

**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 March 18, 2010 (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. At the time of the Stay Extension Order, Mahalo had to obtain one further mineral lease and transfer it to the purchasers. Mahalo has since obtained the lease and is currently in the process of transferring it to the purchasers;

- (c) Mahalo will be assisting the accounting firm Ernst & Young Inc. with the completion of Mahalo's tax return for the 2009 tax year, which will be necessary in order to allow Mahalo to conclude the transaction outlined in paragraph 3(e) below;
- (d) Mahalo has reviewed and considered the non-binding letters of intent ("LOI's") that Alger & Associates Inc., in its capacity as Corporate Transaction Advisor, received from prospective purchasers.
- (e) Mahalo has negotiated and executed an LOI with a prospective purchaser that Mahalo believes will result in the greatest possible benefit to Mahalo and its creditors. Pursuant to this LOI, Mahalo anticipates that the following steps will now take place:
 - (i) the prospective purchaser will complete its due diligence of Mahalo by June 4, 2010;
 - (ii) Mahalo and the prospective purchaser will enter into a definitive purchase and sale agreement by June 4, 2010;
 - (iii) a non-consolidated audit of Mahalo will be completed on or about June 30, 2010; and
 - (iv) the transaction will close following the approval and sanction of Mahalo's Plan of Arrangement, in late July or early August of 2010.
- (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. Mahalo filed a Proof of Claim in Mahalo USA's Chapter 11 proceedings in the amount of \$20,399,694.68 (USD). Mahalo USA's Plan of Reorganization in its Chapter 11 proceedings was confirmed on April 26, 2010. Under the Plan, Mahalo's claim was classified in the unsecured creditor's pool and was to share in any amounts paid into the liquidating trust. The liquidating trust is comprised of \$50,000 in cash, plus certain unencumbered assets and the right to pursue designated avoidance actions.
5. The Unsecured Creditors' Committee ("UCC") filed an objection to Mahalo's claim arguing that the claim should be treated as equity as opposed to debt, and therefore should be equitably subordinated to the claims of unsecured creditors. In order to maintain its claim against Mahalo USA, Mahalo needed to file a response to this objection by April 30, 2010 and participate in a hearing of the matter in the US Bankruptcy Court.
6. Mahalo retained counsel in Tulsa, Oklahoma to represent it with respect to proving its claim against Mahalo USA. Mahalo's Tulsa counsel advised that the prospect of successfully contesting the UCC's objection was a "toss-up" and that the UCC had a better argument on balance. Mahalo's Tulsa counsel also advised that the legal fees and expenses to contest the UCC objection would be approximately \$75,000 USD and could be more. Mahalo's Tulsa counsel required a retainer in the amount of \$25,000 USD before they would agree to act.
7. Mahalo considered the merits of contesting the UCC objection, on a cost-benefit basis, and came to the conclusion that it was not in the best interests of Mahalo and its creditors to continue to pursue its claim against Mahalo USA. This decision was made due to the following factors:
 - (a) There was less than a 50% chance, according to Mahalo's Tulsa counsel, that Mahalo would be able to successfully contest the UCC's objection;
 - (b) The legal fees would be approximately \$75,000 USD, and could potentially be much greater;

- (c) Since full discovery and an evidentiary hearing were likely possibilities, Mahalo would have to pay current and past employees and officers to participate in this process – thereby further increasing the costs;
 - (d) Even if successful, the liquidating trust only consists of \$50,000 and certain contingent claims that Mahalo view as being highly speculative. Therefore the cost of contesting the UCC's objection could easily be greater than any eventual recovery; and
 - (e) The validity of the claim would likely not be decided prior to Mahalo completing its Plan of Arrangement, and the prospective purchaser who signed the LOI with Mahalo placed no value on the claim against Mahalo USA.
8. Accordingly, Mahalo did not respond to the UCC's objection and the US Bankruptcy Court issued an Order sustaining the UCC's objection and disallowing Mahalo's claim against Mahalo USA. A copy of that Order is attached as Exhibit "A".

FINANCIALS

9. Attached hereto, and marked as Exhibit "B", is a summary of Mahalo's actual receipts and disbursements from the date of March 19, 2010 to May 14, 2010.
10. Attached hereto and marked as Exhibit "C" is Mahalo's revised projected cash flow statement to August 6, 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 prior Affidavit, dated March 16, 2010, and to serve as the "Budget", as defined in Paragraph 23 of the Initial Order.

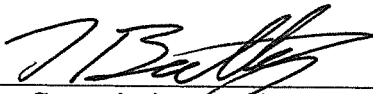
CLAIMS PROCEDURE

11. Mahalo and the Monitor have received and reviewed approximately 85 proofs of claim from Mahalo's creditors and has begun issuing disallowances in relation to some of these claims. This claims process is ongoing.

RELIEF SOUGHT

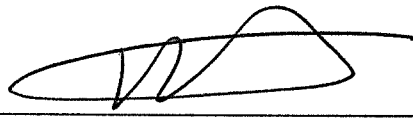
12. I make this Affidavit in support of an application by Mahalo to have the Stay Period extended to August 6, 2010 and to amend Paragraph 23 of the Initial Order in accordance with the form attached as Schedule "A" to the Notice of Motion filed herewith.

SWORN BEFORE ME at the City of Calgary,)
in the Province of Alberta this 20th day of)
May, 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 20th day of May A.D. 2010

[Signature]
 NOTARY PUBLIC/COMMISSIONER FOR OATHS
 FOR THE PROVINCE OF ALBERTA

Dated: May 07, 2010

The following is ORDERED:

Trevor A. Batty
 Barrister and Solicitor of the Court:

[Signature]
 TERRENCE L. MICHAEL
 UNITED STATES BANKRUPTCY JUDGE

**IN THE UNITED STATES BANKRUPTCY COURT
 FOR THE EASTERN DISTRICT OF OKLAHOMA**

In re:)	
)	Case No. 09-80795
MAHALO ENERGY (USA) INC.,)	Chapter 11
)	
Debtor.)	

**ORDER GRANTING THE UNSECURED CREDITORS' COMMITTEE'S
 OBJECTION TO THE SCHEDULED CLAIM OF MAHALO ENERGY LIMITED**

Upon consideration of the Official Committee of Unsecured Creditors' (the "Committee") objection [Docket No. 1037] (the "Objection") to the scheduled claim of Mahalo Energy Limited (the "Claimant"), the Court finds as follows:

1. The Committee served notice of its Objection on February 4, 2010.
2. Pursuant to Rule 9013-1 of the Local Rules for the United States Bankruptcy Court for the Eastern District of Oklahoma and the notice given with the Objection, the Claimant was originally required to file and serve a response to the Objection on March 8, 2010.

MOVANT TO NOTIFY
 INTERESTED PARTIES

EOD 5/7/10 by cc

3. Pursuant to the Order Approving Stipulation re Continuance of Claims Objections by Official Committee of Unsecured Creditors [Docket No. 1187], the Claimant's deadline to file and serve a response to the Objection was continued to April 30, 2010.

4. The Claimant did not timely file and serve a response to the Objection.

5. Accordingly, the Claimant confessed the Objection.

6. Findings are based on representation of counsel.

IT IS THEREFORE ORDERED, ADJUDGED, AND DECREED that: a) the Objection is sustained; and b) Mahalo Energy Limited's scheduled claim for \$22,000,000 is hereby disallowed.

End of Order

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

In Canadian \$

	3/19/10		3/28/10		4/7/10		4/9/10		4/16/10		4/23/10		5/7/10		5/14/10		Cumulative		Variance In \$'s	% of Budget		
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual				
Opening Cash on hand	\$ 393,810	\$ 393,810	\$ 377,873	\$ 300,989	\$ 291,922	\$ 483,127	\$ 264,373	\$ 419,510	\$ 370,518	\$ 411,273	\$ 219,468	\$ 306,135	\$ 187,909	\$ 303,917	\$ 140,911	\$ 236,135	\$ 140,911	\$ 228,484	\$ 59,798	\$ 59,798	\$ 0	0.0%
Canadian Revenue																						
GORE Revenue		3,608		10,000										8,456	10,000				48,698	40,762	(7,936)	-16.3%
Anticipated cash receipt		33,481		35,000										1,178					803,971	803,630	(341)	0.0%
Payment to Ableco																			(256,086)	(256,086)	\$ 0	0.0%
Production Revenue																			315,102	315,102	\$ 0	0.0%
US receipts																			75,324	75,324	\$ 0	0.0%
Operating Disbursements																						
Transaction Costs of Canadian Sale																			(100,526)	(100,526)	\$ 0	0.0%
ERCB Issues																			(41,693)	(41,693)	\$ 0	0.0%
Saskatchewan Environment																			(47,299)	(47,299)	\$ 0	0.0%
Operating Expense																			(194,473)	(201,114)	(6,641)	3.4%
Power prepayment																					\$ 0	0.0%
Net Revenue																			603,024	588,105	(14,919)	-2.5%
G&A Disbursements																						
Canadian Rent																			(186,357)	(186,357)	\$ 0	0.0%
Canadian Payroll and consultants																			(1,213,751)	(1,208,120)	\$ 5,631	-0.5%
Canadian Benefits																			(90,997)	(88,189)	\$ 2,808	-3.1%
Litig fee																			(7,875)	(7,875)	\$ 0	0.0%
Travel																			(41,214)	(43,269)	\$ 2,055	-1.5%
Meals and entertainment																			(19,891)	(19,807)	\$ 84	-0.4%
Stationary																			(1,045)	(1,054)	\$ 9	-0.1%
Communication																			(5,419)	(5,415)	\$ 4	-0.1%
Insurance (assumed paid in USA)																			(10,000)	(10,000)	\$ 0	0.0%
Computer license rentals																			(4,414)	(4,414)	\$ 0	0.0%
Severance/Vacation Pay																			(6,000)	(6,000)	\$ 0	0.0%
Bank Fees																			(4,414)	(4,414)	\$ 0	0.0%
Other G&A																			(96,467)	(96,542)	\$ 75	-0.1%
Total Disbursements																			(1,886,351)	(1,872,279)	\$ 14,072	-0.7%
Total Cashflow before Management Fee																			(1,283,328)	(1,284,174)	\$ 846	0.1%
Management fee																			1,947,911	1,950,631	\$ 2,720	0.1%
Professional Fees:																						
Tax return preparation																			(13,000)	(4,604)	\$ 8,396	-64.6%
US counsel retainer																			(25,000)	(25,000)	\$ 0	0.0%
corporate transaction costs																			(75,000)	(83,113)	\$ 8,113	-55.8%
BDP																						
Retailer Fees (\$250,000 less Retailer of \$85,000)																			(29,000)	(29,462)	\$ 462	-1.6%
Alger																						
Retailer Fees (\$160,000 less retainer of 35,000)																			(40,000)	(39,200)	\$ 800	-2.0%
Cash on Hand																			(261,698)	(240,642)	\$ 21,056	-8.0%
Total																			\$ 64,861	\$ 178,486	\$ 113,625	175.2%

THIS IS EXHIBIT "B" referred to in the Affidavit of David Bustin Sworn before me this 20th day of May A.D. 2010

A NOTARY PUBLIC/COMMISSIONER FOR OATHS IN AND FOR THE PROVINCE OF ALBERTA

Trevor A. Batty
Barrister and Solicitor

Mahalo Energy Cash Flow Budget

	Week ending											Totals		
	5/14/10	5/21/10	5/28/10	6/4/10	6/11/10	6/18/10	6/25/10	7/2/10	7/9/10	7/16/10	7/23/10		7/30/10	8/6/10
(CD's except for unit data)														
Canadian revenue				8,500				8,500					8,500	25,500
Collection of receivables														200,000
Royalty Deposit						200,000								200,000
ERCB deposit						29,000						50,000		50,000
Other		10,000												29,000
														10,000
Operating Disbursements														
Operating Expense														
Canadian Rent				(7,000)				(8,000)					(8,000)	(23,000)
Canadian Payroll & consultants						(26,917)		(43,917)						(159,483)
Canadian Benefits			(32,817)							(26,917)		(28,917)		
Listing fee on Venture Exchange														
Travel														
Meals and entertainment														
Stationary			(1,500)											(1,500)
Communication			(1,000)				(1,000)					(1,000)		(3,000)
Insurance														
Computer license rentals			(800)				(800)					(800)		(2,400)
Severance/Vacation pay														
Bank fees			(250)				(250)					(250)		(750)
Other G&A			(2,000)				(2,000)					(2,000)		(6,000)
Sub-total operating disbursements			(38,367)	(7,000)		(26,917)	(4,050)	(51,917)		(26,917)		(32,967)	(8,000)	(196,133)
Management fee														
Professional Fees:														
2010 Audit			(50,000)											(50,000)
2009 Tax Return			(15,000)											(15,000)
Corporate Transaction costs/retainers						(75,000)								(75,000)
BDP						(20,000)						(20,000)		(60,000)
Alger & Counsel						(20,000)						(20,000)		(60,000)
Cash required			(93,367)	1,500		87,083	(4,050)	(43,417)		(26,917)	(40,000)	17,033	500	(141,633)
Cash on Hand - Opening	178,486	178,486	138,486	45,119	46,619	46,619	133,703	129,653	86,236	86,236	59,319	19,319	36,353	178,486
Cash on Hand - Closing	178,486	138,486	45,119	46,619	46,619	133,703	129,653	86,236	86,236	59,319	19,319	36,353	36,853	36,853

THIS IS EXHIBIT "C"
referred to in the Affidavit of
David Burton
Sworn before me this 20th
day of May 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

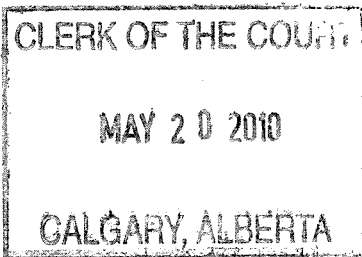
IN THE COURT OF QUEEN'S BENCH
OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

**Affidavit of David Burton
Sworn May 20, 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



BURNET, DUCKWORTH & PALMER LLP
Barristers and Solicitors
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File No. 60470-42