

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, as amended

AND IN THE MATTER OF
MAHALO ENERGY LTD.

AFFIDAVIT

I, DAVID BURTON, of the City of Calgary, in the Province of Alberta, Businessman,
MAKE OATH AND SAY AS FOLLOWS:

1. I am the President and Chief Executive Officer of Mahalo Energy Ltd. ("Mahalo") and as such I have personal knowledge of the matters hereinafter deposed to except where stated to be based upon information and belief, in which case I believe the same to be true.

STATUS OF MAHALO'S CCAA PROCEEDINGS

2. Mahalo entered into CCAA proceedings on May 22, 2009, pursuant to an Order of this Honourable Court (the "Initial Order"), and obtained its most recent stay extension order on October 7, 2009 (the "Stay Extension Order").
3. Since the granting of the Initial Order, Mahalo has acted in good faith and with diligence in respect of the restructuring of its affairs. In this regard, the following has been accomplished since the Stay Extension Order:
 - (a) Mahalo continues to carry on operations, including payment of accounts payable and collection of accounts receivable, in the ordinary course with no material adverse developments having occurred;
 - (b) Since closing the sale of Mahalo's assets, Mahalo has been liaising with provincial regulators and taking the necessary steps to ensure the transfer of the applicable

well, pipeline and facility licenses to the purchasers. This process is now substantially complete;

- (c) Mahalo has further reduced its complement of employees and contractors such that Mahalo currently has 2 full time employees and 2-3 consultants (as needed);
- (d) Mahalo has retained the accounting firm Ernst & Young Inc. to complete Mahalo's tax returns in order to allow Mahalo to assess the quantum of its tax pools and market itself as a tax reduction vehicle to prospective purchasers. I anticipate Ernst & Young Inc. will complete these tax returns shortly;
- (e) Mahalo has and continues to investigate potential sale processes by which to market the company. In that regard, Mahalo has asked the Monitor to conduct a Request for Proposal process to identify qualified organizations to oversee the sale of Mahalo and its remaining assets in a cost-effective manner. Proceeds from the sale of Mahalo, along with any recovery from Mahalo Energy USA Inc.'s (Mahalo USA) Chapter 11 proceedings (discussed below) will be used to fund Mahalo's Plan of Arrangement;
- (f) Mahalo continues to work with and communicate regularly with the Monitor to communicate with stakeholders and clarify financial information; and
- (g) Mahalo continues to meet its regulatory disclosure requirements in accordance with its statutory duties.

STATUS OF MAHALO USA'S CHAPTER 11 PROCEEDINGS

4. I am advised by Mahalo USA's counsel in Oklahoma that on December 16, 2009, the bankruptcy court approved Mahalo USA's disclosure statement, and set a non-evidentiary hearing to consider confirmation of Mahalo USA's reorganization plan for January 26, 2010. The plan will be confirmed then, if the prerequisites to do so have been satisfied and there is no need for an evidentiary hearing. If an evidentiary hearing is necessary, it will occur beginning on February 11, 2010.

5. Mahalo has filed a Proof of Claim in Mahalo USA's Chapter 11 proceedings in the amount of \$20,399,694.68 (USD). Under the Plan put forward in the Chapter 11 proceedings, I anticipate there will only be a maximum recovery of approximately \$200,000.00 (USD). Certain other creditors of Mahalo USA appear to be taking the position that Mahalo's claim should be equitably subordinated due to the fact that it is an intercompany debt. Whether this argument will succeed or not is unknown at this time.

FINANCIALS

6. Attached hereto, and marked as Exhibit "A", is a summary of Mahalo's actual receipts and disbursements from the date of September 18, 2009 to January 1, 2010.
7. Attached hereto and marked as Exhibit "B" is Mahalo's revised projected cash flow statement to March 19, 2010, which cash flow statement has been approved by the Monitor. This revised cash flow statement is intended to replace the previous cash flow statement attached as Exhibit "B" to my previous Affidavit, sworn October 1, 2009, and to serve as the "Budget", as defined in Paragraph 23 of the Initial Order.

CLAIMS PROCEDURE

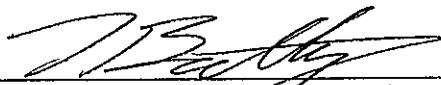
8. In order for Mahalo to successfully develop and present a Plan of Arrangement to Mahalo's creditors, it is vital that Mahalo be able to identify and classify its creditors for the purposes of voting on and participating in a Plan of Arrangement. Accordingly, I believe it is appropriate for Mahalo to implement the Proof of Claim Procedure as proposed in the Claims Procedure Order attached as Schedule "B" to the Notice of Motion filed by Mahalo in this Action on January 7, 2010.
9. As further detailed in the Claims Procedure Order, the relevant timelines for the Proof of Claim Procedure are as follows:
 - (a) Mahalo, with the assistance of the Monitor, shall send a copy of the Proof of Claim and Instruction Letter to Known Creditors by January 20, 2010;

- (b) The Monitor shall arrange for the Notice to Creditors to be published in the relevant newspaper publications for a one-day period on or before January 22, 2010;
- (c) The Claims Bar Date is February 5, 2010 at 4:59 p.m.;
- (d) Creditors who intend to dispute any Notice of Revision or Disallowance issued by the Monitor shall file a Dispute Notice within seven (7) calendar days of the date of the Notice of Revision or Disallowance; and
- (e) Creditors who file a Dispute Notice shall, within ten (10) business days of filing, also file a Notice of Motion with the Court for the determination of its claim, returnable within five (5) business days of the date of filing the Notice of Motion.

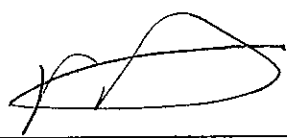
RELIEF SOUGHT

10. I make this Affidavit in support of an application by Mahalo to have the Stay Period extended to March 19, 2010, to amend Paragraph 23 of the Initial Order in accordance with the form attached as Schedule "A" to the Notice of Motion filed herewith and for a Claims Procedure Order.

SWORN BEFORE ME at the City of Calgary,)
in the Province of Alberta this 7th day of)
January, 2010.)



A Commissioner of Oaths in and for the
Province of Alberta
Trevor A. Batty
Barrister and Solicitor



DAVID BURTON

THIS IS EXHIBIT "A"
referred to in the Affidavit of
David Burton
Sworn before me this 7
day of January A.D. 2010
T. Batty
A NOTARY PUBLIC/COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

Trevor A. Batty
Barrister and Solicitor

EXHIBIT A

**Mahalo Energy Ltd. Cash Flow Budget vs. Actual,
Canadian Operations during CCAA process**

	9/25/09		10/2/09		10/9/09		10/16/09		10/23/09		10/30/09		11/6/09		11/13/09		11/20/09		11/27/09	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Opening Cash on hand	\$ 348,384	\$ 348,384	\$ 347,491	\$ 374,735	\$ 305,433	\$ 297,234	\$ 305,113	\$ 296,207	\$ 187,703	\$ 169,403	\$ 187,467	\$ 169,298	\$ 185,030	\$ 272,064	\$ 134,790	\$ 271,571	\$ 133,956	\$ 188,260	\$ 133,749	\$ 188,260
Canadian Revenue																				
GORR Revenue								15,955						2,699						
Anticipated cash receipt Repayment to Ablico																				
Production Revenue		9,935	25,000		49		(21,470)				14,970									
US receipts		16,520																		
Operating Disbursements																				
Transaction Costs of Canadian Sale			(15,000)	(18,427)		(20,000)	(7,323)	(6,982)			(3,036)									
ERCB Issues																				
Saskatchewan Environment Operating Expense				(1,302)	(16,000)	(15,750)	(4,423)	(4,998)			(7,000)									
Power prepayment																				
Net Revenue			26,455	(19,729)	(16,000)	(15,701)	(20,000)	(17,261)	(7,000)		2,990	(44,579)	(12,000)	(3,187)	(41,717)	(48,267)	(11,948)	(69,717)		
G&A Disbursements																				
Canadian Rent																				
Canadian Payroll and consultants			(49,925)	(49,915)		(132,162)	(131,699)	(64,209)			(18,070)	(9,025)	(18,070)	(3,615)	(2,194)	(3,568)	(1,505)	(7,230)		
Canadian Benefits			(53,000)	(60,910)		(5,526)														
Listing fee																				
Travel		(25,070)		(19,609)																
Meals and entertainment		(3,615)		(3,568)																
Stationary		(1,505)		(1,078)																
Communication		(7,230)		(4,672)		(597)														
Insurance (assumed paid in USA)				(4,974)																
Computer license rentals				(49)																
Severance/Vacation Pay			(104)	(49)			(50)	(105)	(105)											
Bank Fees				(6,679)																
Other G&A		(7,230)						(27,230)			(4,912)									
Total Disbursements	\$ (44,650)	\$ (104)	\$ (102,925)	\$ (148,454)	\$ -	\$ (597)	\$ (137,688)	\$ (131,749)	\$ (4,819)	\$ (105)	\$ (121,859)	\$ (68,765)	\$ (12,000)	\$ (3,192)	\$ (41,717)	\$ (60,215)	\$ (10,345)	\$ (33)	\$ (107,367)	
Total Cashflow before Management	\$ (44,650)	\$ 26,351	\$ (92,925)	\$ (168,183)	\$ (16,000)	\$ (16,298)	\$ (157,688)	\$ (149,010)	\$ (11,819)	\$ (105)	\$ (121,859)	\$ (65,775)	\$ (12,000)	\$ (493)	\$ (41,717)	\$ (64,417)	\$ (10,345)	\$ (33)	\$ (107,367)	
Management fee	43,757		100,867	90,682	15,680	15,271	40,278	38,875	11,583		119,422	183,447	11,760	40,883	10,138	62,737	91,500			
Professional Fees:																				
BDP																				
Retainer																				
Fees (\$250,000 less Retainer of \$85,000)			(25,000)				(18,961)	(25,000)												
Alger																				
Retainer																				
Fees (\$160,000 less retainer of 35,000)																				
Cash on Hand	\$ 347,491	\$ 374,735	\$ 305,433	\$ 297,234	\$ 305,113	\$ 296,207	\$ 187,703	\$ 169,403	\$ 187,467	\$ 169,298	\$ 185,030	\$ 272,064	\$ 134,790	\$ 271,571	\$ 133,956	\$ 188,260	\$ 133,749	\$ 188,260	\$ 133,749	\$ 188,260

Mahalo Energy Ltd. Cash Flow Bud.
Canadian Operations during CCAA prc
In Canadian \$

	7/09		12/4/09		12/11/09		12/18/09		12/25/09		1/1/10		Variance	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	In \$'s	% of budget
Opening Cash on hand	\$ 250,964	\$ 117,882	\$ 138,837	\$ 67,642	\$ 224,941	\$ 66,808	\$ 246,864	\$ 66,601	\$ 200,303	\$ 62,734	\$ 242,683	\$ 59,798	\$	0.0%
Canadian Revenue														
GORR Revenue			16,484										609,969	0.0%
Anticipated cash receipt													(256,080)	0.0%
Repayment to Ableco													\$	
Production Revenue	6,082									1,092			315,102	2.3%
US receipts													75,324	0.0%
Operating Disbursements														
Transaction Costs of Canadian	(2,471)												(100,526)	3.3%
ERCB issues					(29,000)								(41,693)	228.5%
Saskatchewan Environment							(8,295)						(47,299)	0.0%
Operating Expense					(527)								(193,699)	7.5%
Power prepayment													\$	0.0%
Net Revenue	3,611		16,484				(8,295)		(29,527)		1,092		404,620	-2.1%
G&A Disbursements														
Canadian Rent	(11,948)				(12,000)								(126,722)	-0.1%
Canadian Payroll and consultant	(65,047)		(16,632)		(30,066)		(4,795)		(27,468)		(30,084)		(927,385)	-0.9%
Canadian Benefits			(1,830)			(5,526)							(83,441)	-4.4%
Listing fee													(7,875)	0.0%
Travel	(11,262)							(18,070)	(2,466)				(88,798)	-29.4%
Meals and entertainment	(1,190)						(54)	(3,615)	(220)				(12,348)	-36.9%
Stationary	(1,373)							(1,505)					(8,809)	-35.4%
Communication	(3,487)						(3,626)	(7,230)	(321)				(46,620)	-23.0%
Insurance (assumed paid in USA)	(2,026)								(1,486)				(24,240)	0.0%
Computer license rentals													(6,000)	-13.5%
Severance/Vacation Pay	(71)												(4,865)	0.0%
Bank Fees	(2,339)		(2,997)				(1,277)	(7,230)	(284)				(38,865)	-63.6%
Other G&A													(69,297)	-43.9%
Total Disbursements	\$ (98,743)	\$ (12,000)	\$ (21,459)	\$ (41,717)	\$ (30,066)	\$ (10,345)	\$ (11,238)	\$ (95,367)	\$ (30,864)	\$ -	\$ (30,084)	\$ (1,343,421)	\$ (107,131)	-7.4%
Total Cashflow before Management	\$ (95,132)	\$ (12,000)	\$ (4,975)	\$ (41,717)	\$ (30,066)	\$ (10,345)	\$ (19,533)	\$ (95,367)	\$ (60,391)	\$ -	\$ (28,992)	\$ (1,045,933)	\$ (98,747)	-9.4%
Management fee		11,760	91,079	40,883	51,989	10,138		91,500	102,772			1,394,395	1,396,098	0.1%
Professional Fees:														
BDP														
Retainer														
Fees (\$250,000 less Retainer			(25,000)				(14,822)							
Alger														
Retainer														
Fees (\$160,000 less retainer r			(16,995)				(12,206)							
Cash on Hand	\$ 138,837	\$ 67,642	\$ 224,941	\$ 66,808	\$ 246,864	\$ 66,601	\$ 200,303	\$ 62,734	\$ 242,683	\$ 62,734	\$ 213,692	\$ 62,734	\$ 150,958	240.6%

Mahalo Energy DIP Budget

EXHIBIT B

(C/D \$'s except for unit data)	1/8/10	1/15/10	1/22/10	1/29/10	2/5/10	2/12/10	2/19/10	2/26/10	3/5/10	3/12/10	3/19/10	Totals
Canadian revenue				4,500				4,500				9,000
Collection of receivables	60,228											60,228
Operating Disbursements												
Operating Expense												
Canadian Rent	(11,948)	(33,050)	(3,000)	(35,050)	(11,948)	(33,050)	(3,000)	(35,050)	(11,948)	(33,050)	(3,000)	(35,844)
Canadian Payroll & consultants												(169,252)
Canadian Benefits												(9,000)
Listing fee on Venture Exchange												
Travel				(18,070)				(11,262)				(29,332)
Meals and entertainment				(3,615)				(1,190)				(4,805)
Stationary				(1,505)				(1,373)				(2,878)
Communication				(7,230)				(7,087)				(14,317)
Insurance (assumed paid in USA)							(3,614)	(2,026)				(9,255)
Computer license rentals											(400)	(2,881)
Severance/Vacation pay				(1,205)			(1,205)	(71)				(30,869)
Bank fees								(3,639)				
Other G&A		(20,000)		(7,230)								
	(11,948)	(53,050)	(7,819)	(72,700)	(11,948)	(33,050)	(7,819)	(61,698)	(11,948)	(33,050)	(3,400)	(308,432)
Management fee	11,330	54,600	10,399	66,000	11,709	32,389	7,663					194,090
Professional Fees:												
BDP		(25,000)			(25,000)				(25,000)			(75,000)
Alger		(25,000)			(25,000)				(25,000)			(75,000)
Cash required	59,610	(48,450)	2,580	(2,200)	(50,239)	(661)	(186)	(57,198)	(61,948)	(33,050)	(3,400)	(195,114)
Cash on Hand - Opening	213,692	273,302	224,852	227,431	225,231	174,992	174,331	174,175	116,976	55,028	21,978	213,692
Cash on Hand - Closing	273,302	224,852	227,431	225,231	174,992	174,331	174,175	116,976	55,028	21,978	18,578	18,578

THIS IS EXHIBIT " B " referred to in the Affidavit of David Burton Sworn before me this 7th day of January A.D. 2010. A NOTARY PUBLIC/COMMISSIONER FOR OATHS IN AND FOR THE PROVINCE OF ALBERTA.

Trevor A. Batty
Barrister and Solicitor

Action No. 0901-07221

IN THE COURT OF QUEEN'S BENCH
OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

Affidavit of David Burton
Sworn January 7, 2010

IN THE MATTER OF THE *COMPANIES'*
CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, as amended

AND IN THE MATTER OF
MAHALO ENERGY LTD.

AFFIDAVIT

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File No. 60470-42

