

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 AND PLAN IMPLEMENTATION**

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 July 29, 2010 (the "Stay Extension Order"), which Stay Extension Order extended the stay of proceedings to October 15, 2010.
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 has continued 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) Mahalo has continued to work with and communicate regularly with the Monitor to communicate with stakeholders and clarify financial information;
- (c) Mahalo has finalized and executed an Investment Agreement with Alpine Capital Corp. ("Alpine"), dated August 18, 2010 (the "Investment Agreement") and drafted and filed its Plan of Arrangement in conjunction with this process. Mahalo held a Creditors' Meeting on September 15, 2010, at which Affected Creditors voted for and approved Mahalo's Plan of Arrangement, dated August 18, 2010 (the "Plan"). Further details regarding the Creditors' Meeting are contained in my previous Affidavit, sworn September 15, 2010;
- (d) On September 16, 2010, Mahalo obtained a Sanction Order from this Honourable Court (the "Sanction Order") sanctioning the Plan and the affirmative vote by the Affected Creditors; and
- (e) Since the Sanction Order was granted, Mahalo has worked diligently to comply with the Conditions of Plan Implementation contained in Article 6 of the Plan. One of these conditions is that the conditions precedent set forth in the Investment Agreement are either satisfied or waived in accordance with their terms. As of the date of this Affidavit, all of the conditions precedent in Article 6 of the Investment Agreement have been either satisfied or waived – with the exception of condition 6.1(p) (the status of which will be further described below).

#### **INVESTMENT AGREEMENT CONDITION 6.1(p) - REGULATORY AUTHORITY ORDERS**

- 4. On or about June 22, 2010, the Alberta Securities Commission served Mahalo with a Cease Trade Order suspending the trading of Mahalo's securities. Mahalo was subsequently served with Cease Trade Orders from the regulatory authorities of the provinces of Ontario, British Columbia and Quebec (collectively, the "Regulatory Authorities" and the "CTOs").
- 5. Mahalo applied for and obtained partial revocations of the CTOs from the Regulatory Authorities. Mahalo then entered into the Investment Agreement with Alpine. Section

6.1(p) of the Investment Agreement is a condition precedent that the Regulatory Authorities grant Mahalo permanent revocations of the CTOs ("CTO Revocation Orders"), along with a Non-Reporting Issuer Order, prior to Closing.

6. In recent discussions, certain of the Regulatory Authorities have advised Mahalo's corporate counsel that they will not grant the CTO Revocation Orders, or the Non-Reporting Issuer Order, until such time as Mahalo has issued Class A shares and Class B shares and redeemed its common shares all in accordance with the terms of the Investment Agreement and the Plan. Accordingly, the condition precedent found at Article 6.1(p) of the Investment Agreement cannot be met prior to closing.
7. The position taken by the Regulatory Authorities creates a circular problem as follows:
  - (a) The Regulatory Authorities will not grant the CTO Revocation Orders and the Non-Reporting Issuer Order without Mahalo issuing the Class A and Class B shares under the Plan and redeeming its common shares;
  - (b) Alpine will not pay the Subscription Proceeds without the Regulatory Authorities issuing the CTO Revocation Orders and the Non-Reporting Issuer Order; and
  - (c) Mahalo will not issue the Class A shares to Alpine and the Other Investors without being paid the Subscription Proceeds from Alpine.
8. Mahalo and Alpine have agreed to resolve this problem by tabling the closing documents under the Investment Agreement in escrow, with the escrow release to occur when:
  - (a) the appeal period for the Order sought in the within application has expired without the Order being stayed, varied or appealed;
  - (b) Alpine confirming that there have not, since the execution of the Investment Agreement, been any material changes or proposed changes to the relevant tax laws; and
  - (c) Mahalo confirming that all certifications in the closing documents remain true and correct.

9. The closing documents were tabled in escrow on September 12, 2010 and are currently awaiting satisfaction of these escrow conditions.
10. Upon escrow release, the closing of the reorganization contemplated by Section 4.2 of the Plan will occur. The Subscription Proceeds and Class A shares will be held in a post-closing escrow by the escrow agent pending receipt of the CTO Revocation Orders and the Non-Reporting Issuer Order (as well as Alpine and Mahalo reconfirming the items in paragraph 8(b) and 8(c) above). If for any reason the Regulatory Authorities do not grant these Orders, or the other post-closing escrow conditions are not met, the Subscription Price will be paid to Alpine in consideration of Mahalo re-purchasing the Class A shares. If all the conditions of the post-closing escrow are satisfied, the escrow agent will release the Class A shares to Alpine and the Other Investors and release the Subscription Proceeds to the Monitor for distribution in accordance with the Plan. The precise terms of the escrow arrangement are contained in the draft Escrow Agreement attached as **Exhibit "A"**.
11. The Regulatory Authorities have not offered any guarantee or assurance that they will grant the CTO Revocation Orders and/or the Non-Reporting Issuer Order - even after Mahalo issues its new classes of shares and redeems its common shares. However, based upon the advice I have received from Mahalo's counsel, I have no reason to believe that these Orders will not be forthcoming once these steps have occurred. I also believe that closing the Investment Agreement in escrow is the only viable option to allow Mahalo to finish implementing its Plan.

## **FINANCIALS**

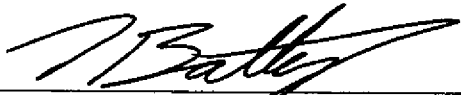
12. Attached hereto, and marked as **Exhibit "B"**, is a summary of Mahalo's actual receipts and disbursements from the date of May 21, 2009 to October 1, 2010.
13. Attached hereto and marked as **Exhibit "C"** is Mahalo's revised projected cash flow statement to November 19, 2010, which cash flow statement 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 prior Affidavit, sworn July 27, 2010, and to serve as the "Budget", as defined in Paragraph 23 of the Initial Order.

**RELIEF SOUGHT**

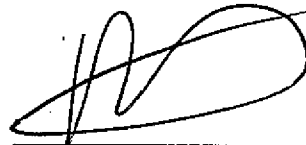
14. I make this Affidavit in support of an application by Mahalo for the relief set out in the form of Order attached as Schedule "A" to the Notice of Motion filed herewith.

SWORN BEFORE ME at the City of Calgary, )  
in the Province of Alberta this 12<sup>th</sup> day of )  
October, 2010. )



A Commissioner of Oaths in and for the  
Province of Alberta

**Trevor A. Batty**  
Barrister and Solicitor



**DAVID BURTON**

MAHALO ESCROW AGREEMENT

THIS AGREEMENT made as of the 12<sup>th</sup> day of October 2010.

AMONG:

ALPINE CAPITAL CORP., a corporation incorporated under the laws of the Province of Alberta ("Alpine")

- and -

MAHALO ENERGY LTD., a corporation formed under the laws of the Province of Alberta ("Mahalo" or the "Corporation")

- and -

BURNET, DUCKWORTH & PALMER LLP, a limited liability partnership carrying on the practice of law in the Province of Alberta (the "Escrow Agent")

WHEREAS pursuant to the provisions of an Investment Agreement made as of the 18<sup>th</sup> day of August, 2010 between Alpine and Mahalo (the "Investment Agreement"), Mahalo has agreed to issue and sell to Alpine and the Other Investors, the Mahalo Shares for aggregate subscription proceeds of \$2,525,000;

AND WHEREAS the Parties hereto wish to provide for the tabling of the Closing Documents, to be held in escrow by the Escrow Agent, pending completion of the Closing and upon and subject to the terms and conditions of this Agreement;

AND WHEREAS Alpine, on its own behalf and on behalf of the Other Investors, and Mahalo wish to provide, upon Closing having occurred, for the Subscription Proceeds and the certificates representing the Mahalo Shares to be held in escrow by the Escrow Agent, pending the satisfaction of certain conditions and upon and subject to the terms and conditions of this Agreement;

AND WHEREAS the Escrow Agent has agreed to hold the Closing Documents pending Closing, and to hold the Mahalo Shares and the Subscription Proceeds pending the satisfaction of certain conditions, in escrow in accordance with the terms and conditions of this Agreement;

NOW THEREFORE in consideration of the covenants and agreements herein, the Parties covenant and agree as follows:

1. **Definitions**

When used herein, capitalized words shall have the meaning attributed to them in the Plan of Arrangement, except that:

- (a) "Agreement" means this Agreement, including the recitals and the Schedules attached to this Agreement, as amended or supplemented from time to time;
- (b) "business day" means a day other than a Saturday, Sunday or Statutory holiday, when banks are generally open for the transaction of banking business in the City of Calgary, in the Province of Alberta;
- (c) "CCAA Order" means an order obtained through the CCAA Proceedings providing for necessary directions regarding the implementation of the Plan of Arrangement substantially in the form attached to this Agreement as Schedule "C" with such revisions as may be agreed to by the Parties, or such non-material changes as may be ordered by the Court;
- (d) "CCAA Proceedings" means the proceedings filed by the Corporation and to which it is subject, under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended, pending in the Court of Queen's Bench of Alberta, Judicial District of Calgary;

THIS IS EXHIBIT "A"  
referred to in the Affidavit of  
David Burton  
Sworn before me this 12<sup>th</sup>  
day of October, A.D. 2010  
Trevor A. Batty  
A NOTARY PUBLIC/COMMISSIONER FOR OATHS  
IN AND FOR THE PROVINCE OF ALBERTA

Trevor A. Batty  
Barrister and Solicitor

- (e) "**Closing Agenda**" means the closing agenda in the form appended hereto as Schedule "B";
- (f) "**Closing Documents**" means of all documents, instruments and certificates tabled under Part II of the Closing Agenda and placed into escrow pursuant to the Closing Escrow;
- (g) "**Closing Escrow**" has the meaning attributed to it in Section 3 of this Agreement;
- (h) "**CTO Revocation Orders**" means orders of the relevant Securities Regulatory Authorities permanently revoking each of the Existing Cease Trade Orders, in full;
- (i) "**Existing Cease Trade Orders**" means the cease trade orders of the Alberta Securities Commission issued June 22, 2010, the British Columbia Securities Commission issued June 30, 2010, the Manitoba Securities Commission dated July 28, 2010, the Ontario Securities Commission issued July 12, 2010 and the Autorite Des Marches Financiers issued July 20, 2010, any cease trade orders issued further to or in replacement of, such orders and any other order, ruling or determination having the effect of ceasing, suspending or restricting trading in any securities of Mahalo;
- (j) "**Investors**" means collectively Alpine and the Other Investors;
- (k) "**Mahalo Shares**" means the 2,525,000 Class "A" Shares in the capital of Mahalo, subscribed for by the Investors and placed into escrow pursuant to the Post-Closing Escrow;
- (l) "**Non Reporting Issuer Order**" means an order from each of the Securities Regulatory Authorities, including through a coordinated review application, that Mahalo is not a reporting issuer, pursuant to an application by Mahalo to deem Mahalo not to be a reporting issuer (including if applicable a surrender of reporting issuer status in British Columbia);
- (m) "**Other Investors**" means the persons listed in Schedule "A" hereto;
- (n) "**Party**" means a party to this Agreement and "**Parties**" means all of the parties to this Agreement;
- (o) "**Plan of Arrangement**" means the plan of arrangement of Mahalo approved in the CCAA Proceedings;
- (p) "**Post-Closing Escrow**" has the meaning attributed to it in Section 3 of this Agreement;
- (q) "**Securities Regulatory Authorities**" means the Alberta Securities Commission and each securities regulatory authority in each jurisdiction in which Mahalo is a reporting issuer; and
- (r) "**Subscription Proceeds**" means the aggregate amount of \$2,525,000 paid by the Investors for the Mahalo Shares and placed into escrow pursuant to the Closing Escrow and the Post-Closing Escrow, and for certainty includes the deposit in the aggregate amount of \$285,000 paid to the Escrow Agent (in its capacity as counsel to Mahalo) pursuant to the provisions of the Investment Agreement;

## 2. Interpretations

If, pursuant to the term of this Agreement, a notice must be given, or an action taken within a specified period or on or before a specified date, and such period ends on, or falls on a day that is not a business day, such notice may be given, or such action may be taken on the next succeeding day which is a business day.

## 3. Closing Escrow

The Escrow Agent acknowledges that the Closing Documents have been tabled at the offices of the Escrow Agent (including deposit of the Subscription Proceeds into trust to be held for the Investors) and agrees to hold the Closing Documents in escrow on behalf of each Party who has tabled such Closing Documents, until authorized for release and delivery in accordance with this Agreement (the "Closing Escrow"). Except as specifically provided for in paragraphs (a) and (b) below of this Section 3 or Section 6, the Escrow Agent shall not

release, deliver, give-up possession of or otherwise deal with the Closing Documents which are escrowed pursuant to the Closing Escrow.

(a) The Closing Escrow shall conclude, upon the satisfaction of, or waiver by, Alpine of the following conditions, which conditions are for the benefit of Alpine, on or prior to the date that is 21 calendar days following the date on which the CCAA Order is granted: (i) written confirmation by Alger & Associates as monitor of Mahalo, to each of the Escrow Agent, Alpine and Mahalo, that the CCAA Order shall not have been stayed, set aside, overturned or varied, no appeal therefrom shall have been made and the appeal period with respect thereto shall have expired; (ii) written confirmation by Alpine to the Escrow Agent that there shall not have been any change, or proposed change, to tax laws whether by legislative or judicial action, nor any change to or in the Canada Revenue Agency's assessing and administrative policies and practices prior to Closing where such change, in the opinion of Alpine, acting reasonably, could have material adverse tax consequences to Alpine or the Corporation relevant to the transaction contemplated by the Investment Agreement; and (iii) delivery to the Escrow Agent and Alpine of a certificate of a senior officer of Mahalo, addressed to Alpine and dated the day of release from the Closing Escrow, certifying that each of the certifications provided to Alpine pursuant to items 68 of the Closing Documents, remains true and correct as of the day of release from the Closing Escrow.

Upon conclusion of the Closing Escrow as contemplated by this paragraph 3(a), the Escrow Agent shall date each of the Closing Documents which are not dated, to the date on which the Closing Escrow is concluded, and the Closing Documents shall be deemed to have been released in the order in which they appear in Part II of the Closing Agenda and the Escrow Agent shall provide for the filing of the Articles of Arrangement during such release at the appropriate times. In connection with such release, the Escrow Agent shall retain possession of the Subscription Proceeds and the Mahalo Shares and agrees to hold the Subscription Proceeds in escrow on behalf of Mahalo and the Mahalo Shares in escrow on behalf of the Investors, until authorized for release and delivery in accordance with Section 4 (the "Post-Closing Escrow").

(b) In the event any of the conditions set forth in paragraph 3(a) shall not have been satisfied or waived on or prior to the date that is 21 calendar days following the date on which the CCAA Order is granted, the Closing Escrow shall terminate, and upon termination of the Closing Escrow as contemplated by this paragraph 3(b), each of the Closing Documents shall be forthwith returned to the Party which tabled it, and further to the foregoing, the Escrow Agent shall deliver the Subscription Proceeds to Alpine on behalf of the Investors.

#### 4. Post-Closing Escrow

Except as specifically provided for in paragraphs (a) and (b) below of this Section 4, the Escrow Agent shall not release, deliver, give-up possession of or otherwise deal with the Subscription Proceeds and the Mahalo Shares that are escrowed pursuant to the Post-Closing Escrow.

(a) The Post-Closing Escrow shall conclude, upon the satisfaction of, or waiver by, Alpine of the following conditions, which conditions are for the benefit of Alpine, on or prior to the date that is 35 calendar days following the date on which the CCAA Order is granted: (i) delivery to the Escrow Agent and Alpine of true copies of outstanding CTO Revocation Orders and the Non Reporting Issuer Order, (ii) written confirmation by Alpine to the Escrow Agent that there shall not have been any change, or proposed change, to tax laws whether by legislative or judicial action, nor any change to or in the Canada Revenue Agency's assessing and administrative policies and practices prior to Closing where such change, in the opinion of Alpine, acting reasonably, could have material adverse tax consequences to Alpine or the Corporation relevant to the transaction contemplated by the Investment Agreement; (iii) delivery to the Escrow Agent and Alpine of a certificate of a senior officer of Mahalo, addressed to Alpine and dated the day of release from the Post-Closing Escrow, certifying that each of the certifications provided to Alpine pursuant to items 68 and 72 of the Closing Documents, remains true and correct as of the day of release from the Post-Closing Escrow, as if the subject matter of such certifications provided to Alpine, had survived the conclusion of the Closing Escrow; and (iv) no order, ruling or determination having the effect of ceasing, suspending or restricting trading in any securities of the Corporation shall be outstanding; and

Upon conclusion of the Post-Closing Escrow as contemplated by this paragraph 4(a), the Escrow Agent shall forthwith release the Mahalo Shares to the Investors and the Subscription Proceeds to Alger & Associates on behalf of Mahalo (and as directed by Mahalo).

(b) In the event any of the conditions set forth in paragraph 4(a) shall not have been satisfied or waived on or prior to the date that is 35 calendar days following the date on which the CCAA Order is granted, the Post-Closing Escrow shall terminate, and upon termination of the Post-Closing Escrow as contemplated by this paragraph 4(b), the Escrow Agent shall forthwith release the Subscription Proceeds to Alpine on behalf of the Investors and the Mahalo Shares to Mahalo. Upon the release of the Subscription Proceeds to Mahalo, Mahalo shall be deemed to have re-purchased such shares and the Investors will be deemed to have transferred such shares to Mahalo, without representation or warranty, other than a several (and not joint or joint and several) representation by each Investor that the shares transferred by it are free and clear of all liens, claims and encumbrances created by, through or under such Investor.

#### **5. Ownership of Mahalo Shares in Post-Closing Escrow**

Mahalo acknowledges that the Mahalo Shares deposited into the Post-Closing Escrow pursuant to Section 4 will have been, upon such deposit, validly issued to the applicable Investors as fully paid and non-assessable Class A common shares in the capital of Mahalo and that the applicable Investors will own all right, title and interest in and to such shares.

The Investors and Mahalo agree that the Investors shall be entitled to:

(a) vote all of the Mahalo Shares held in the Post-Closing Escrow at any meeting of the stockholders of Mahalo; and

(b) receive and be paid dividends and other distributions on the Mahalo Shares held in escrow pursuant to the Post-Closing Escrow at such times (if any) as Mahalo makes any dividend or other distribution to the Class A common shareholders of Mahalo.

Should the Escrow Agent receive any of the dividends or other distributions referred to in paragraph (b) above, the Escrow Agent shall forthwith pay the same to the Investors.

#### **6. CCAA Order**

In the Event the CCAA Order is not granted on or prior to October 15, 2010, the Closing Escrow shall terminate, and upon termination of the Closing Escrow as contemplated by this paragraph 6, each of the Closing Documents shall be forthwith returned to the Party which tabled it, and further to the foregoing, the Escrow Agent shall deliver the Subscription Proceeds to Alpine on behalf of the Investors.

#### **7. Splits or Consolidations**

If and whenever, at any time and so long as any of the Mahalo Shares are held in the Post-Closing Escrow, Mahalo shall subdivide, consolidate or reclassify its Class A common shares or otherwise change or replace the Mahalo Shares in connection with a plan of arrangement, amalgamation, merger or similar transaction, the term "Mahalo Shares" hereunder shall be and be deemed to be revised to reflect such sub-division, consolidation, reclassification, change or replacement. Upon any such occurrence Mahalo shall revise and replace Schedule "A" hereto, as necessary, and deliver a copy of such revised Schedule "A" to each other Party hereto. If any additional Mahalo Shares are inadvertently delivered to the Investors as a consequence thereof, the Investors shall immediately deposit such Mahalo Shares with the Escrow Agent, to be held in escrow pursuant to the provisions hereof.

#### **8. Duties, Liabilities and Indemnification of Escrow Agent**

Notwithstanding anything to the contrary herein contained, the acceptance by the Escrow Agent of its duties and obligations under this Agreement is subject to the following terms and conditions, which the Investors and Mahalo agree will apply with respect to its rights, duties, liabilities and immunities under this Agreement:

(a) neither the Escrow Agent nor its employees, servants, agents and associates will be liable or accountable for any loss or damage whatsoever to any person, including, but not limited, to the Investors, Mahalo or their Affiliates and each of their officers, directors and shareholders (as applicable), caused by its performance of or its failure to perform its duties and responsibilities under this Agreement, save only to

the extent that such loss or damage is attributable to the negligence or wilful misconduct of the Escrow Agent, having regard to the fact, which is hereby acknowledged by the Investors and Mahalo that the Escrow Agent is not engaged in the business of providing escrow services;

- (b) the Escrow Agent will have no duties or responsibilities except those which are expressly set forth herein, and the rights, duties, liabilities and immunities of the Escrow Agent may not be altered without its prior written consent;
- (c) upon release and delivery by the Escrow Agent of the escrowed property as provided for in this Agreement, the Escrow Agent will be released and forever discharged from all of its duties and responsibilities hereunder;
- (d) in acting hereunder, the Escrow Agent will be jointly and severally indemnified and saved harmless by the Alpine and Mahalo from all expenses, liabilities, losses, claims, suits, damages, costs (including any costs incurred by the Escrow Agent pursuant to paragraph (e) below and any costs incurred by the Escrow Agent in defending itself against any claim or liability in connection with this Agreement) and demands whatsoever and howsoever arising (collectively, the "Expenses") in connection with the performance by it of its duties and responsibilities under this Agreement, save only to the extent that the Expenses arise directly from the negligence or wilful misconduct of the Escrow Agent, having regard to the fact that the Escrow Agent is not engaged in the business of providing escrow services; provided however such indemnity shall not include any Expenses arising under the CCAA Proceedings in connection with the application for or granting of the CCAA Order or any appeal to the CCAA Order. This indemnity shall survive the termination of the escrow arrangements provided for in this Agreement;
- (e) the Escrow Agent may act on the opinion or advice obtained from its counsel or other professional advisors duly qualified to practice in the Province of Alberta, and will not be responsible for any loss occasioned by doing so, nor will it incur any liability or responsibility for deciding in good faith not to act upon such opinion or advice. In addition, the Escrow Agent shall incur no liability or responsibility for any delay reasonably required to obtain the advice of such counsel or other professional advisors;
- (f) the Escrow Agent shall be entitled, without further inquiry, to rely solely upon the terms of this Agreement, any court order or arbitrator's decision or any joint authorization of the Investors and Mahalo delivered to it in compliance or purporting to be in compliance with this Agreement without any obligation whatsoever for it to make any inquiry as to its genuineness or the correctness of any statement made therein as to any matter relating to the release of the Mahalo Shares pursuant to this Agreement;
- (g) the Escrow Agent shall not be liable for any damage, loss or destruction of any of the Mahalo Shares hereunder due to fire, flood, act of God, theft, or any other cause not resulting from the negligence or wilful misconduct of the Escrow Agent;
- (h) the Escrow Agent shall have no duty to know or determine the performance or non-performance of any provision of this Agreement, the Plan of Arrangement or any other agreement, except as expressly required or contemplated in the performance by the Escrow Agent of its functions under this Agreement; and
- (i) the provisions of this Section 8 are not intended to and shall not restrict or remove any other rights which the Escrow Agent may have at law or in equity to seek relief or direction from the court in addition to such as are expressly set forth herein, and the Escrow Agent is hereby authorized to comply with and obey any process, order, judgment or decree of a court of law or arbitral body, notwithstanding the terms of this Agreement.

## 9. Fees

Mahalo agrees to pay to the Escrow Agent forthwith upon receipt of an invoice therefor all of the Escrow Agent's accounts for time, disbursements and applicable goods and services taxes relating to the performance by the Escrow Agent of its duties or rights hereunder or other work incidental to or contemplated pursuant to the terms of this Agreement for the period up to and including the conclusion or termination of the Closing Escrow.

**10. Limitations on Duties**

It is understood and agreed that the Escrow Agent's only duties and obligations in respect of the property escrowed hereunder are expressly set out in this Agreement. The Escrow Agent shall have the right to consult with separate counsel of its own choosing (if it deems such consultation advisable) and shall not be liable for any action taken, suffered or omitted to be taken by it if the Escrow Agent acts in accordance with the advice of such counsel. The Escrow Agent shall be protected if it acts upon any written or oral communication, notice, certificate or other instrument or document believed by the Escrow Agent to be genuine and to be properly given or executed without the necessity of verifying the truth or accuracy of the same or the authority of the person giving or executing the same.

**11. Resignation of Escrow Agent**

The Escrow Agent, may, at any time, resign its obligations under this Agreement and be discharged from all further duties and liabilities hereunder by giving each of the Investors and Mahalo at least 10 days notice in writing of its intention to resign or such shorter notice as the Investors and Mahalo may accept as sufficient. The Investors and Mahalo agree that they shall forthwith upon receipt of such notice appoint a successor escrow agent to act in the place and stead of the Escrow Agent and if they fail to agree on such appointment, any of the Investors, Mahalo or the Escrow Agent may apply to a Judge of the Court of Queen's Bench of Alberta on such notice as such Judge may direct for the appointment of a successor escrow agent. Upon any new appointment, the successor escrow agent will be vested with the same powers, rights, duties and obligations as if it had been originally named herein and such successor escrow agent shall enter into an agreement with the Investors and Mahalo agreeing to be bound by all of the provisions of this Agreement.

**12. No Conflict**

The fact that the Escrow Agent is acting as Escrow Agent under this Agreement shall not in any way prevent it from representing Mahalo in connection with the transactions contemplated in the Asset Purchase Agreement or from representing Mahalo or any other party in any other capacity or in any other transaction.

**13. Notice**

Any notice required or permitted to be given hereunder or made pursuant to this Agreement shall be in writing and shall be sufficiently given or made if:

(a) delivered during normal business hours on a business day and left at the relevant address set forth below; or telexed, telecopied or sent by other means of recorded electronic communications; and

if to the Investors :

Alpine Capital Corp.  
#3900, 350 – 7<sup>th</sup> Avenue S.W.  
Calgary, AB T2P 3N9

if to Mahalo:

Mahalo Energy Ltd.  
c/o 1400, 350 – 7<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 3N9  
Attention: President

if to the Escrow Agent:

Burnet, Duckworth & Palmer LLP  
1400, 250-7th Ave. S.W.

Calgary, Alberta T2P 3N9

Attention: Grant MacKenzie  
Facsimile: (403) 260-0332

Any such notice shall be deemed to have been given or made and to have been received on the day of its delivery or transmission, as the case may be, provided that such day is a business day and that such notice is received prior to 4:00 p.m., local time, and, if not, on the first business day thereafter.

**14. Time**

Time shall be of the essence of this Agreement.

**15. Applicable Laws and Jurisdiction**

The validity and interpretation of the provisions of this Agreement shall be governed by the laws of the Province of Alberta and the federal laws of Canada applicable therein. The Parties do hereby irrevocably and unconditionally submit and attorn to the non-exclusive jurisdiction of the courts of the Province of Alberta in connection with any disputes or other matters arising out of or in connection with this Agreement.

**16. Amendments and Waiver**

All amendments to this Agreement, and all waivers of any provision or the breach of any provision of this Agreement, shall be made in a written instrument signed by all of the Parties. A waiver shall affect only the matter specifically identified in the instrument granting the waiver and shall not extend to any other matter, provision or breach.

**17. Assignment**

This Agreement may not be assigned by a Party hereto without the prior written consent of the other Parties hereto.

**18. Enurement**

This Agreement shall enure to the benefit of and be binding upon the Parties and each of their respective successors and permitted assigns.

**19. Further Assurances**

The Parties hereto respectively covenant and agree to execute all such other deeds, documents and writings and do all such other acts and things and give such further assurances as may be necessary to give effect to this Agreement.

**20. Conflict or Inconsistency**

If there is any conflict or inconsistency between a provision of this Agreement and a provision of the Investment Agreement or the Plan of Arrangement, the provision of this Agreement will prevail.

**21. Agency**

Alpine acknowledges that it has the requisite power and authority to enter into and perform this Agreement on its own behalf and on behalf of the Other Investors.

**22. Investor Obligations**

The obligations and liabilities of the Investors hereunder shall be several, and not joint or joint and several, based upon the proportion of the subscription proceeds paid by each Investor in proportion to the Subscription Proceeds in aggregate.

**23. Counterpart and Facsimile Execution**

This Agreement may be executed and delivered in any number of counterparts, each of which when executed and delivered is an original, but all of which taken together constitute one and the same instrument. This Agreement may be executed by facsimile and the facsimile execution pages will be binding upon the executing Party to the same extent as the original executed pages.

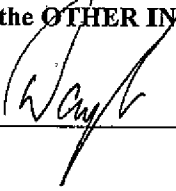
IN WITNESS WHEREOF the Parties have duly executed this Agreement as of the date first written above.

**ALPINE CAPITAL CORP., on its own behalf and on behalf of the OTHER INVESTORS**

**MAHALO ENERGY LTD.**

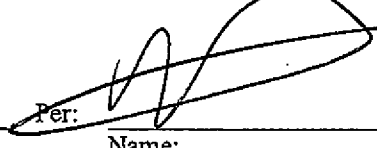
Per: \_\_\_\_\_

Name:  
Title:



Per: \_\_\_\_\_

Name:  
Title:



**BURNET, DUCKWORTH & PALMER LLP**

Per: \_\_\_\_\_

Name:  
Title:



**SCHEDULE "A" TO ESCROW AGREEMENT DATED THE \_\_\_\_ DAY OF OCTOBER, 2010 BETWEEN  
ALPINE CAPITAL CORP., MAHALO ENERGY LTD. AND BURNET, DUCKWORTH & PALMER LLP**

**Other Investors**

Venn Law LLP

David Rain

Jacob Roorda

**SCHEDULE "B" TO ESCROW AGREEMENT DATED THE \_\_\_\_ DAY OF OCTOBER, 2010 BETWEEN  
ALPINE CAPITAL CORP., MAHALO ENERGY LTD. AND BURNET, DUCKWORTH & PALMER LLP**

See Attached

**SCHEDULE "C" TO ESCROW AGREEMENT DATED THE \_\_\_\_ DAY OF OCTOBER, 2010 BETWEEN  
ALPINE CAPITAL CORP., MAHALO ENERGY LTD. AND BURNET, DUCKWORTH & PALMER LLP**

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See Attached.

Mahafo Energy Ltd. Cash Flow Budget vs. Actual,  
Canadian Operations during CCAA process May 22, 2009 to October 1, 2010

EXHIBIT B

In Canadian \$

	Cumulative		Variance	
	Budget	Actual	In \$'s	% of budget
Opening Cash on hand	\$ 59,798	\$ 59,798	\$0	0.0%
<b>Canadian Revenue</b>				
GORR Revenue	68,634	51,634	(\$17,000)	-24.8%
Anticipated cash receipt	1,267,288	1,115,205	(\$152,083)	-12.0%
Repayment to Ableco	(256,080)	(256,080)	\$0	0.0%
Production Revenue	315,102	315,102	\$0	0.0%
US receipts	75,324	75,324	\$0	0.0%
<b>Operating Disbursements</b>				
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	(201,114)	(201,114)	\$0	0.0%
Power prepayment	-	-	\$0	0.0%
<b>Net Revenue</b>	<b>1,079,636</b>	<b>910,552</b>	<b>(\$169,083)</b>	<b>-15.7%</b>
<b>G&amp;A Disbursements</b>				
Canadian Rent	(225,357)	(223,034)	\$2,323	-1.0%
Canadian Payroll and consultants	(1,474,207)	(1,429,295)	\$44,912	-3.0%
Canadian Benefits	(86,593)	(86,593)	\$0	0.0%
Listing fee	(7,875)	(7,875)	\$0	0.0%
Travel	(143,269)	(143,269)	\$0	0.0%
Meals and entertainment	(19,807)	(19,807)	\$0	0.0%
Stationary	(12,007)	(12,007)	\$0	0.0%
Communication	(57,814)	(59,076)	(\$1,262)	2.2%
insurance (assumed paid in USA)	(23,415)	(22,615)	\$800	-3.4%
Computer license rentals	(32,180)	(32,292)	(\$112)	0.3%
Severance/Vacation Pay	(6,000)	(6,000)	\$0	0.0%
Bank Fees	(2,792)	(2,668)	\$124	-4.4%
Other G&A	(113,071)	(120,525)	(\$7,454)	6.6%
<b>Total Disbursements</b>	<b>\$ (2,204,387)</b>	<b>\$ (2,165,056)</b>	<b>\$39,331</b>	<b>-1.8%</b>
<b>Total Cashflow before Management Fee</b>	<b>\$ (1,124,752)</b>	<b>\$ (1,254,504)</b>	<b>(\$129,752)</b>	<b>11.5%</b>
Management fee	1,950,631	1,950,631	\$0	0.0%
Professional Fees:				
Tax return preparation	(12,604)	(13,578)	(\$974)	7.7%
2009 audit	(66,904)	(64,904)	\$2,000	-3.0%
US counsel retainer	-	-	\$0	0.0%
corporate transaction costs	(45,000)	(45,000)	\$0	0.0%
<b>BDP</b>				
Retainer	-	-	-	-
Fees (\$250,000 less Retainer of \$85,000)	(309,410)	(298,238)	\$11,172	-3.6%
<b>Alger</b>				
Retainer	-	-	-	-
Fees (\$160,000 less retainer of 35,000)	(299,587)	(321,118)	(\$21,531)	7.2%
<b>Cash on Hand</b>	<b>\$ 152,173</b>	<b>\$ 13,087</b>	<b>\$ (139,085)</b>	<b>-91.4%</b>

THIS IS EXHIBIT " B " referred to in the Affidavit of David Burton Sworn before me this 12<sup>th</sup> day of October A.D. 2010

Trevor A. Batty  
Barrister and Solicitor

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

**Mahalo Energy Cash Flow Budget**

**EXHIBIT C**

(CD \$'s except for unit data)	Week ending							Totals	
	10/1/10	10/8/10	10/15/10	10/22/10	10/29/10	11/5/10	11/12/10		11/19/10
Canadian revenue			5,000					5,000	10,000
Collection of receivables									-
Royalty Deposit						25,000			25,000
ERCB deposit									-
Other									-
<b>Operating Disbursements</b>									
Operating Expense									-
Canadian Rent						(6,000)			(6,000)
Canadian Payroll & consultants			(18,000)				(18,000)		(36,000)
Canadian Benefits									-
Securities Commissions									-
Travel									-
Meals and entertainment									-
Stationary									-
Communication									-
Insurance									-
Computer license rentals									-
Severance/Vacation pay									-
Bank fees									-
Other G&A									-
<b>Sub-total operating disbursements</b>			(18,000)			(6,000)	(18,000)		(42,000)
Management fee									
<b>Professional Fees:</b>									
2010 Audit									-
2009 Tax Return									-
Corporate Transaction costs/retainers									-
BDP									-
Alger & Counsel									-
Cash required			(13,000)			19,000	(18,000)	5,000	(7,000)
Cash on Hand - Opening	13,087	13,087	13,087	13,087	87	87	87	1,087	13,087
Cash on Hand - Closing	13,087	13,087	87	87	87	19,087	1,087	6,087	6,087

THIS IS EXHIBIT " C " referred to in the Affidavit of David Burton Sworn before me this 12<sup>th</sup> day of October A.D. 2010

*Trevor A. Batty*  
A NOTARY PUBLIC/COMMISSIONER FOR OATHS IN AND FOR THE PROVINCE OF ALBERTA

**Trevor A. Batty**  
Barrister and Solicitor

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 October 12, 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

