

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 July 30, 2009 (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 negotiated and sold its remaining oil and gas assets to Trafina Energy Ltd. and Sedna Oil and Gas Ltd., which sale was approved by the Court on August 21, 2009 and closed on September 4, 2009;
- (c) Since closing the asset sale, 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;
- (d) Mahalo has reduced its complement of employees and contractors following the closing of the asset sale and, in order to retain the remaining personnel required for Mahalo Energy USA Inc.'s ("Mahalo USA") Chapter 11 proceedings, Mahalo has implemented a retention bonus plan for these personnel. This plan has been approved by the US Courts on the basis that Mahalo USA is largely responsible for funding this retention bonus plan via the management fee as outlined within the revised cash flow statement attached as Exhibit "B".
- (e) Mahalo has also reduced its overhead by relocating its offices to a smaller space at a reduced lease rate, commencing August 1, 2009;
- (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 PROCEEDINGS

- 4. I am advised by Mahalo USA's counsel in Oklahoma that the following has occurred in Mahalo USA's Chapter 11 proceedings since the Stay Extension Order:
 - (a) Mahalo USA has been involved in negotiating and obtaining Court approval for its ongoing use of cash collateral, which is necessary to preserve and protect the value of Mahalo USA's assets. Mahalo USA has succeeded in obtaining Court approval for budgeted cash collateral usage throughout the case to date, and has a

pending request for approval that will be heard October 7, 2009. If granted, the pending request will permit cash collateral usage into November of 2009;

- (b) To avoid the potential of certain provisions of the bankruptcy code that require fairly prompt action with respect to non-residential real property leases under which a debtor is the lessee from impairing the value of Mahalo USA's oil and gas leases, Mahalo USA sought and obtained an extension of time to December 17, 2009 within which Mahalo may take any required action;
- (c) Mahalo USA requested the Court to set a claims bar date, which it did. The bar date set is October 13, 2009 for non-governmental entity creditors;
- (d) Mahalo USA also sought and obtained a Court extension of the exclusive period within which Mahalo USA alone can propose and seek confirmation of a plan to October 19, 2009;
- (e) Significant time has been spent assessing material claims asserted in the case, both in terms of amount and relative priority, and in fielding inquiries by creditors;
- (f) Mahalo USA has been actively involved in drafting a reorganization plan and the related disclosure statement, and anticipates filing the same in early October. Court consideration of the adequacy of the disclosure statement is likely to occur in early November, assuming Mahalo USA is able to meet the anticipated filing date indicated above. Approval of the disclosure statement is a prerequisite to soliciting acceptances on a reorganization plan. If Mahalo USA stays on the timeline, Court consideration of plan confirmation would occur toward the end of December, assuming the Court's docket permits.

FINANCIALS

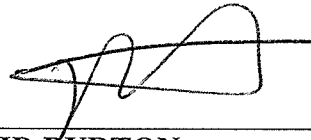
5. Attached hereto, and marked as Exhibit "A", is a summary of Mahalo's actual receipts and disbursements from the date of May 22, 2009, to September 18, 2009.

- 6. Attached hereto and marked as Exhibit "B" is Mahalo's revised projected cash flow statement to January 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 "B" to the Affidavit of Stuart King, sworn July 29, 2009, and to serve as the "Budget", as defined in Paragraph 23 of the Initial Order.
- 7. I make this Affidavit in support of an application by Mahalo to have the Stay Period extended to January 15, 2010, and to amend Paragraphs 23 and 26(b) 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 1st day of)
 October, 2009.)
)
)
)

B.P.O. Leary

 A Commissioner of Oaths in and for the
 Province of Alberta



DAVID BURTON

Brian P. O'Leary Q.C.
Barrister & Solicitor

EXHIBIT "A"

THIS IS EXHIBIT "A" REFERRED
TO IN THE AFFIDAVIT OF DAVID
BURTON SWORN BEFORE ME THIS
1ST DAY OF OCTOBER, 2009.



A Commissioner for Oaths in and for the
Province of Alberta

Brian P. O'Leary Q.C.
Barrister & Solicitor

Mahalo Energy Ltd. Cash Flow Budget vs. Actual, Canadian Operations during CCAA process
EXHIBIT 1
In Canadian \$

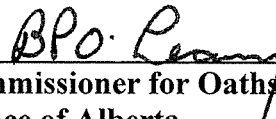
	<u>Cumulative</u>		<u>Variance</u>	
	<u>Budget</u>	<u>Actual</u>	<u>In \$'s</u>	<u>% of budget</u>
Opening Cash on hand	\$ 59,798	\$ 59,798	\$0	0.0%
Canadian Revenue				
GORR Revenue	800	-		
Anticipated cash receipt (Sale of Surplus Junk)	609,969	609,969	(\$0)	0.0%
Repayment to Ableco	(256,080)	(256,080)	\$0	0.0%
Production Revenue	299,614	282,974	(\$16,640)	-5.6%
Canadian receipts	-	13,101	\$13,101	100.0%
US receipts	-	80,274	\$80,274	0.0%
Operating Disbursements				
Transaction Costs of Canadian Sale	(44,969)	(62,287)	(\$17,318)	38.5%
Pipeline discontinuations	(12,693)	(12,693)	\$0	0.0%
Saskatchewan Environment	-	(47,299)	(\$47,299)	100.0%
Operating Expense	(157,851)	(157,237)	\$614	-0.4%
Power prepayment	-	-	\$0	0.0%
Net Revenue	438,790	450,721	\$11,931	2.7%
G&A Disbursements				
Canadian Rent	(102,879)	(102,722)	\$157	-0.2%
Canadian Payroll and consultants	(411,482)	(459,908)	(\$48,427)	11.8%
Canadian Benefits	(20,169)	(13,863)	\$6,306	-31.3%
Listing fee	(7,875)	(7,875)	\$0	0.0%
Travel	(53,555)	(46,436)	\$7,119	-13.3%
Meals and entertainment	(9,836)	(5,122)	\$4,714	-47.9%
Stationary	(4,281)	(2,789)	\$1,492	-34.9%
Communication	(25,249)	(17,700)	\$7,549	-29.9%
insurance (assumed paid in USA)	-	-	\$0	0.0%
Computer license rentals	(14,957)	(13,398)	\$1,559	-10.4%
Severence/Vacation Pay	(16,313)	(16,313)	\$0	0.0%
Bank Fees	(2,738)	(1,250)	\$1,488	-54.3%
Other G&A	(25,211)	(20,377)	\$4,834	-19.2%
Total Disbursements	\$ (694,545)	\$ (707,754)	(\$13,209)	1.9%
Total Cashflow before Management Fee	\$ (255,756)	\$ (257,033)	(\$1,277)	0.5%
Management fee	659,599	754,246	\$94,647	14.3%
Professional Fees:				
BDP				
Retainer				
Fees (\$250,000 less Retainer of \$85,000)	(109,161)	(113,283)	(\$4,122)	3.8%
Alger				
Retainer				
Fees (\$160,000 less retainer of 35,000)	(114,785)	(82,243)	\$32,542	-28.4%
Cash on Hand	\$ 239,695	\$ 361,485	\$ 121,790	50.8%

**Mahalo Energy Ltd. Cash Flow Budget vs. Actual
Summary**

	Revised Budget	Actual	Difference
Opening Cash on hand	59,798	59,798	-
Cash Receipts	1,569,981	1,740,563	170,582
Cash Disbursements	(1,390,084)	(1,438,876)	(48,792)
Closing Cash on Hand	239,695	361,485	121,790

EXHIBIT "B"

THIS IS EXHIBIT "B" REFERRED
TO IN THE AFFIDAVIT OF DAVID
BURTON SWORN BEFORE ME THIS
1ST DAY OF OCTOBER, 2009.



A Commissioner for Oaths in and for the
Province of Alberta

Brian P. O'Leary Q.C.
Barrister & Solicitor

Mahalo Energy Ltd. Budget
Period Ending January 15, 2009

EXHIBIT 2

(Co's)	9/25/08	10/2/09	10/9/09	10/16/09	10/23/09	10/30/09	11/6/09	11/13/09	11/20/09	11/27/09	12/4/09	12/11/09	12/18/09	12/25/09	1/1/10	1/8/10	1/15/10	Total
Canadian Operations																		
Canadian revenue		25,000																25,000
Transaction Costs of Canadian Sale		(15,000)		(20,000)														(35,000)
Operating Disbursements																		
Operating Expense			(15,000)		(7,000)													(23,000)
Canadian Rent																		(36,000)
Canadian Payroll & consultants		(49,925)		(117,162)														(467,882)
Other Consultants in Canada				(15,000)														(31,000)
Canadian Benefits		(53,000)		(5,526)														(69,578)
Listing fee on Venture Exchange									(5,526)									
Travel	(25,070)																	
Meals and entertainment	(3,615)					(18,070)												(88,315)
Stationary	(1,505)					(3,615)												(16,268)
Communication	(7,230)					(1,505)												(6,773)
insurance (assumed paid in USA)						(7,230)												(32,535)
Computer license rentals																		
Severance/Vacation pay																		
Bank fees																		
Other G&A	(7,230)					(3,614)												(10,843)
Operating disbursements	(44,650)	(102,925)	(46,000)	(137,688)	(11,819)	(27,230)	(1,205)	(41,717)	(10,345)	(7,230)	(12,000)	(41,717)	(10,345)	(95,367)	(12,000)	(56,927)	(48,920)	
Management fee	43,757	100,867	15,680	40,278	11,583	119,422	11,760	40,883	10,138	91,500	11,760	40,883	10,138	91,500	11,760	55,789	707,697	
Professional Fees:																		
BDP		(25,000)					(25,000)											(100,000)
Alger & Counsel																		
		(25,000)					(25,000)											(100,000)
Cash required	(893)	(42,059)	(320)	(117,410)	(236)	(2,437)	(50,240)	(834)	(207)	(15,867)	(50,240)	(834)	(207)	(3,867)	(240)	(51,139)		(337,031)
Opening cash on hand	361,485	360,592	318,534	318,214	200,804	200,567	198,130	147,890	147,056	146,849	130,981	80,741	79,907	79,700	75,833	75,833	75,593	361,485
Closing cash on hand	360,592	318,534	318,214	200,804	200,567	198,130	147,890	147,056	146,849	130,981	80,741	79,907	79,700	75,833	75,833	75,593	24,454	24,454

Action No. 0901-07221

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OF ALBERTA
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Affidavit of David Burton
Sworn October 1, 2009

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File No. 60470-42

