

SHARE SALE AND PURCHASE AGREEMENT

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

1. Orkuveita Reykjavíkur, a partnership that complies with the Icelandic law no. 139/2001, on the founding of the partnership Orkuveita Reykjavíkur, registered under the law of the Republic of Iceland, Icelandic register number 551298-3029, with its registered address at Bæjarháls 1, 110 Reykjavík, Iceland (“**OR**” 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 1,014,563,232 shares in the Company which are registered in the Seller’s name in the Company’s shareholders’ registry (the “**OR Shares**”). Furthermore, the Seller has, subject to the conditions precedent listed in Clause 4 in this Agreement having been satisfied or waived, the right to acquire from Hafnarfjarðarkaupstaður, an Icelandic municipality, Icelandic register number 590169-7579, with its registered address at Strandgata 6, 220 Hafnarfjörður, Iceland, (“**HFJ**”) 896,154,577 shares in the Company, which shares are currently registered in HFJ’s name in the Company’s shareholders’ registry (the “**HFJ Shares**”). Together the OR Shares and the HFJ Shares are in this Agreement referred to as the “**Seller’s Shares**”.
- 1.4 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 3,616,988,813 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 8,439,640,562 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 – Continuous 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).
- e. The respective municipal council/executive board for Reykjavíkurborg, Akraneskaupstaður and Borgarbyggð shall have approved the consummation of the transactions contemplated by this Agreement.

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.
- c. By the Buyer if the condition precedent in Clause 4.3(e) of this Agreement has not been met by September 30, 2009.

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. Deliver a written confirmation of the respective municipal council/executive board approvals in accordance with Clause 4.3(e) in this Agreement.
- c. 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.
- d. Execute and deliver any and all appropriate documents necessary to transfer and perfect title to the Seller's Shares.
- e. Execute the Share Pledge Agreements.
- f. 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 The Seller's Rights and Powers

- 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 partnership agreement or other constitutional documents.
 - b. Result in a breach of any resolution adopted by its partners or board of directors.
 - 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 The Seller's Shares

- 7.2.1 The Seller owns and has good and marketable title to the OR Shares, and has the right to transfer and duly endorse to the Buyer, the HFJ Shares, free and clear of all Encumbrances.
- 7.2.2 The HFJ Shares are not subject to any pre-emptive right claims from other shareholders with regard to the transaction between the Seller and HFJ involving the HFJ Shares.
- 7.2.3 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. Notwithstanding the foregoing, a breach of Clause 7.2.1 or 7.2.2 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 preemptive 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 4 (four) copies by the lawful agents of the Parties, one copy to be retained by each Party.

Reykjavík, Iceland, [date]
On behalf of Orkuveita Reykjavíkur

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 Orkuveita Reykjavíkur, State Reg. 551298-3029, (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 Hafnarfjarðarkaupstaður ("HFJ"), 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 HFJ to the Seller, 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. The aforementioned execution will take place subject to the conditions precedent of the Agreement being satisfied or waived, and will otherwise be in accordance with the terms of the Transaction as notified to the Company's shareholders in 2008.

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 HFJ.

The total number of the Seller's Shares, including both the Transaction Shares and all other shares in HS Orka hf. owned by the Seller, are 1,910,717,809.

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 Orkuveita Reykjavíkur

Appendix II

[Form of Bond Certificate]

Appendix III

[Form of Share Pledge Agreement]

Appendix IV

[Form of Escrow Agreement]