil Proceedings.

If the debt according to this Secured Bond is accelerated as referred to above, collection of the debt may be enforced by execution without a prior court judgment or conciliation, in accordance with Point 7 of the first paragraph, Article 1, of Act 90/1989, on Enforcement Proceedings. In addition to covering the Principal Amount, this right to carry out enforcement by execution covers all interest, penalty interest, costs of submitting claims, legal costs, collection costs and other related costs.

Magma Sweden hereby waives presentment and notice of dishonor, protest and notice of protest. No delay by the Holder in exercising any power or right hereunder will operate as a waiver of power or right preclude other or further exercise thereof, or the exercise of any other power or right hereunder or otherwise.

IN WITNESS WHEREOF Magma Sweden has executed this Secured Bond this ____ day of [August], 2009.

MAGMA ENERGY SWEDEN A.B.

By: ________________________________

Name:

Title:

Appendix III

[Form of Share Pledge Agreement]

Magma Energy Sweden A.B.

(as **Pledgor**)

and

[name of the Seller]
(as **Pledgee**)

SHARE PLEDGE AGREEMENT

relating to shares in HS Orka hf.

Dated [dd] August 2009

CONTENT

Clause **Page**

THIS SHARE PLEDGE AGREEMENT (hereinafter, together with its Schedules and as amended from time to time, this “**Agreement**”) is dated [dd] August 2009 between:

(1) **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 Götenborg, Sweden, (the "**Pledgor**"); and

(2) **[Name and description of a Seller]**, (the “**Pledgee**”).

RECITALS:

(A) The Pledgor and the Pledgee have entered into a share sale and purchase agreement (the “**SPA**”), dated **[●]**, regarding the sale and purchase of [number of the Sellers’ Shares] shares in the Company (as defined below), whereby the Pledgor is the buyer and the Pledgee is the seller of the Pledged Shares (as defined below).

(B) A part of the purchase price to be paid by the Pledgor to the Pledgee according to the SPA, shall be made by way of the Pledgor issuing and delivering the Bond (as defined below).

(C) Closing of the transaction described in the SPA, including the transfer of the Pledged Shares from the Pledgee to the Pledgor, is subject to the parties signing this Agreement, as set out in the SPA.

(D) The Pledgor and the Pledgee have agreed that the Pledgor shall grant the pledge and security interest contemplated by this Agreement to the Pledgee, as security for the Secured Liabilities (as defined below).

NOW IT IS HEREBY AGREED as follows:

1. DEFINITION AND INTERPRETATION

1.1 In this Agreement:

“Articles of Association” means the articles of association of the Company.

“Bond” means all bonds, in the form as set forth in Appendix III in the SPA, issued by the Pledgor to the Pledgee in relation to and in accordance with the SPA.

“Company” means HS Orka hf., a limited liability company incorporated under the law of the Republic of Iceland, Icelandic register number 680475-0169, with its registered address at Brekkustígur 36, 260 Reykjanesbær, Iceland.

“Dividends” means in relation to the Pledged Shares, every right or entitlement to receive income of any description from or in respect of the Pledged Shares.

“Dividend Proceeds” means the proceeds of any Dividends.

“Encumbrance” means any mortgage, charge, pledge, lien and other security interest, or any rights or privileges capable of becoming any of the foregoing (other than liens and pre-emption rights arising by operation of law or under the Articles of Association).

“Enforcement Event” means an Event of Default in respect of which notice has been served by the Pledgee.

“Escrow Agent” means Reykjavik Law Firm, Borgatun 25, 105 Reykjavik, Iceland.

“Escrow Agreement” means the agreement entered into between the Pledgor, Pledgee and Escrow Agent in connection with this Agreement.

“Event of Default” has the same meaning as under the Bond.

“Pledge” means the security interest created or expressed to be created pursuant to this Agreement.

“**Pledged Assets”** means the assets pledged under this Agreement, as further described in Clause 2.

“Pledged Shares” means [number of shares] shares in the Company, acquired by the Pledgor from the Pledgee according to the SPA.

“Receiver” means an independent third party nominated by Pledgee and deemed acceptable by Pledgor, for purposes of valuation or enforcement, sale or other disposal of the Pledged Assets and the Dividends in accordance with the terms of this Agreement.

“Secured Liabilities” means:

(a) the full amount of all moneys, liabilities and other obligations in any currency or currencies now or at any time after the date of this Agreement due, owing, incurred or payable, or expressed or intended to be due, owing, incurred or payable, under the Bond;

(b) all interest, costs, commissions, fees and other charges and expenses which are, or are expressed to be, or may become due, owing or payable at any time under the Bond; and

(c) all legal and other costs, charges and expenses which the Pledgee may incur in enforcing or obtaining, or attempting to obtain, payment of any obligation, liability or money referred to in paragraphs (a) and (b) above.

“Security Period” means the period beginning on the date of this Agreement and ending on the date upon which the Pledgee is satisfied that the Secured Liabilities have been unconditionally and irrevocably paid and discharged in full.

“SPA” has the meaning given to it in the Recitals to this Agreement.

“Title Documents” means the certificates or other documents of or evidencing title to the Pledged Shares.

1.2 Unless a contrary indication appears, in this Agreement a reference to:

(a) the “**Pledgor**” or the “**Pledgee**” shall be construed so as to include its successors in title, permitted assigns and permitted transferees;

(b) “**this Agreement**”, the “**SPA**”, the “**Bond”** or any other agreement or instrument shall be construed as a reference to this Agreement, the SPA, the Bond or, as the case may be, such other agreement or instrument as amended, supplemented, novated and/or replaced in any manner from time to time;

(c) **"including"** or **"includes"** means including or includes without limitation; and

(d) a provision of law is a reference to that provision as amended or re-enacted.

1.3 References to clauses and the schedules are to be construed, unless otherwise stated, as references to clauses and the schedules of this Agreement and references to this Agreement include its schedules.

1.4 Clause and schedule headings are for convenience only and shall not affect the construction of this Agreement.

1.5 Each undertaking of the Pledgor (other than a payment obligation) contained in this Agreement must be complied with at all times during the Security Period and is given by the Pledgor for the benefit of the Pledgee.

2. GRANT AND SCOPE OF PLEDGE

2.1 In order to secure the full and punctual payment, performance and discharge of the Secured Liabilities the Pledgor hereby pledges with first priority and by way of possessory charge (*ísl. handveð*) to the Pledgee all its rights, title and interest in and to the Pledged Shares.

2.2 Any Dividends and Dividend Proceeds including interest shall furthermore be subject to a first ranking security interest under this Agreement. Any Dividends or Dividend Proceeds released from escrow pursuant to the Escrow Agreement shall be released from any security interest in favour of the Pledgee.

2.3 It is expressly agreed that the Pledge will extend to all securities interests allotted to the Pledgor by way of exercise of its rights attached to or deriving from the Pledged Shares, including securities interests resulting from a free allotment or from a decrease of the Company's share capital immediately followed by an increase in such share capital.

3. PERFECTION

3.1 **Registration of the Pledge (Company share register)**: Immediately upon execution of this Agreement, the Pledgor shall deliver to the Pledgee an executed notification statement of the Pledge sent to the Company in the form of Schedule 1 and cause the Company to register the Pledge on the share register (and if applicable, on shareholders individual accounts) of the Company and cause the Company to deliver to the Pledgee a pledge certificate (acknowledgement and approval) in the form of Schedule 2 to this Agreement evidencing that the Pledged Shares have been pledged in the share register of the Company. The same applies to any additional shares as set forth in Clause 2.3 above.

3.2 **Deposit**: The parties shall immediately upon receiving from the Company the Title Documents deposit the Title Documents with the Escrow Agent. The same applies to any additional shares as set forth in Clause 2.3 above. Title Documents held by the Escrow Agent will be held exclusively at the expense, risk and responsibility of the Pledgor.

3.3 **Registration of transfer**: If requested by the Pledgee at any time after an Enforcement Event as permitted by this Agreement, subject to any restrictions in the Articles of Association, the Pledgor will immediately arrange for the transfer to the Pledgee of the Pledgor's legal interest in any registered Pledged Shares.

4. DIVIDENDS AND EXERCISE OF SHARES RIGHTS

4.1 Subject to Clause 4.2, the rights, including the voting rights, attached to the Pledged Shares shall remain with the Pledgor. The Pledgor, however, shall at all times until the full satisfaction of all Secured Liabilities or the release of the Pledge, exercise such rights in good faith to ensure that the validity and enforceability of the Pledge and the existence or value of all or part of the Pledged Shares are not in any material way adversely affected. The Pledgor undertakes not to participate in any resolutions which would constitute a breach of this Agreement.

4.2 Upon the occurrence of an Enforcement Event, the Pledgor shall only exercise its rights with respect to the Pledged Shares with the consent of the Pledgee.

4.3 Subject to Clause 4.4 and the Escrow Agreement, the Pledgor shall be entitled to all and any Dividends and Dividend Proceeds.

4.4 Immediately upon the occurrence of an Enforcement Event, the Pledgee shall be entitled to Dividends and any Dividend Proceeds shall be paid directly to and retained by the Pledgee.

5. CONTINUING SECURITY

5.1 **Continuing and independent security**: The security interest created by this Agreement shall be a continuing security which shall not be released or discharged by any intermediate payment or settlement of any or all of the Secured Liabilities, shall continue in full force and effect until the end of the Security Period and shall be in addition to, and independent of, and shall not prejudice, any other security (or any right of set-off) which the Pledgee may hold at any time in respect of the Secured Liabilities or any of them.

5.2 **Immediate recourse**: The Pledgor waives any rights it may have of first requiring the Pledgee to proceed against or to exercise or enforce any other rights or security or claim payment from any person before enforcing this Agreement.

5.3 **Waiver of defences**: Neither the obligations of the Pledgor under this Agreement, nor the security interest and the rights, powers and remedies conferred on the Pledgee by this Agreement shall be discharged, impaired or otherwise affected by:

(a) any change in the status, function, control or ownership of the Pledgor;

(b) any time or other indulgence being granted or agreed to or with the Pledgor or any other person in respect of the Secured Liabilities or any of them or in respect of any other security held by the Pledgee in respect thereof;

(c) any amendment to, or any variation, waiver or release of, the Secured Liabilities or any of them or any other security, guarantee or indemnity held by the Pledgee in respect thereof; or

(d) any total or partial failure to realise the value of, or any release, discharge, exchange or substitution of, any other security, guarantee or indemnity held by the Pledgee in respect of the Secured Liabilities or any of them.

5.4 **Rights provided by law**: The rights of the Pledgee hereunder are in addition to and not exclusive of those provided by law.

6. UNDERTAKINGS

6.1 **Authorisations**: The Pledgor shall execute or procure the execution of all such documents and do or procure the doing of all such other acts and things, as are, in the opinion of the Pledgee, necessary or desirable to secure to the Pledgee the full benefit of the security interest created, or intended to be created hereby, or to enable the Pledgee fully and freely to exercise all the rights and powers conferred hereby or by law.

6.2 **Free transferability**: The Pledgor shall ensure that the Pledged Shares are free from any restrictions on transfer, other than in favour of the Pledgee and other than as set out in the Articles of Association.

6.3 **Defence of rights**: The Pledgor shall warrant and defend the rights, title and interest of the Pledgee to and in the Pledged Assets against the claims and demands of all persons whomsoever and to notify the Pledgee promptly in writing of any lien or enforcement event pertaining to the Pledged Assets and of any other fact or circumstance which may adversely affect the security interest created hereunder or any of the rights of the Pledgee hereunder.

6.4 **Notice of claims**: The Pledgor shall promptly notify the Pledgee of notices and information received by the Pledgor in respect of:

(a) any claim, interest or lien of any person or authority in respect of any of the Pledged Assets;

(b) any seizure, confiscation, requisition, arrest, or other appropriation of the Pledged Assets;

(c) any material court or arbitration proceeding (or any other proceeding or bringing of suits or claims which might lead to such a proceeding) with respect to any of the Pledged Assets; and

(d) the occurrence of any other event which could materially reduce the value of the Pledged Assets or adversely affect the security interest created by this Agreement.

6.5 **Negative pledge**: The Pledgor further undertakes to the Pledgee throughout the Security Period without the prior written consent of the Pledgee:

(a) not to sell, transfer or otherwise dispose of the Pledged Assets or part thereof or agree to do any such thing;

(b) not to create or permit to subsist any Encumbrance, on, over, with respect to or otherwise affecting the whole or any part of the Pledged Assets (other than in favour of the Pledgee) or agree to do any such thing;

(c) not to take any action whereby the rights pertaining to the Pledged Assets are altered or diluted;

(d) not to grant any option or other third party right in relation to the Pledge;

(e) not to take any action to permit the Company to issue any share certificates, temporary certificates or option certificates in relation to the Pledged Shares and, in case such certificates are issued, immediately deliver the possession of such certificates to the possession of the Pledgee; and

(f) not to do or cause or permit to be done anything which may conflict with any provision of the Bond or adversely affect the interests of the Pledgee thereunder, the validity or enforceability of the security interest created hereunder or the value of the Pledged Assets.

6.6 **No action**: The Pledgor shall not take any action that would cause any of the representations and warranties made in Clause 7 (Representations and Warranties) to be untrue at any time during the Security Period.

7. REPRESENTATIONS AND WARRANTIES

In addition and without prejudice to the representations and warranties of the Pledgor made in respect of the Pledgor, the Company and/or the Pledged Assets in the Bond, the Pledgor represents and warrants to the Pledgee that:

7.1 **Ownership of the Pledged Shares**: The Pledgor is the sole holder and legal and beneficial owner of the Pledged Shares and has full title thereto and the Pledge will have such priority as set out in this Agreement.

7.2 **First priority Pledge**: The security created by this Agreement constitutes a first priority right of pledge enforceable in accordance with its terms against the Pledgor and its liquidator or administrator in bankruptcy, reorganization, liquidation or similar proceeding and its third party beneficiaries.

7.3 **Stamp duties and similar taxes**: There is no requirement to pay any stamp duties or any other tax or charge in any jurisdiction on or arising from the entering into or performance of this Agreement, or that is necessary to ensure the legality, validity, enforceability or admissibility of this Agreement (however, any issue of share certificates by the Company is subject to a 0.5% stamp duty of its nominal value).

8. INDEMNITY

The Pledgor will indemnify the Pledgee in respect of all liabilities and expenses incurred by it in good faith (1) in the execution or purported execution of any rights, powers or discretion in accordance with this Agreement, (2) in the preservation or enforcement of its rights under this Agreement or (3) on the release of any part of the Pledged Assets from the security created by this Agreement.

9. ENFORCEMENT OF PLEDGE

9.1 **Enforcement**: In the event of an Enforcement Event or should any of the events described in article 9 in the Icelandic act on contractual pledges no 75 of 1997 occur, the security constituted by this Agreement shall become immediately enforceable and the Pledgee shall have the right without obtaining the consent of the Pledgor, without a judgment or decision of the competent court, without liability for any loss or for costs of any kind:

(a) to, subject to any restrictions in the Articles of Association, sell or otherwise dispose of all or any of the Pledged Assets (if applicable) or (as the Pledgee may elect and without prejudice to any later exercise of this power) the whole or part of the equitable interest in the Pledged Assets at market value as determined by the Receiver; and/or

(b) to sign, seal, execute, deliver, acknowledge, file and register all such documents, instruments, agreements, certificates and any other document and do any and all such other acts or things as the Pledgee may in its absolute discretion deem necessary or desirable to amend the share register of the Company; and/or

(c) to exercise in relation to the Pledged Assets all rights and powers which would be exercisable by a legal and/or beneficial owner of them and all other powers conferred on security by law and as the Pledgee may in its discretion think fit and reasonable; and/or

(d) to apply any Dividends, Dividend Proceeds or other payments received or receivable by the Pledgee in respect of the Pledged Shares as though they were proceeds of sale; and/or

(e) at its discretion, and subject to any restrictions in the Articles of Association, to assume and take title to the Pledged Assets at a value as determined by the Receiver.

9.2 **Forced sale**: In the event that an Enforcement Event occurs, the security constituted by this Agreement shall become enforceable with notice pursuant to article 7 of the Icelandic act no 90 of 1989, and without liability for any loss (whether or not due to negligence) or for costs of any kind the Pledgee can initiate a forced sale of the Pledged Shares according to item 3 of paragraph 1 of article 6 of the Icelandic act no 90 of 1991 on forced sales, without prior judgment, court settlement or attachment (Icel. "*án undangengins dóms, sáttar eða fjárnáms*").

9.3 **Application of proceeds**: Any proceeds received by the Pledgee pursuant to this Agreement and/or under the powers hereby conferred shall be applied by the Pledgee in or towards payment of the Secured Liabilities or such part of them as are then due and payable in accordance with the Bond.

10. RELEASE OF SECURITY

10.1 **Release of security upon expiry of the Security Period**: Subject to the Bond, the security interest created under this Agreement shall be released upon the expiry of the Security Period, in each case, at the request and expense of the Pledgor. The Pledgee agrees that, upon the release of the security interest created under this Agreement it will promptly;

(a) provide notification to the Company regarding cancellation of the registration of the Pledge created pursuant to this Agreement in the share register of the Company;

(b) cause the certificates representing the Pledged Shares and delivered by the parties to the Escrow Agent hereunder to be released from such Pledge and promptly returned to the Pledgor; and

(c) execute such other documents as may be reasonably necessary to release and terminate the security interest created by this Agreement;

10.2 Any release, settlement, satisfaction or discharge between the parties will be conditional on no security, disposition or payment made or given to the Pledgee being avoided, reduced, set aside, rendered unenforceable or required to be paid away by virtue of any provision, requirement or enactment, whether relating to bankruptcy, insolvency or liquidation or otherwise at any time in force, or by virtue of any obligation to give effect to any preference or priority.

11. WAIVERS

No failure or delay by the Pledgee in exercising any right, power or remedy hereunder shall impair the same or operate as a waiver thereof nor shall any single or partial exercise of any right, power or remedy preclude any further exercise thereof or the exercise of any other right, power or remedy.

12. NOTICES

Save as otherwise provided herein, all notices and other communications to be issued or delivered in respect of this Agreement shall be made in writing and in English (by courier) and shall be sent to the Pledgor and to the Pledgee at the following addresses:

(a) if to the Pledgor:

Magma Energy Sweden A.B.
c/o Magma Energy Corp.

410-625 Howe Street
Vancouver, B.C., Canada
V6C 2T6
Attention: Lyle Braaten

(b) if to the Pledgee:

[name of Seller]
[Seller's address]
Attention: [name or department]

(or to such other representatives or communication details of the Pledgor and the Pledgee and as any of them may hereafter specify to the other party in writing and for such purpose as that party may specify).

All notices and other communications under this Agreement shall be deemed to have been duly given or made;

(a) if delivered by hand, at the time of delivery;

(b) if given or made by fax during business hours, when sent, provided duly transmission receipt; or

(c) if sent by prepaid post, two (2) business days after such postage.

13. FORCE MAJEURE

Neither the Pledgee nor the Pledgor shall not be held liable for any damage resulting from Icelandic or foreign legislative enactment, actions of Icelandic or foreign authorities, war, power failure, fire, water damage, riots, strike, blockade, lockout and boycott or any other similar circumstances outside the relevant party's control. The Pledgee shall in no case be liable for any loss of data, non-payment of profits or other indirect damage.

14. GOVERNING LAW

This Agreement shall be governed by Icelandic law.

15. JURISDICTION

Each of the parties hereto irrevocably agrees that the District Court of Reykjavík shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with this Agreement and, for such purpose, irrevocably submits to the jurisdiction of that court.

16. MISCELLANEOUS

16.1 **Currency conversion**: If any part of the Secured Liability is denominated in a currency or currencies different from the currency of any moneys or proceeds of sale held or received by the Pledgee or any Receiver, the Pledgee may at any time use those moneys or proceeds of sale to purchase, from a reputable bank, any other currency or currencies which the Pledgee may consider necessary to reduce or discharge those Secured Liabilities, and may apply that currency or those currencies in or towards payment of the Secured Liabilities.

16.2 **Assignment by the Pledgee**: The benefit of this Agreement may be assigned in whole or in part by the Pledgee under this Agreement, in accordance with the Bond.

16.3 **Severability**: Should any provision of this Agreement be or become invalid, void or unenforceable, all remaining provisions and terms hereof shall remain in full force and effect and shall in no way be invalidated, impaired or affected thereby. The parties hereto agree that they will attempt, through negotiations in good faith, to replace the invalid, void or unenforceable provision with a valid and enforceable provision which reflects as much as possible the intention of the parties as referred in the provision thus replaced.

16.4 **Rights additional**: The rights of the Pledgee under this Agreement are in addition to any other rights or security, present or future, held by the Pledgee under the Bond, from the Pledgor or any other person in respect of the payment or discharge of the Secured Liabilities and will not merge with or prejudice or be prejudiced by any such rights or security or by the variation, non-enforcement, non-perfection or release of any of them, and this Agreement may be enforced against the Pledgor without first having recourse to any other rights or security of the Pledgee.

16.5 **Entire Agreement**: This Agreement (as amended from time to time) together with any document expressly referred to in any of its terms, constitutes the entire agreement between the parties relating to the subject matter covered herein.

16.6 **Amendments**: This Agreement may not be amended unless made by an instrument in writing and signed by or on behalf of the Pledgor and the Pledgee and other requisite approval in accordance with the provisions of the Bond.

16.7 **Counterparts**: This Agreement may be executed in counterparts and both such counterparts taken together shall be deemed to constitute one and the same instrument.

[The remainder of this page is intentionally blank]

IN WITNESS whereof the parties hereto have caused this Agreement to be duly executed on the date first written above.

The Pledgor

Magma Energy Sweden A.B.

____

By:

The Pledgee

[Name of a Seller]

____

By:

SCHEDULE 1

FORM OF NOTICE AND ACKNOWLEDGEMENT

To: **HS Orka hf.**

Brekkustígur 36

260 Reykjanesbær

Iceland

Dear Sirs,

We, **Magma Energy Sweden A.B.** (the "**Pledgor**"), hereby give you notice that by a share pledge agreement (the "**Share Pledge Agreement**") attached hereto dated [______________] with [name of Seller] as the pledgee (the "**Pledgee**"), we have pledged to the Pledgee all our rights, title and interest in [number of shares] shares, and dividends in respect thereof, held by, or payable to us (the "**Pledged Shares**") in HS Orka hf. (the "**Company**"), including any securities of any nature which may become issued or transferred to us by virtue of the Pledged Shares.

We kindly request that you confirm your receipt, acknowledgement and approval of the above by returning the enclosed Form of Acknowledgement and Approval to the Pledgee and ourselves. Further, we ask you to (i) certify that you have not been notified of any prior pledge over the Pledged Shares and (ii) certify that you have registered the pledge of the Pledged Shares created by the Share Pledge Agreement in the share register and the register of shareholders of the Company.

In [place], on this [___] day of [______] 2009

Yours faithfully,

on behalf of Magma Energy Sweden A.B.

By: _________________________

Name:

Title:

SCHEDULE 2

FORM OF ACKNOWLEDGEMENT AND APPROVAL

To: **[Name of Seller]**
[Address of Seller]
Attention: [name or department]
Fax no: [fax number]

To: **Magma Energy Sweden A.B.**
Kungsgatan 42
PO Box 2259
SE-403 14 Götenborg
Sweden
Attention: [name or department]
Fax number: [fax number]

Dear Sirs,

We hereby confirm our receipt and acknowledgement of the Notice and Acknowledgement dated [___] [____] 2009 (the "**Notice**") along with the attached Share Pledge Agreement and confirm that (i) prior to date hereof, we have not been notified or are otherwise aware of any pledge or other security interest over the Pledged Shares and (ii) we have approved and registered the pledge of the Pledged Shares created by the Share Pledge Agreement in our share register and register of shareholders effective as of the date first above written.

Terms used but not otherwise defined in this acknowledgement shall have the meanings given to them in the Notice.

In [place], on this [___] day of [______] 2009

Yours faithfully,

on behalf of HS Orka hf.

By: _________________________
Name:
Title:

Appendix IV

[Form of Escrow Agreement]

ESCROW AGREEMENT

THIS AGREEMENT made as of August __, 2009

AMONG:

[SELLER] [Address]

(the "**Seller**")

AND:

MAGMA ENERGY SWEDEN A.B., Kungsgatan 42, PO Box 2259
SE-403 14 Göteborg, Sweden

(the "**Buyer**")

AND:

REYKJAVIK LAW FIRM, Borgatun 25, 105 Reykjavik, Iceland

(the "**Escrow Agent**")

WITNESSES THAT WHEREAS:

A. Pursuant to a share sale and purchase Agreement (the "**Share Purchase Agreement**") entered into on August ___ 2009, the Seller agreed to sell to the Buyer, and the Buyer agreed to purchase from the Seller, in total [number of shares owned by each seller] shares (the "**Shares**") in the capital of HS Orka hf., a limited liability company incorporated under the law of the Republic of Iceland, Icelandic register number 680475-0169;

B. The purchase price payable to the Sellers pursuant to the Share Purchase Agreement was paid partly in cash and partly by way of a secured bond (the "**Bond**") dated August ___, 2009 made by the Buyer in favour of the Seller, which Bond is secured by a pledge of the Shares made pursuant to a share pledge agreement (the "**Share Pledge**") between the Buyer and the Seller dated August ___, 2009;

C. Pursuant to the Share Purchase Agreement, the Seller will deliver, or cause to be delivered, to the Escrow Agent, the share certificates (the “**Share Certificate**”) representing the Shares registered duly endorsed for transfer to the Buyer, and any other certificates, instruments, share dividends or documentation to be delivered pursuant to the Share Purchase Agreement (together with the Share Certificate, the "**Collateral**") on condition that the Collateral shall be held in escrow and released by the Escrow Agent pursuant to the terms and conditions of this Agreement;

D. Pursuant to the Share Pledge, the Buyer will deliver, or cause to be delivered, to the Escrow Agent every right or entitlement to receive income of any description from or in respect of the Shares or any of the Collateral (the "**Dividends**"); and

E. The Seller and the Buyer wish to engage the Escrow Agent to act as escrow agent, and the Escrow Agent has agreed to act as escrow agent in accordance with the terms and conditions of this Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein and other good and valuable consideration, the parties agree as follows:

1. TERMS OF ESCROW

1.1 **Escrow Agent**. The Escrow Agent is hereby appointed as escrow agent under this Agreement.

1.2 **Share Certificate**. The Seller shall deliver or cause to be delivered to the Escrow Agent the Share Certificate pursuant to the terms of the Share Purchase Agreement. Following that, the Escrow Agent shall cause HS Orka hf. to issue and deliver to the Escrow Agent, new share certificates instead of the Share Certificates, representing the Shares registered in the name of the Buyer and with the pledge according to the Share Pledge duly noted.

1.3 **Collateral**. The Buyer shall deliver or cause to be delivered to the Escrow Agent any Collateral required to be held in escrow pursuant to the Share Pledge.

1.4 **Dividends**. The Buyer shall deliver or cause to be delivered to the Escrow Agent any Dividends required to be held in escrow pursuant to the Share Pledge.

1.5 **Holding of Dividends**. Until release of the Dividends as herein provided, the Escrow Agent shall hold the Dividends in a segregated interest-bearing trust account with NBI hf. account no. **111-26-375605.** The Escrow Agent warrants that the aforementioned account is registered in the name of the Escrow Agent. All interest earned on such Dividends will be added to the total amount of the Dividends and treated as Dividends for the purpose of this Agreement.

1.6 **Confirmation**. The Escrow Agent shall accept and forthwith confirm in writing each delivery of Collateral and Dividends to the Escrow Agent in accordance with this Agreement.

1.7 **Terms of Escrow**. The Buyer and the Seller hereby direct the Escrow Agent not to release or otherwise deal with the Collateral or the Dividends or any part thereof except in accordance with the terms of this Agreement unless:

(a) the Escrow Agent receives a direction in writing signed by the Buyer and the Seller and addressed to the Escrow Agent (the "**Joint Direction**"), substantially in the form of the Joint Direction attached hereto as Schedule "A", in which case, the Escrow Agent shall release or otherwise deal with the Collateral or Dividends, or any part thereof, in accordance with the Joint Direction;

(b) the Escrow Agent receives a written direction signed by the Buyer (the "**Buyer Direction**") instructing the Escrow Agent to release the Collateral or the Dividends, or any part thereof, to the Buyer, in which case the Escrow Agent will, within five business days of receipt of the Buyer Direction, forthwith deliver a copy of the Buyer Direction to the Seller, together with a written notice (an "**Escrow Notice**") which states that upon the expiry of 30 days from the date of such Escrow Notice, the Escrow Agent intends to deliver such Collateral or Dividends as specified in the Buyer Direction to the Buyer in accordance with the Buyer Direction, provided that:

(i) if prior to the expiry of the 30 day period the Escrow Agent receives a notice (a "Dispute Notice") from the Seller stating that the Seller bona fide disputes the release and distribution of such Collateral or Dividends as provided in the Buyer Direction (the "Seller Dispute") and setting out in detail the reasons for the Seller Dispute, then the Escrow Agent will deliver a copy of such Dispute Notice to the Buyer and will continue to hold the Collateral or Dividends, as the case may be, in escrow, subject to the terms of this Agreement; and

(ii) if at the end of the 30 day period the Escrow Agent has not received a Dispute Notice or any Dispute Notice received does not relate to the entire amount of the Collateral or Dividends, then the Escrow Agent will forthwith deliver such Collateral or Dividends or the part thereof not the subject of the Seller Dispute in accordance with the Buyer Direction;

(c) the Escrow Agent receives a written direction signed by the Seller (the "**Seller Direction**") instructing the Escrow Agent to release the Collateral or the Dividends or any part thereof, to the Seller, in which case the Escrow Agent will, within five business days of receipt of the Seller Direction, forthwith deliver a copy of the Seller Direction to the Buyer, together with an Escrow Notice which states that upon the expiry of 30 days from the date of such Escrow Notice, the Escrow Agent intends to deliver the Collateral or Dividends as specified in the Seller Direction to the Seller in accordance with the Seller Direction, provided that:

(i) if prior to the expiry of the 30 day period the Escrow Agent receives a Dispute Notice from the Buyer stating that the Buyer bona fide disputes the release and distribution of the Collateral or Dividends as provided in the Seller Direction (the "Buyer Dispute") and setting out in detail the reasons for the Buyer Dispute, then the Escrow Agent will deliver a copy of such Dispute Notice to the Seller and will continue to hold the Collateral or the Dividends, as the case may be, in escrow, subject to the terms of this Agreement; and

(ii) if at the end of the 30 day period the Escrow Agent has not received a Dispute Notice or any Dispute Notice received does not relate to the entire amount of the Collateral or Dividends, then the Escrow Agent will forthwith deliver such Collateral or Dividends or the part thereof not the subject of the Buyer Dispute in accordance with the Seller Direction; and

(d) the Escrow Agent is directed by a court of competent jurisdiction to release or otherwise deal with the Collateral or the Dividends, or any part thereof (a "**Court Order**"), in which case, the Escrow Agent shall release or otherwise deal with the Collateral or the Dividends, or any part thereof, in accordance with such Court Order.

The Buyer and the Seller are obligated not to issue and send any Buyer/Seller Direction, except if such is made in accordance with the Share Pledge and the Bond.

2. AGREEMENT TO EXECUTE DIVIDENDS JOINT DIRECTION

If on any Valuation Date (as defined in the Bond), the Coverage Ratio (as defined in the Bond) is equal to or greater than 1.30 to 1.00, the Seller hereby agrees to execute a Joint Direction for the payment out of escrow of any amount of the Dividends as requested by the Buyer, provided that the maximum amount of Dividends that may be paid out shall be an amount which, if paid on the Valuation Date, would not cause the Coverage Ratio to fall below 1.30 to 1.00 after giving effect to such payment.

3. INDEMNIFICATION OF ESCROW AGENT

Except with respect to any breach by it of its obligations under this Agreement, the Escrow Agent will not be liable for any acts done or steps taken or omitted in connection with the performance of its duties under this Agreement provided the Escrow Agent acts in good faith and without negligence, wilful misconduct or fraud and each of the Buyer and the Seller hereby releases the Escrow Agent from any claim or liability whatsoever in respect thereof. Each of the Buyer and the Seller shall jointly and severally indemnify and save harmless the Escrow Agent from all costs, charges, claims, demands, damages, losses and expenses incurred or suffered by the Escrow Agent arising out of or in connection with this Agreement, other than those arising from negligence, fraud, bad faith or wilful misconduct by the Escrow Agent.

4. OTHER MATTERS RELATING TO ESCROW AGENT

4.1 Escrow Agent Not Bound. The Escrow Agent will have no duties or responsibilities except those which are expressly set forth herein, and, except as specified herein, it will not be bound in any way by:

(a) any notice of a claim or demand, or any waiver, modification, amendment, termination or rescission of this Agreement unless received in writing and signed by the Buyer and the Seller, and, if its duties herein are affected, unless it has given its prior written consent thereto; or

(b) any other contract or agreement between the Buyer and the Seller, whether or not the Escrow Agent has knowledge thereof or of its terms and conditions.

4.2 Depository Only. The Escrow Agent acts hereunder as a depositary only and is not responsible or liable in any manner whatsoever for the sufficiency, correctness, genuineness or validity of any instrument or amount deposited with it, or for the form or execution of such instrument, or for the identity or authority or right of any person or party executing it.

4.3 Legal Counsel to Escrow Agent. The Escrow Agent may seek the advice of independent legal counsel in the event of any question or dispute as to the construction of any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in accordance with the opinion and instructions of such independent legal counsel.

4.4 Escrow Agent Not Liable. The Escrow Agent shall not be answerable for the default or misconduct of any agent or independent outside legal counsel employed or appointed, at its discretion, by it if such agent or independent legal counsel shall have been selected with reasonable care.

4.5 Good Faith Actions. The Escrow Agent shall not be liable for any error of judgment, or for any act done or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or omit from doing in connection herewith, except its own negligence, wilful misconduct, bad faith or fraud.

4.6 No Conflict. The Seller acknowledges and agrees that the Escrow Agent acts as counsel to the Buyer. Nothing contained herein or done by the Escrow Agent hereunder shall in any way prevent or restrict the Escrow Agent from acting as counsel to the Buyer or any of its affiliates whether in connection with this Agreement or otherwise.

4.7 Escrow Agent Fees. The Buyer will pay to the Escrow Agent from time to time remuneration for its services hereunder and will pay or reimburse the Escrow Agent, upon its request, for all reasonable expenses and disbursements incurred or made by the Escrow Agent in the administration of its services and duties created hereby (including the reasonable fees and disbursements of its independent legal counsel and all other advisers and assistants not regularly in its employ). Any amount due under this Section and unpaid 30 days after request for such payment, will bear interest from the expiration of such 30 days at a rate per annum equal to the then current rate charged to its clients by the Escrow Agent from time to time, payable on demand. The Escrow Agent shall have no obligation to expend its own funds in the performance of its duties hereunder.

5. <u>RESIGNATION OF ESCROW AGENT</u>

5.1 If the Escrow Agent wishes to resign as escrow agent under this Agreement, the Escrow Agent must give notice in writing to each of the other parties.

5.2 The resignation of the Escrow Agent will be effective and the Escrow Agent will cease to be bound by this Agreement on the date that is 60 days after the date of receipt or deemed receipt of the notice referred to in subsection 5.1 or on such other date as the Escrow Agent and the other parties may agree upon (the "**Resignation Date**").

5.3 Following receipt of the notice referred to in subsection 5.1 and before the Resignation Date, the Buyer and the Seller will provide the Escrow Agent with written instructions to deliver the Collateral and any Dividends then held by the Escrow Agent pursuant to the terms and conditions of this Agreement to a third party, to be held on the terms and conditions of this Agreement or otherwise as the Buyer and the Seller may agree. If the Buyer and the Seller cannot in good faith agree on a new escrow agent within 50 days of receipt or deemed receipt of the notice in subsection 4.1, then the Seller will have the right to designate **a duly qualified Icelandic trust company or law firm** to replace the Escrow Agent and the Buyer will instruct the Escrow Agent (and advise the Seller) of its designation prior to the Resignation Date.

5.4 The effect of the delivery of the Collateral and any Dividends to a third party under subsection 5.3 will be to appoint the third party as escrow agent under this Agreement (whereupon all obligations of the Escrow Agent shall cease) and the third party will be entitled to all the rights of the Escrow Agent under this Agreement, and the Buyer and the Seller will be bound by the appointment and by this Agreement as if the third party had originally been appointed as escrow agent under this Agreement.

6. <u>NOT BOUND TO ACT</u>

The Escrow Agent shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Escrow Agent, in its sole judgment, determines that such act might cause it to be in non-compliance with any applicable legislation, rule, regulation or guideline, including any applicable anti-money laundering or anti-terrorist legislation, rule regulation or guideline. Further, should the Escrow Agent, in its sole judgment, determine at any time that its acting under this Escrow Agreement has resulted in it being in non-compliance with any applicable such legislation, rule, regulation or guideline, then it shall have the right to resign on 10 days' written notice to the Buyer and the Seller, provided that: (i) the Escrow Agent's written notice shall describe the circumstances of such non-compliance; and (ii) if such circumstances are rectified to the Escrow Agent's satisfaction within such 10-day period, then such resignation shall not be effective.

7. **AMENDMENT**

This Agreement may be amended only by a written agreement among all of the parties hereto.

8. **FURTHER ASSURANCES**

Each party hereto shall execute and deliver any further documents and perform any acts which are necessary or advisable in order to carry out the intent of this Agreement.

9. **TIME**

Time is of the essence of this Agreement.

10. **NOTICES**

10.1 Any notice under this Agreement shall be given in writing and shall be deemed to have been duly given if delivered personally, sent by reputable international courier or facsimile (with return or delivery receipt obtained) or five (5) business days after sent by registered or certified mail, postage prepaid to the party to which notice is to be given at the address indicated below, or at another address designated by such party in writing, which shall be deemed to have been received by the other Party in accordance with the above stated:

If to the Buyer

Magma Energy Sweden A.B.
c/o Magma Energy Corp.
410 – 625 Howe Street
Vancouver, B.C. V6C 2T6 Canada

Attn: Lyle Braaten

Facsimile No.: ●604 687 7041

With a copy to:

Borden Ladner Gervais LLP
1200-200 Burrard Street
Vancouver, BC V7X 1T2 Canada

Attn: Fred R. Pletcher

Facsimile No.: 604-687-1415

If to the Seller:

[Insert Address]

Facsimile No.: •

With a copy to: •

If to the Escrow Agent:

Reykjavik Law Firm
Borgatun 25, 105
Reykjavik, Iceland
Attn: Steinar Þór Guðgeirsson

Facsimile No.: 00 354 5157401

11. COUNTERPARTS

This Agreement may be executed in two or more original or facsimile counterparts, each of which will be deemed to be an original and all of which will constitute one agreement.

12. LANGUAGE

Wherever a singular expression is used in this Agreement, that expression is deemed to include the plural or the body corporate where required by the context.

13. LAW

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

14. ENUREMENT

This Agreement enures to the benefit of and is binding on the parties and their executors, administrators, successors and permitted assigns.

15. BUSINESS DAYS

Where any action to be taken hereunder is required to be taken on a day which is a Saturday, Sunday or statutory holiday in the Republic of Iceland, the deadline for such action shall automatically be extended to the next day which is not a Saturday, Sunday or statutory holiday in the Republic of Iceland.

Execution Page Follows

IN WITNESS of this Agreement, the parties have executed and delivered this Agreement as of the date given above.

MAGMA ENERGY SWEDEN A.B.

By: ________________________________

Authorized Signatory

[SELLER]

By: ________________________________

Authorized Signatory

REYKJAVIK LAW FIRM

By: ________________________________

Authorized Signatory

SCHEDULE "A"

Form of Collateral Joint Direction

To: Reykjavik Law Firm
Borgatun 25, 105
Reykjavik, Iceland

Fax Number: + 354 5157401

Attn: Ástríður Gísladóttir

This joint direction is given pursuant to an escrow agreement (the "**Escrow Agreement**") dated as of August ____, 2009 among Magma Energy Sweden A.B., [Seller] and Reykjavik Law Firm. Capitalized terms used herein and not otherwise defined have the meanings given thereto in the Escrow Agreement.

In accordance with the Escrow Agreement, you are hereby authorized and directed to release and deliver the [Collateral or Dividends or any part thereof] to ________________, as soon as possible, in any event not later than within 5 (five) business days after the receipt of this joint direction, at the following address:

[Address]

DATED this ___ day of _____, 20___.

MAGMA ENERGY SWEDEN A.B.	**[SELLER]**
By: ______________________	______________________
Name:	Name:
Title:	Title: