

**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 May 26, 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) Mahalo has finalized a settlement with one of its debtors resulting in Mahalo receiving \$150,000 of its accounts receivable. The Lenders approved this settlement arrangement;
- (c) Mahalo has completed the transfers of all outstanding leases and licenses to the purchasers of Mahalo's assets;
- (d) Mahalo has assisted the accounting firm Ernst & Young Inc. with the completion of Mahalo's tax return for the 2009 tax year and with the completion of Mahalo's 2009 non-consolidated financial statements, both of which were recently completed;
- (e) Mahalo's has assisted its prospective corporate transaction candidate with completion of its due diligence, which due diligence is now substantially complete;
- (f) Mahalo has negotiated and participated in the drafting of an Investment Agreement with its prospective corporate transaction candidate and has drafted its Plan of Arrangement in conjunction with this process. Both the Investment Agreement and the Plan of Arrangement are currently very close to being finalized; and
- (g) Mahalo continues to work with and communicate regularly with the Monitor to communicate with stakeholders and clarify financial information.

CEASE TRADE ORDERS

4. At the time of the Stay Extension Order, Mahalo anticipated that it would be entering into a binding agreement with the prospective corporate transaction candidate and filing its Plan of Arrangement with the Court in late June or early July. 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's legal counsel, in consultation with the Alberta Securities Commission, has advised Mahalo that it should obtain a partial revocation of the CTOs prior to entering into the Investment Agreement and filing its Plan or Arrangement with the Court. As a result, the Regulatory Authorities have delayed Mahalo's initial timeline with the issuance of the CTOs.
6. Mahalo's counsel have prepared an application to the regulatory authorities seeking a partial revocation of the CTOs in order to allow Mahalo to execute the Investment Agreement and file its Plan of Arrangement with the Courts. The application also seeks additional orders that will be required in conjunction with Mahalo's Plan of Arrangement, namely an order that Mahalo has ceased to be a reporting issuer and an order fully revoking the CTOs.
7. The Alberta Securities Commission estimates that the partial revocation order may take up to three weeks to be issued from the time Mahalo submits its application.
8. Accordingly, provided the Regulatory Authorities grant the partial revocation within the estimated time frame, and provided there are no further intervening events that are beyond Mahalo's control, Mahalo anticipates the following timeline for the CCAA process:
 - (a) Mahalo will submit its application to the Regulatory Authorities the week of July 26, 2010;
 - (b) the Regulatory Authorities will grant the partial revocation order by mid-August;
 - (c) Mahalo and the prospective corporate transaction candidate will execute the Investment Agreement and Mahalo will file its Plan of Arrangement with the Court in mid to late August;
 - (d) A Creditor's Meeting to vote upon the Plan of Arrangement will be held on September 15, 2010, and the Sanction Order obtained immediately thereafter; and
 - (e) The corporate transaction will close on or before October 15, 2010.

FINANCIALS

- 9. Attached hereto, and marked as **Exhibit "A"**, is a summary of Mahalo's actual receipts and disbursements from the date of May 22, 2009 to July 23, 2010.
- 10. Attached hereto and marked as **Exhibit "B"** is Mahalo's revised projected cash flow statement to October 15, 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 "C" to my prior Affidavit, dated May 20, 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 have issued the majority of the disallowances in relation to these claims. This disallowance process is ongoing.

RELIEF SOUGHT

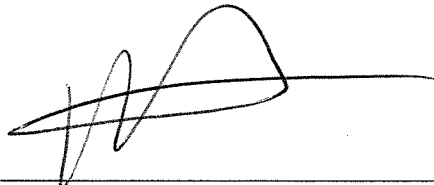
- 12. I make this Affidavit in support of an application by Mahalo to have the Stay Period extended to October 15, 2010 and to amend Paragraph 23 of the Initial Order in accordance with the form attached as Schedule "A" to the Notice of Motion filed herewith.

SWORN BEFORE ME at the City of Calgary,)
in the Province of Alberta this 27th day of)
July, 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 27th
day of July.....A.D. 2010

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

Trevor A. Batty
Barrister and Solicitor

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

In Canadian \$

	<u>Cumulative</u>		<u>Variance</u>	
	<u>Budget</u>	<u>Actual</u>	<u>In \$'s</u>	<u>% of budget</u>
Opening Cash on hand	\$ 59,798	\$ 59,798	\$0	0.0%
Canadian Revenue				
GORR Revenue	57,762	51,634	(\$6,128)	-10.6%
Anticipated cash receipt	1,042,630	1,051,988	\$9,358	0.9%
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%
	-	-		
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	(201,114)	(201,114)	\$0	0.0%
Power prepayment	-	-	\$0	0.0%
	-	-		
	-	-		
Net Revenue	844,106	847,335	\$3,230	0.4%
	-	-		
G&A Disbursements				
Canadian Rent	(210,253)	(201,357)	\$8,896	-4.2%
Canadian Payroll and consultants	(1,339,688)	(1,325,039)	\$14,650	-1.1%
Canadian Benefits	(88,189)	(86,593)	\$1,596	-1.8%
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	(12,024)	(12,007)	\$17	-0.1%
Communication	(54,415)	(56,314)	(\$1,899)	3.5%
insurance (assumed paid in USA)	(22,615)	(22,615)	\$0	0.0%
Computer license rentals	(29,943)	(30,580)	(\$637)	2.1%
Severance/Vacation Pay	(6,000)	(6,000)	\$0	0.0%
Bank Fees	(2,722)	(2,492)	\$230	-8.5%
Other G&A	(100,542)	(107,071)	(\$6,529)	6.5%
Total Disbursements	\$ (2,037,343)	\$ (2,021,019)	\$16,324	-0.8%
Total Cashflow before Management Fee	\$ (1,193,238)	\$ (1,173,684)	\$19,554	-1.6%
Management fee	1,950,631	1,950,631	\$0	0.0%
	-	-		
Professional Fees:				
Tax return preparation	(19,604)	(4,604)	\$15,000	-76.5%
2009 audit	(50,000)	(64,904)	(\$14,904)	29.8%
US counsel retainer	-	-	\$0	0.0%
corporate transaction costs	(108,113)	(35,025)	\$73,088	-67.6%
BDP				
Retainer	-	-		
Fees (\$250,000 less Retainer of \$85,000)	(329,410)	(289,410)	\$40,000	-12.1%
Alger				
Retainer	-	-		
Fees (\$160,000 less retainer of 35,000)	(300,642)	(254,587)	\$46,055	-15.3%
Cash on Hand	<u>\$ 9,422</u>	<u>\$ 188,215</u>	<u>\$ 178,793</u>	<u>1897.6%</u>

Mahato Energy Cash Flow Budget

EXHIBIT B

Week ending	7/23/10	7/30/10	8/6/10	8/13/10	8/20/10	8/27/10	9/3/10	9/10/10	9/17/10	9/24/10	10/1/10	10/8/10	10/15/10	Totals
(CD's except for unit data)														
Canadian revenue		8,500					8,500				8,500			25,500
Collection of receivables	1,300													1,300
Royalty Deposit			185,000											185,000
ERCB deposit			29,000											29,000
Other														-
Operating Disbursements														
Operating Expense														
Canadian Rent			(8,000)				(8,000)							(24,000)
Canadian Payroll & consultants			(41,500)	(26,917)			(26,917)		(26,917)				(26,917)	(176,083)
Canadian Benefits			(9,975)											(9,975)
Securities Commissions														
Travel														
Meals and entertainment														
Stationary														
Communication			(500)			(500)						(500)		(1,500)
Insurance														
Computer license rentals			(800)			(800)								(2,400)
Severance/Vacation pay														
Bank fees			(100)			(100)								(300)
Other G&A			(2,000)			(2,000)								(6,000)
Sub-total operating disbursements			(54,875)	(8,000)		(3,400)	(34,917)		(26,917)			(26,917)		(220,258)
Management fee														
Professional Fees:														
2010 Audit			(2,000)											(2,000)
2009 Tax Return			(8,000)											(8,000)
Corporate Transaction costs/retainers														
BDP			(52,000)			(20,000)								(92,000)
Alger & Counsel			(25,000)	(15,000)		(30,000)								(90,000)
Cash required			(130,575)	(24,500)		160,600	(26,417)		(26,917)			(69,817)	(26,917)	(171,458)
Cash on Hand - Opening	188,216	188,216	57,641	33,141	6,224	6,224	166,824	140,408	140,408	140,408	113,491	113,491	43,674	188,216
Cash on Hand - Closing	188,216	57,641	33,141	6,224	6,224	166,824	140,408	140,408	113,491	113,491	43,674	43,674	16,758	16,758

THIS IS EXHIBIT "B" referred to in the Affidavit of David Burton Sworn before me this 27th day of July 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 July 27, 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
1400, 350 – 7th Avenue S.W.
Calgary, Alberta
T2P 3N9

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

File No. 60470-42

