

**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.

**SALE PROCESS**

2. Commencing in mid-March 2010, Mahalo, along with Alger & Associates Inc. (in its capacity as Corporate Transaction Advisor) ("Alger"), conducted an exhaustive Request for Proposal process soliciting letters of intent from prospective purchasers of Mahalo. Through this process, Alpine Capital Corp. ("Alpine") submitted the letter of intent that provided the best recovery for the creditors of Mahalo.
3. Mahalo has now entered into a formal Investment Agreement with Alpine, whereby Alpine has agreed, subject to certain conditions precedent, to pay approximately \$2.5 million in exchange for Alpine (and other parties) to become the owners of all of the Class A and Class B common shares of Mahalo. If Mahalo's creditors vote in favour of its proposed Plan of Arrangement, in the requisite majorities, this transaction will close shortly after Mahalo obtains a Sanction Order affirming the vote and the Plan.

4. As further detailed in my Affidavit sworn July 27, 2010, Mahalo has been served with Cease Trade Orders by the regulatory authorities in the Provinces of Alberta, British Columbia, Manitoba, Ontario and Quebec (the "CTO's" and the "Regulatory Authorities"). Mahalo has applied for and obtained partial revocation orders for the CTO's from each of the Regulatory Authorities thereby allowing Mahalo and Alpine to execute the Investment Agreement. Mahalo has also applied for full revocations of the CTO's and anticipates that the Regulatory Authorities will grant these full revocations in conjunction with the transaction's closing.
5. The extensive sales process conducted by Mahalo and Alger has realized value for the creditors considerably below the full amount of Mahalo's indebtedness and therefore, it is now clear that the common shares of Mahalo have no value whatsoever.
6. Mahalo has also carried out a Proof of Claim process pursuant to the Claim Process Order issued in these proceedings. Mahalo estimates its total debt position (including post-petition amounts) to be as follows:

(a)	Secured Lenders	\$2,300,000
(b)	Unsecured Creditors;	\$4,079,577
	TOTAL	\$6,379,577

#### **PLAN OF ARRANGEMENT**

7. Mahalo and its legal counsel have worked closely and cooperatively with the Lenders; Alpine, and the Monitor to finalize Mahalo's Plan of Arrangement. All parties involved have expressed support for the Plan of Arrangement attached as Schedule "B" to the Notice of Motion filed herewith (the "Plan").
8. Mahalo is preparing to distribute the Plan to its creditors and call a meeting of its creditors to consider and vote upon the Plan (the "Creditors' Meeting"), and is seeking an Order of this Honourable Court (the "Creditors' Meeting Order") which:
  - (a) accepts the filing of the Plan as it may be amended, varied or supplemented;

- (b) establishes two (2) classes of Affected Creditors in the Plan, being (i) the Unsecured Creditors and (ii) the Lenders; and
  - (c) authorizes Mahalo to call, hold and conduct a meeting of Affected Creditors to consider and vote upon the Plan.
9. The important features of the Plan are:
- (a) Alpine will deliver the cash consideration to the Monitor;
  - (b) Mahalo will issue two new classes of shares to certain designated parties;
  - (c) Mahalo will redeem all previously issued and outstanding Securities of Mahalo for no consideration;
  - (d) the Monitor will pay all Unsecured Creditors with Unsecured Claims of \$1,500 or less in full from the Cash Pool;
  - (e) the Monitor will pay all other Unsecured Creditors \$1,500 plus their pro rata share of the remaining Cash Pool;
  - (f) Eligible Unsecured Creditors will also receive Class B common shares of Mahalo; and
  - (g) the Lenders will receive the balance of Mahalo's funds, remaining accounts receivable and outstanding deposits.
10. A more detailed summary of the Plan is contained in the Plan Summary, attached to the Plan as **Exhibit "I"**.

### **THE CREDITORS' MEETING**

11. Mahalo proposes to call, hold and conduct a Creditors' Meeting on September 15, 2010 at the offices of Burnet, Duckworth & Palmer LLP for the purpose of allowing Affected Creditors to consider and vote upon the Plan. Mahalo also proposes that the hearing for

the Sanction Order occur on September 16, 2010 at such time as is convenient for the Court.

12. In order to distribute the necessary materials to Affected Creditors, Mahalo proposes that the Monitor do the following:
  - (a) As soon as practicable, but no later than August 25, 2010, send to each Eligible Voting Affected Creditor, by ordinary mail, courier, facsimile or e-mail at the address appearing on such Creditors' Notice of Claim, or such other address subsequently provided to the Monitor by such creditor:
    - (i) a letter referring the Creditor to the Monitor's website,
    - (ii) the Notice to Creditors, in the form attached hereto as **Exhibit "A"**, and
    - (iii) a Proxy, in the form attached to the Plan as Schedule "E".
  - (b) Post on its website the following documents:
    - (i) the Creditors' Meeting Order;
    - (ii) the Plan including any amendments;
    - (iii) the Proxy;
    - (iv) the Monitor's Report commenting on the Plan; and
    - (v) the Plan Summary prepared by Mahalo in respect of the Plan.
13. Mahalo will seek an Order that compliance with the foregoing shall constitute good and sufficient service on all persons who are entitled to receive notice of and to vote on the Plan at the Creditors' Meeting.

#### **FORMS OF DOCUMENTS**

14. The Proxy to be used in conjunction with the Creditors' Meeting is attached to the Plan as Schedule "E" and the Notice to Creditors is attached hereto as **Exhibit "A"**. Mahalo seeks approval of the form of Proxy and Notice to Creditors.

## **CONDUCT OF THE CREDITORS' MEETING**

15. Mahalo proposes that for the purpose of voting to approve the Plan there shall be the two (2) classes of Affected Creditors referred to above and the amount of the Claim Value of each Affected Creditor shall be established in accordance with the provisions of the Creditors' Meeting Order, the claims Procedure Order, the Plan and any further Order of this Honourable Court.
16. Mahalo proposes that an officer of the Monitor, designated by the Monitor, shall preside as the chair of the Creditors' Meeting in accordance with the Creditors' Meeting Order, the Plan and any further Order of this Honourable Court.

## **LATE CLAIMS**

17. Attached to this my Affidavit and marked as **Exhibit "B"** is a spreadsheet identifying seven (7) creditors who filed Proofs of Claim after the deadline contained in the Claims Procedure Order (the "Late Claims"). Mahalo has reviewed the Late Claims in conjunction with the Monitor and (as further detailed in the Monitor's Ninth Report) Mahalo and the Monitor have concluded that these claims are valid and acceptable. Furthermore, Mahalo and the Monitor have included the Late Claims in their analyses in respect of the Plan and distributions thereunder.
18. Mahalo seeks an Order of this Honourable Court allowing the Late Claims notwithstanding the failure of those claimants to comply with the Claims Procedure Order.

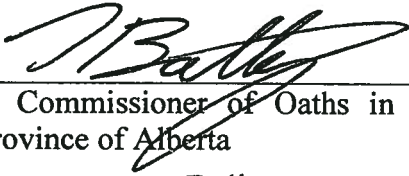
## **GENERAL**

19. Mahalo has acted, and is acting, in good faith and with diligence with respect to restructuring its affairs.
20. Capitalized terms not otherwise defined in this Affidavit are ascribed the meaning given them in the Plan.

**RELIEF SOUGHT**

21. I make this Affidavit in support of an application by Mahalo for the relief set out in the Notice of Motion filed herewith.

SWORN BEFORE ME at the City of Calgary, )  
in the Province of Alberta this 18<sup>th</sup> day of )  
August, 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 18<sup>th</sup> day of August A.D. 2010

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

Trevor A. Batty Barrister and Solicitor

## NOTICE TO CREDITORS

IN THE MATTER OF a Plan of Arrangement of Mahalo Energy Ltd. ("Mahalo")

TAKE NOTICE THAT Mahalo has filed with the Clerk of the Court of Queen's Bench of Alberta on August 18, 2010 a proposal for a Plan of Arrangement pursuant to the *Companies' Creditors Arrangement Act*.

A copy of the Plan of Arrangement and the Plan Summary can be viewed on the website of the Monitor, Alger & Associates Inc. (the "Monitor"), at [www.alger.ca/mahalo/index.html](http://www.alger.ca/mahalo/index.html).

A general meeting of the secured and unsecured creditors of Mahalo will be held on September 15, 2010 at:

Burnet, Duckworth & Palmer LLP

1400, 350 7<sup>th</sup> Avenue S.W.

Calgary, AB T2P 3N9

at the hour of ten o'clock in the forenoon.

The secured and unsecured creditors qualified to vote at the meeting may, by special resolution, approve the Plan of Arrangement either as made or as altered or modified at the meeting. If so accepted and if approved by the Court, the Plan of Arrangement is binding on all of the creditors.


A proxy intended to be used at the meeting must be lodged with the Monitor at least one business day prior to the meeting.

DATED at Calgary, Alberta, this \_\_\_\_\_ day of August, 2010.

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David Burton  
President, Mahalo Energy Ltd.

THIS IS EXHIBIT " B " referred to in the Affidavit of David Burton Sworn before me this 18<sup>th</sup> day of August A.D. 2010



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

Trevor A. Batty  
Barrister and Solicitor

In The Matter of the Companies' Creditors Arrangement Act		Differences \$10K and greater (POC vs. books)		Analysis of realizations based on following parameters: (Based on "Amount Allowed" claims)		
Creditors	Top POCs received after claims bar date After disallowances	Amount per Mahalo's Books	Amount Allowed	Difference	Realization percentage	
	35					
Barton, David			875,000.00	(875,000.00)	53,910.00	6.2%
Dundael Canada (GP) Inc.			738,103.00	(738,103.00)	45,696.18	6.2%
Ryan, Patrick			505,618.00	(505,618.00)	31,747.08	6.3%
Avenir Capital Corp.			300,000.00	(300,000.00)	19,410.00	6.5%
Trailblazer Drilling Corp.			168,938.08	(168,938.08)	12,069.37	6.8%
Twoco Petroleum Ltd.			90,394.00	(90,394.00)	10,884.12	6.9%
Canadian Natural Resources Limited			54,313.20	(54,313.20)	10,115.88	7.0%
Compresco Canada Inc.			95,124.40	(95,124.40)	7,402.60	7.4%
Provident Acquisitions LP			93,978.20	(93,978.20)	6,788.67	7.6%
Fort Energy Corp.			17,800.00	(17,800.00)	5,288.67	7.6%
Enermark Inc.			97,678.40	(97,678.40)	6,629.08	7.6%
Paramount Energy Operation Corp.			80,934.96	(80,934.96)	6,280.00	7.7%
Divestro Inc.			65,211.12	(65,211.12)	4,780.00	7.7%
Avenir Operating Corp			57,318.65	(57,318.65)	3,899.36	8.1%
Conocophillips Canada (BRC) Partnership			13,289.27	(13,289.27)	3,349.12	8.5%
Enagro Data Solutions Canada Inc.			41,366.12	(41,366.12)	2,567.78	9.2%
Beaver County			35,709.95	(35,709.95)	2,391.97	9.4%
Excelsior Energy Limited			32,616.06	(32,616.06)	2,180.78	9.7%
Conocophillips Canada Energy Partnership			25,870.59	(25,870.59)	2,070.74	9.9%
Compass Petroleum Partnership			17,363.00	(17,363.00)	1,462.24	11.5%
Source Energy Tool Services Inc. C/O Hall & Reverting			23,282.97	(23,282.97)	1,306.98	12.1%
Grude Group OSI			19,405.74	(19,405.74)	1,247.66	12.3%
TAAQA North Ltd.			15,657.41	(15,657.41)	1,074.34	13.3%
Compass Compression Services Ltd.			7,468.13	(7,468.13)	849.44	15.0%
P2 Energy Solutions Alberta ULC			4,930.80	(4,930.80)	732.88	16.3%
Champion Technologies, Ltd.			12,744.60	(12,744.60)	698.93	16.7%
CE Franklin Ltd.			10,277.34	(10,277.34)	674.68	17.1%
CGI Information Systems & Management Consultants Inc.			7,712.25	(7,712.25)	649.38	17.4%
Quekeshier Resources Canada Inc.			26,514.17	(26,514.17)	639.54	17.6%
Dwayne Thompson Tank Truck Services Ltd.			6,788.25	(6,788.25)	595.46	18.3%
JED Production Inc.			6,977.75	(6,977.75)	578.21	18.7%
Toronto Stock Exchange (TMX Group)			9,993.18	(9,993.18)	529.09	19.7%
Sutton Energy Ltd.			9,414.15	(9,414.15)	509.59	20.1%
Taber Excavating Ltd.			11,541.60	(11,541.60)	474.85	21.0%
Retreiver Energy Inc.			6,499.69	(6,499.69)	473.16	21.0%
ARC Resources Ltd.			977.41	(977.41)	450.00	21.7%
Avenir Trading Corp			38,304.67	(38,304.67)	446.62	21.8%
Inphase Electric Inc.			8,463.51	(8,463.51)	422.90	22.5%
Thurmont Energy Services			8,414.99	(8,414.99)	417.81	22.7%
Scream Iron Contracting Ltd.			8,148.00	(8,148.00)	414.90	22.8%
Prairie Land Consultants Inc.			7,849.54	(7,849.54)	398.88	23.3%
Eco Venture Inc.			4,851.45	(4,851.45)	380.97	24.0%
					373.07	24.3%

In The Matter of the Companies' Creditors Arrangement Act		Differences \$10K and greater (POC vs. books)		Analysis of realizations based on following parameters: (Based on "Amount Allowed" claims)		Realization percentage	
Top 35 POCs received after claims bar date After disallowances	Mahalo's Books	Amount per Allowed	Difference	First \$1,500	6% of Remainder	Total	
Altagas Operating Partnership	7,677.88	7,677.88	-	1,500.00	370.67	1,870.67	24.4%
J.R. Mechanical Ltd.	7,140.00	7,140.00	-	1,500.00	338.40	1,838.40	25.7%
IMS Global Corp.	7,056.00	7,056.00	-	1,500.00	333.36	1,833.36	26.0%
TNT Instrumentation Inc.	6,793.43	6,793.43	-	1,500.00	317.61	1,817.61	26.8%
Benoit Rentals	6,510.00	6,510.00	-	1,500.00	300.60	1,800.60	27.7%
Pengrowth Corporation	32,655.88	6,317.18	26,338.70	1,500.00	289.03	1,789.03	28.3%
B & E Farms Inc.	6,289.25	6,289.25	-	1,500.00	287.36	1,787.36	28.4%
Brenson Trucking Ltd.	6,074.29	6,074.29	-	1,500.00	274.46	1,774.46	29.2%
Jackal Oilfield Service Ltd.	4,872.00	6,048.00	(1,176.00)	1,500.00	272.88	1,772.88	29.3%
DDM Pump Services Ltd.	5,849.61	5,849.61	-	1,500.00	260.98	1,760.98	30.1%
Provident Energy Ltd.	2,062.44	5,719.56	(3,657.12)	1,500.00	253.17	1,753.17	30.7%
Lanmark Engineering Inc.	5,550.22	5,550.22	-	1,500.00	243.01	1,743.01	31.4%
Apollo Oilfield Services Ltd.	5,024.25	5,234.25	(210.00)	1,500.00	224.06	1,724.06	32.9%
Pearl E&P Canada Ltd.	4,873.95	5,140.42	(5,140.42)	1,500.00	218.43	1,718.43	33.4%
Lanmark Environmental Ltd. (now Ridgeline Energy Services Inc.)	12,983.21	4,740.45	8,242.76	1,500.00	202.44	1,702.44	34.9%
Cedar Energy Partnership	4,609.50	4,609.50	-	1,500.00	194.43	1,694.43	35.7%
Brandette Well Servicing Ltd.	4,279.04	4,279.04	-	1,500.00	186.57	1,686.57	36.6%
Pinnacle Oil Tools Inc.	3,866.38	4,279.04	(100.00)	1,500.00	166.74	1,666.74	39.0%
LAWND Calibration Services, Inc.	3,794.00	3,966.38	(100.00)	1,500.00	147.98	1,647.98	41.5%
Spent Energy Management Ltd.	3,794.00	3,794.00	(3,794.00)	1,500.00	137.64	1,637.64	43.2%
P.E.A.S. Ltd.	3,797.80	3,776.03	21.77	1,500.00	136.56	1,636.56	43.3%
Lohr Oil Service (1984) Ltd.	2,891.70	3,441.12	(549.42)	1,500.00	116.47	1,616.47	47.0%
1269571 Alberta Ltd. o/a Das Vacs Vacuum Truck Service	2,457.00	2,965.80	(508.80)	1,500.00	87.95	1,587.95	53.5%
Zapata Energy Corporation	2,699.19	2,840.43	(141.24)	1,500.00	80.43	1,580.43	55.6%
8066199 Alberta Ltd. o/a Classic Jobs Shop	2,467.50	2,467.50	-	1,500.00	58.05	1,558.05	63.1%
Krueger Geological Consulting Ltd.	1,003.49	2,252.79	(1,249.30)	1,500.00	45.17	1,545.17	68.6%
Olympia Trust Company	1,530.41	2,119.58	(589.17)	1,500.00	37.17	1,537.17	72.5%
Signalta Resources Limited	59,682.30	2,056.45	57,625.85	1,500.00	33.39	1,533.39	74.6%
Precision Rentals, a Division of Precision Limited Partnership	1,659.68	1,647.82	11.86	1,500.00	8.87	1,508.87	91.6%
Cor-An Contracting Ltd.	1,558.20	1,558.20	-	1,500.00	3.49	1,503.49	96.5%
Harvest Operations Corp.	270.90	1,531.26	(1,260.36)	1,500.00	1.88	1,501.88	98.1%
Nuvista Resources Ltd.	1,614.90	1,458.45	156.45	1,458.45	-	1,458.45	100.0%
Recon Utility Search N.A. Inc.	1,378.13	1,378.13	-	1,378.13	-	1,378.13	100.0%
Compton Petroleum Corporation	3,009.70	1,207.02	1,802.68	1,207.02	-	1,207.02	100.0%
Western Canadian Spill Services Ltd.	1,202.25	1,202.25	-	1,202.25	-	1,202.25	100.0%
G.D. Industrial Distributors Ltd.	883.84	883.84	-	883.84	-	883.84	100.0%
PeBen Oilfield Services L.P.	735.00	840.00	(105.00)	840.00	-	840.00	100.0%
Reiner Energy Services / 1122459 AB.Ltd.	467.46	677.46	(210.00)	677.46	-	677.46	100.0%
Explorer Software Solutions Ltd.	661.50	661.50	-	661.50	-	661.50	100.0%
687774 Alberta Ltd. O/A Phillips Oilfield Service	588.00	588.00	-	588.00	-	588.00	100.0%
1034269 Alberta Ltd. o/a P5 Services	530.25	530.25	-	530.25	-	530.25	100.0%
Kaadu Industries Inc.	170.10	170.10	-	170.10	-	170.10	100.0%

In The Matter of the Companies' Creditors Arrangement Act And in The Matter of Mahalo Energy Ltd.		Differences \$10K and greater (POC vs. books)		Analysis of realizations based on following parameters: (Based on "Amount Allowed" claims)			
Creditors	Top 35 POCs received after claims bar date After disallowances	Amount per Mahalo's Books	Amount Allowed	Difference	First \$1,500	6% of Remainder	Realization percentage
					Total	Total	Total
Premier Integrated Technologies Ltd.		146.21	146.21	-	146.21	-	100.0%
Purolator Courier Ltd.		136.28	125.45	10.83	125.45	-	100.0%
DHL Express (Canada) Ltd.		63.45	63.45	-	63.45	-	100.0%
Total before:		1,880,828.08	4,079,577.28	(2,198,749.20)	119,432.11	237,608.71	8.8%
Ableco Finance L.L.C. (all secured)					-	-	#DIV/0!
Total		1,880,828.08	4,079,577.28	(2,198,749.20)	119,432.11	237,608.71	8.8%

Action No. 0901-07221

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

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**Affidavit of David Burton**  
**Sworn August 18, 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.**

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**AFFIDAVIT**

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BURNET, DUCKWORTH & PALMER LLP  
Barristers and Solicitors  
1400, 350 – 7<sup>th</sup> Avenue S.W.  
Calgary, Alberta  
T2P 3N9

Attention: Trevor Batty  
Telephone: (403) 260-0263  
Fax: (403) 260-0332

File No. 60470-42

