

**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, JAMES BURNS, of the City of Calgary, in the Province of Alberta, Businessman, MAKE OATH AND SAY AS FOLLOWS:

1. I am 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").
3. Since the granting of the Initial Order, Mahalo has acted in good faith and diligence in respect of the restructuring of its affairs. In this regard, the following has been accomplished since the granting of the Initial 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 diligently worked toward completing the sale of its remaining oil and gas properties, with the sale currently projected to close on July 2, 2009;
 - (c) Mahalo continues to work with the Monitor to communicate with the stakeholders and clarify financial information;

- (d) All of Mahalo's employees and management, with the exception of Mahalo's Chief Financial Officer (who has resigned), have remained with Mahalo since the granting of the Initial Order;
- (e) Mahalo's creditors and stakeholders continue to be cooperative and Mahalo is currently negotiating with several of its creditors to ensure continuation of supply of post-petition goods and services; and
- (f) Mahalo continues to meet its regulatory disclosure requirements in accordance with its statutory duties.

STATUS OF MAHALO ENERGY (USA) INC.'S ("MAHALO USA") CHAPTER 11 PROCEEDINGS

4. I am advised by Mahalo USA's counsel in Oklahoma that the following has occurred in Mahalo USA's Chapter 11 proceedings:
- (a) Mahalo USA filed for protection under Chapter 11 of the United States Bankruptcy Code on May 21, 2009, in the United States Bankruptcy Court for the Eastern District of Oklahoma, Case Number 09-80795. Mahalo USA has been a debtor in possession operating its business and managing its properties since the date it filed for bankruptcy protection;
 - (b) On May 27, 2009, the Bankruptcy Court authorized Mahalo USA to use a limited amount of cash collateral through June 8, 2009, to avoid immediate and irreparable harm to Mahalo USA and its bankruptcy estate. A request to approve post-bankruptcy financing and a procedure through which substantially all of Mahalo USA's assets would be expeditiously sold was denied by the Bankruptcy Court on June 9, 2009. On June 12, 2009, the Bankruptcy Court authorized Mahalo USA to use additional cash collateral through June 25, 2009, again to avoid immediate and irreparable harm to Mahalo USA and its bankruptcy estate. A final hearing is set on June 25, 2009 to approve Mahalo USA's use of cash collateral, and Mahalo USA continues to explore longer term solutions to its cash needs, both through cash collateral usage and through alternative post-bankruptcy financing that does not include the features that prompted the Bankruptcy Judge to deny the earlier financing request; and
 - (c) Various other applications and motions have been filed in the Mahalo USA bankruptcy case that concern administrative matters. Those filings seek relief ranging from


establishing a shortened notice list, to employment of professionals, to payment of critical vendors. Several of these matters have been granted, but others continue to be pending for resolution and will be considered by the Bankruptcy Court on June 24, 2009.

- 5. I further understand that at present there are no viable restructuring alternatives for Mahalo USA apart from the sale of all or substantially all of Mahalo USA's assets. Due to the Bankruptcy Court's initial refusal to approve of the proposed sale process, Mahalo USA intends to re-apply at a later date for an alternate sales process in a format that is more likely to gain Court approval. Mahalo USA is presently attempting to negotiate the form of the sales process and the requisite funding with its secured lender - Ableco Finance LLC ("Ableco"). An extension of the stay is required to allow these negotiations to continue and, if successful, to allow Mahalo USA to make a further application to the Bankruptcy Court for approval of a sales process for the assets of Mahalo USA.

FINANCIALS

- 6. Attached to the First Report of the Monitor, filed June 18, 2009, and marked as Exhibit "2", is a summary of Mahalo's actual receipts and disbursements from the date of the Initial Order to June 12, 2009.
- 7. Attached hereto and marked as Exhibit "A" is Mahalo's revised projected cash flow statement to July 31, 2009, which cash flow statement has been approved by both the Monitor and Ableco. This revised cash flow statement is intended to replace the previous cash flow statement attached as Exhibit "H" to the Affidavit of James Burns sworn May 21, 2009 and to serve as the "Budget", as defined in Paragraph 23 of the Initial Order.
- 8. I make this Affidavit in support of an application by Mahalo to have the Stay Period extended to July 30, 2009 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 18th day of June,)
2009.)
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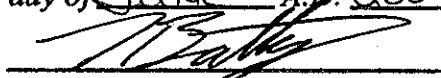
A Commissioner for Oaths in and for the Province
of Alberta

Trevor A. Batty
Barrister and Solicitor



JAMES BURNS

THIS IS EXHIBIT " A "
referred to in the Affidavit of
JAMES BURNS
Sworn before me this 18
day of JUNE A.D. 2009



A Commissioner in and for the Province of Alberta

Trevor A. Batty
Barrister and Solicitor

CCAA Protection

Assumptions

\$290,000 Professional Fees

Retainers Paid Pre-filing

Nothing paid post the plan effective date

Post petition vendors kept current

Staff reduction

Reduction made at filing

additional reductions one month after

Severance paid under US DIP plan therefore not included in Canadian DIP budget

Retention Bonuses

1 week/ month served in bankruptcy

Paid Under US DIP plan therefore not included in Canadian DIP budget

All Canadian Operations are sold in early June (assume June 1)

Effective date = closing date, no adjustments

Sale is subject to negotiation and execution of a binding Purchase and Sale Agreement

Action No. 0901-07221

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OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

Affidavit of James Burns
Sworn June 18, 2009

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

AND THE MATTER OF THE *BUSINESS*
CORPORATIONS ACT, R.S.A. 2000, c. B-9

AND IN THE MATTER OF
MAHALO ENERGY LTD.

AFFIDAVIT

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File No. 60470-42

