

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, STUART KING, of the City of Calgary, in the Province of Alberta, Businessman, MAKE OATH AND SAY AS FOLLOWS:

1. I am the Controller at 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 a stay extension order on June 19, 2009 (the "Stay Extension 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 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 been negotiating the sale of its remaining oil and gas assets to Trafina Energy Ltd. and Sedna Oil and Gas Ltd. and is very close to executing a Purchase and Sale Agreement;

- (c) Mahalo has reduced its overhead by arranging to move its offices to a smaller space at a reduced lease rate, commencing August 1, 2009;
- (d) Mahalo continues to work with and communicate regularly with the Monitor to communicate with stakeholders and clarify financial information; and
- (e) 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 since the Stay Extension Order:
- (a) Mahalo USA has been attempting to stabilize its operations while in Chapter 11, reduce its overhead, and negotiate agreed resolutions of disputes with major creditors.
 - (b) Mahalo USA has responded to creditors' formal requests in the bankruptcy case for relief, such as requests for relief from the automatic stay and to compel Mahalo to assume or reject executory contracts.
 - (c) Mahalo USA is also in the process of finalizing an application requesting the Bankruptcy Court to set a proof of claim bar date, and an application to extend the time to assume or reject unexpired leases of real property under which Mahalo USA is the lessee.
 - (d) The following matters, and the objections and responses thereto, are set for hearing in the U.S. Bankruptcy Court on July 31, 2009:
 - (i) the final hearing Mahalo USA's Motion for Order: (I) Authorizing the Continued Use of Cash Collateral (through July 31, 2009), and (II) Granting Adequate Protection in the Form of Security Interests and Protection Under 507;
 - (ii) Mahalo USA's Application for an Order Approving Employment of GMP Securities L.P. as Financial Advisor for Debtor in Possession in Connection with Asset Sale;
 - (iii) SemGas, L.P.'s Motion for an Order Requiring the Debtor to Assume or Reject an Executory Contract with SemGas, L.P.;

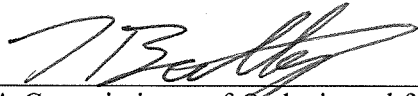
- (iv) Renewed Application by The Official Unsecured Creditors Committee for Order Approving the Retention of Baker & McKenzie LLP as Its Counsel Nunc Pro Tunc to June 4, 2009;
 - (v) Mahalo USA's Application Pursuant to Sections 327(a) and 328(a) of the Bankruptcy Code and Rule 2014 of the Federal Rules of Bankruptcy Procedure for Authorization to Employ and Retain Alvarez & Marsal North America, LLC as Restructuring Advisors to the Debtor Nunc Pro Tunc to the Commencement Date; and
 - (vi) Mahalo USA's Response to Order to Show Cause Why Debtor's Motion for Order Determining Adequate Assurance of Future Performance for Utility Services Should Not be Denied.
- (e) Mahalo USA is also in the process of finalizing a motion requesting authority to use secured creditors' cash collateral for budgeted ordinary course of business operations and in payment of certain administrative expenses in the bankruptcy case. Mahalo USA anticipates that motion will be filed early next week and heard on July 31, with the other matters described above. If granted, this motion will ultimately lead to authorization to use cash collateral through the end of August 2009.

FINANCIALS

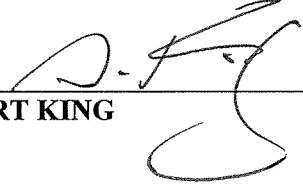
5. Attached hereto, and marked as Exhibit "A", is a summary of Mahalo's actual receipts and disbursements from the date of May 22, 2009, to July 17, 2009.
6. Attached hereto and marked as Exhibit "B" is Mahalo's revised projected cash flow statement to October 30, 2009, which cash flow statement has been approved by the Monitor. This revised cash flow statement is intended to replace the previous cash flow statement attached as Exhibit "A" to the Affidavit of James Burns, sworn June 18, 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 October 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 29th day of July, 2009.)


_____)
A Commissioner of Oaths in and for the Province)
of Alberta)

Trevor A. Batty
Barrister and Solicitor


_____) **STUART KING**

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

In Consideration of

	5/29/09	6/6/09	6/13/09	6/19/09	6/26/09	7/3/09	7/10/09	7/17/09	7/24/09	7/31/09	8/7/09	8/14/09	8/21/09	8/28/09	9/4/09	9/11/09	9/18/09	9/25/09	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	1/22/10	1/29/10	2/5/10	2/12/10	2/19/10	2/26/10	3/5/10	3/12/10	3/19/10	3/26/10	4/2/10	4/9/10	4/16/10	4/23/10	4/30/10	5/7/10	5/14/10	5/21/10	5/28/10	6/4/10	6/11/10	6/18/10	6/25/10	7/2/10	7/9/10	7/16/10	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	10/22/10	10/29/10	11/5/10	11/12/10	11/19/10	11/26/10	12/3/10	12/10/10	12/17/10	12/24/10	12/31/10	1/7/11	1/14/11	1/21/11	1/28/11	2/4/11	2/11/11	2/18/11	2/25/11	3/4/11	3/11/11	3/18/11	3/25/11	4/1/11	4/8/11	4/15/11	4/22/11	4/29/11	5/6/11	5/13/11	5/20/11	5/27/11	6/3/11	6/10/11	6/17/11	6/24/11	7/1/11	7/8/11	7/15/11	7/22/11	7/29/11	8/5/11	8/12/11	8/19/11	8/26/11	9/2/11	9/9/11	9/16/11	9/23/11	9/30/11	10/7/11	10/14/11	10/21/11	10/28/11	11/4/11	11/11/11	11/18/11	11/25/11	12/2/11	12/9/11	12/16/11	12/23/11	12/30/11	1/6/12	1/13/12	1/20/12	1/27/12	2/3/12	2/10/12	2/17/12	2/24/12	3/3/12	3/10/12	3/17/12	3/24/12	3/31/12	4/7/12	4/14/12	4/21/12	4/28/12	5/5/12	5/12/12	5/19/12	5/26/12	6/2/12	6/9/12	6/16/12	6/23/12	6/30/12	7/7/12	7/14/12	7/21/12	7/28/12	8/4/12	8/11/12	8/18/12	8/25/12	9/1/12	9/8/12	9/15/12	9/22/12	9/29/12	10/6/12	10/13/12	10/20/12	10/27/12	11/3/12	11/10/12	11/17/12	11/24/12	12/1/12	12/8/12	12/15/12	12/22/12	12/29/12	1/5/13	1/12/13	1/19/13	1/26/13	2/2/13	2/9/13	2/16/13	2/23/13	2/29/13	3/6/13	3/13/13	3/20/13	3/27/13	4/3/13	4/10/13	4/17/13	4/24/13	5/1/13	5/8/13	5/15/13	5/22/13	5/29/13	6/5/13	6/12/13	6/19/13	6/26/13	7/3/13	7/10/13	7/17/13	7/24/13	7/31/13	8/7/13	8/14/13	8/21/13	8/28/13	9/4/13	9/11/13	9/18/13	9/25/13	10/2/13	10/9/13	10/16/13	10/23/13	10/30/13	11/6/13	11/13/13	11/20/13	11/27/13	12/4/13	12/11/13	12/18/13	12/25/13	1/1/14	1/8/14	1/15/14	1/22/14	1/29/14	2/5/14	2/12/14	2/19/14	2/26/14	3/5/14	3/12/14	3/19/14	3/26/14	4/2/14	4/9/14	4/16/14	4/23/14	4/30/14	5/7/14	5/14/14	5/21/14	5/28/14	6/4/14	6/11/14	6/18/14	6/25/14	7/2/14	7/9/14	7/16/14	7/23/14	7/30/14	8/6/14	8/13/14	8/20/14	8/27/14	9/3/14	9/10/14	9/17/14	9/24/14	10/1/14	10/8/14	10/15/14	10/22/14	10/29/14	11/5/14	11/12/14	11/19/14	11/26/14	12/3/14	12/10/14	12/17/14	12/24/14	12/31/14	1/7/15	1/14/15	1/21/15	1/28/15	2/4/15	2/11/15	2/18/15	2/25/15	3/4/15	3/11/15	3/18/15	3/25/15	4/1/15	4/8/15	4/15/15	4/22/15	4/29/15	5/6/15	5/13/15	5/20/15	5/27/15	6/3/15	6/10/15	6/17/15	6/24/15	7/1/15	7/8/15	7/15/15	7/22/15	7/29/15	8/5/15	8/12/15	8/19/15	8/26/15	9/2/15	9/9/15	9/16/15	9/23/15	9/30/15	10/7/15	10/14/15	10/21/15	10/28/15	11/4/15	11/11/15	11/18/15	11/25/15	12/2/15	12/9/15	12/16/15	12/23/15	12/30/15	1/6/16	1/13/16	1/20/16	1/27/16	2/3/16	2/10/16	2/17/16	2/24/16	3/3/16	3/10/16	3/17/16	3/24/16	3/31/16	4/7/16	4/14/16	4/21/16	4/28/16	5/5/16	5/12/16	5/19/16	5/26/16	6/2/16	6/9/16	6/16/16	6/23/16	6/30/16	7/7/16	7/14/16	7/21/16	7/28/16	8/4/16	8/11/16	8/18/16	8/25/16	9/1/16	9/8/16	9/15/16	9/22/16	9/29/16	10/6/16	10/13/16	10/20/16	10/27/16	11/3/16	11/10/16	11/17/16	11/24/16	12/1/16	12/8/16	12/15/16	12/22/16	12/29/16	1/5/17	1/12/17	1/19/17	1/26/17	2/2/17	2/9/17	2/16/17	2/23/17	2/29/17	3/6/17	3/13/17	3/20/17	3/27/17	4/3/17	4/10/17	4/17/17	4/24/17	5/1/17	5/8/17	5/15/17	5/22/17	5/29/17	6/5/17	6/12/17	6/19/17	6/26/17	7/3/17	7/10/17	7/17/17	7/24/17	7/31/17	8/7/17	8/14/17	8/21/17	8/28/17	9/4/17	9/11/17	9/18/17	9/25/17	10/2/17	10/9/17	10/16/17	10/23/17	10/30/17	11/6/17	11/13/17	11/20/17	11/27/17	12/4/17	12/11/17	12/18/17	12/25/17	1/1/18	1/8/18	1/15/18	1/22/18	1/29/18	2/5/18	2/12/18	2/19/18	2/26/18	3/5/18	3/12/18	3/19/18	3/26/18	4/2/18	4/9/18	4/16/18	4/23/18	4/30/18	5/7/18	5/14/18	5/21/18	5/28/18	6/4/18	6/11/18	6/18/18	6/25/18	7/2/18	7/9/18	7/16/18	7/23/18	7/30/18	8/6/18	8/13/18	8/20/18	8/27/18	9/3/18	9/10/18	9/17/18	9/24/18	10/1/18	10/8/18	10/15/18	10/22/18	10/29/18	11/5/18	11/12/18	11/19/18	11/26/18	12/3/18	12/10/18	12/17/18	12/24/18	12/31/18	1/7/19	1/14/19	1/21/19	1/28/19	2/4/19	2/11/19	2/18/19	2/25/19	3/4/19	3/11/19	3/18/19	3/25/19	4/1/19	4/8/19	4/15/19	4/22/19	4/29/19	5/6/19	5/13/19	5/20/19	5/27/19	6/3/19	6/10/19	6/17/19	6/24/19	7/1/19	7/8/19	7/15/19	7/22/19	7/29/19	8/5/19	8/12/19	8/19/19	8/26/19	9/2/19	9/9/19	9/16/19	9/23/19	9/30/19	10/7/19	10/14/19	10/21/19	10/28/19	11/4/19	11/11/19	11/18/19	11/25/19	12/2/19	12/9/19	12/16/19	12/23/19	12/30/19	1/6/20	1/13/20	1/20/20	1/27/20	2/3/20	2/10/20	2/17/20	2/24/20	3/3/20	3/10/20	3/17/20	3/24/20	3/31/20	4/7/20	4/14/20	4/21/20	4/28/20	5/5/20	5/12/20	5/19/20	5/26/20	6/2/20	6/9/20	6/16/20	6/23/20	6/30/20	7/7/20	7/14/20	7/21/20	7/28/20	8/4/20	8/11/20	8/18/20	8/25/20	9/1/20	9/8/20	9/15/20	9/22/20	9/29/20	10/6/20	10/13/20	10/20/20	10/27/20	11/3/20	11/10/20	11/17/20	11/24/20	12/1/20	12/8/20	12/15/20	12/22/20	12/29/20	1/5/21	1/12/21	1/19/21	1/26/21	2/2/21	2/9/21	2/16/21	2/23/21	2/29/21	3/6/21	3/13/21	3/20/21	3/27/21	4/3/21	4/10/21	4/17/21	4/24/21	5/1/21	5/8/21	5/15/21	5/22/21	5/29/21	6/5/21	6/12/21	6/19/21	6/26/21	7/3/21	7/10/21	7/17/21	7/24/21	7/31/21	8/7/21	8/14/21	8/21/21	8/28/21	9/4/21	9/11/21	9/18/21	9/25/21	10/2/21	10/9/21	10/16/21	10/23/21	10/30/21	11/6/21	11/13/21	11/20/21	11/27/21	12/4/21	12/11/21	12/18/21	12/25/21	1/1/22	1/8/22	1/15/22	1/22/22	1/29/22	2/5/22	2/12/22	2/19/22	2/26/22	3/5/22	3/12/22	3/19/22	3/26/22	4/2/22	4/9/22	4/16/22	4/23/22	4/30/22	5/7/22	5/14/22	5/21/22	5/28/22	6/4/22	6/11/22	6/18/22	6/25/22	7/2/22	7/9/22	7/16/22	7/23/22	7/30/22	8/6/22	8/13/22	8/20/22	8/27/22	9/3/22	9/10/22	9/17/22	9/24/22	10/1/22	10/8/22	10/15/22	10/22/22	10/29/22	11/5/22	11/12/22	11/19/22	11/26/22	12/3/22	12/10/22	12/17/22	12/24/22	12/31/22	1/7/23	1/14/23	1/21/23	1/28/23	2/4/23	2/11/23	2/18/23	2/25/23	3/4/23	3/11/23	3/18/23	3/25/23	4/1/23	4/8/23	4/15/23	4/22/23	4/29/23	5/6/23	5/13/23	5/20/23	5/27/23	6/3/23	6/10/23	6/17/23	6/24/23	7/1/23	7/8/23	7/15/23	7/22/23	7/29/23	8/5/23	8/12/23	8/19/23	8/26/23	9/2/23	9/9/23	9/16/23	9/23/23	9/30/23	10/7/23	10/14/23	10/21/23	10/28/23	11/4/23	11/11/23	11/18/23	11/25/23	12/2/23	12/9/23	12/16/23	12/23/23	12/30/23	1/6/24	1/13/24	1/20/24	1/27/24	2/3/24	2/10/24	2/17/24	2/24/24	3/3/24	3/10/24	3/17/24	3/24/24	3/31/24	4/7/24	4/14/24	4/21/24	4/28/24	5/5/24	5/12/24	5/19/24	5/26/24	6/2/24	6/9/24	6/16/24	6/23/24	6/30/24	7/7/24	7/14/24	7/21/24	7/28/24	8/4/24	8/11/24	8/18/24	8/25/24	9/1/24	9/8/24	9/15/24	9/22/24	9/29/24	10/6/24	10/13/24	10/20/24	10/27/24	11/3/24	11/10/24	11/17/24	11/24/24	12/1/24	12/8/24	12/15/24	12/22/24	12/29/24	1/5/25	1/12/25	1/19/25	1/26/25	2/2/25	2/9/25	2/16/25	2/23/25	2/29/25	3/6/25	3/13/25	3/20/25	3/27/25	4/3/25	4/10/25	4/17/25	4/24/25	5/1/25	5/8/25	5/15/25	5/22/25	5/29/25	6/5/25	6/12/25	6/19/25	6/26/25	7/3/25	7/10/25	7/17/25	7/24/25	7/31/25	8/7/25	8/14/25	8/21/25	8/28/25	9/4/25	9/11/25	9/18/25	9/25/25	10/2/25	10/9/25	10/16/25	10/23/25	10/30/25	11/6/25	11/13/25	11/20/25	11/27/25	12/4/25	12/11/25	12/18/25	12/25/25	1/1/26	1/8/26	1/15/26	1/22/26	1/29/26	2/5/26	2/12/26	2/19/26	2/26/26	3/5/26	3/12/26	3/19/26	3/26/26	4/2/26	4/9/26	4/16/26	4/23/26	4/30/26	5/7/26	5/14/26	5/21/26	5/28/26	6/4/26	6/11/26	6/18/26	6/25/26	7/2/26	7/9/26	7/16/26	7/23/26	7/30/26	8/6/26	8/13/26	8/20/26	8/27/26	9/3/26	9/10/26	9/17/26	9/24/26	10/1/26	10/8/26	10/15/26	10/22/26	10/29/26	11/5/26	11/12/26	11/19/26	11/26/26	12/3/26	12/10/26	12/17/26	12/24/26	12/31/26	1/7/27	1/14/27	1/21/27	1/28/27	2/4/27	2/11/27	2/18/27	2/25/27	3/4/27	3/11/27	3/18/27	3/25/27	4/1/27	4/8/27	4/15/27	4/22/27	4/29/27	5/6/27	5/13/27	5/20/27	5/27/27	6/3/27	6/10/27	6/17/27	6/24/27
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	7/17/09	7/24/09	7/31/09	8/7/09	8/14/09	8/21/09	8/28/09	9/4/09	9/11/09	9/18/09	9/25/09	10/2/09	10/9/09	10/16/09	10/23/09	10/30/09
Canadian Revenue																
GORR Revenue																
Anticipated cash receipt (Sale of Surplus Junk)																
Repairment to Ahlco.																
Production (boed)			65													
Estimated Price			40.00													
Production Revenue			80.600													
Operating Disbursements																
Transaction Costs of Canadian Sale																
Operating Expense																
Power prepayment																
Net Revenue			45.600	(25.000)			800				800					800
G&A Disbursements																
Canadian Rent	(60,000)		(36,000)													
Canadian Payroll	(22,583)		(22,583)													
Consultants (W. Sharp, S. King)	(27,500)		(27,500)													
Consultants post-filing (Debbie, Daniela, Terry, Larry)	(10,880)		(8,000)	(6,400)												
Canadian Benefits			(8,000)													
Listing fee on Venture Exchange			(5,266)													
Travel			(18,070)													
Meals and entertainment			(3,615)													
Stationary			(1,505)													
Communication			(7,230)													
Insurance (assumed paid in USA)			(3,614)													
Computer license rentals			(16,313)													
Severance/Vacation pay			(1,205)													
Bank fees			(7,230)													
Other G&A																
Total Disbursements	\$ (70,880)	\$ (148,046)	\$ (6,400)	\$ (36,109)	\$ (11,219)	\$ (95,733)	\$ (18,400)	\$ (32,928)	\$ (39,650)	\$ (50,083)	\$ (28,109)	\$ (4,819)	\$ (89,733)	\$ (22,583)	\$ (27,500)	\$ (2,000)
Total Cashflow before Management Fee	\$ (70,880)	\$ (107,446)	\$ (31,400)	\$ (36,109)	\$ (11,219)	\$ (94,933)	\$ (18,400)	\$ (32,928)	\$ (38,850)	\$ (50,083)	\$ (28,109)	\$ (4,019)	\$ (89,733)	\$ (22,583)	\$ (27,500)	\$ (2,000)
Management fee		137,245														
Professional Fees:																
BDP																
Retainer																
Fees (\$250,000 less Retainer of \$85,000)																
Alger																
Retainer																
Fees (\$160,000 less retainer of \$5,000)																
Cash on Hand	\$ 505,247	\$ 434,367	\$ 394,166	\$ 362,766	\$ 354,204	\$ 347,708	\$ 258,753	\$ 240,353	\$ 240,353	\$ 239,694	\$ 157,741	\$ 156,740	\$ 156,740	\$ 156,177	\$ 156,881	\$ 73,126

THIS IS EXHIBIT B
 referred to in the Affidavit of
 Stuart King
 Sworn before me this 29th
 day of July A.D. 2009
 A Commissioner 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 Stuart King
Sworn July 29, 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

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