

Action No. 0901-07221

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.

EIGHTH REPORT OF THE MONITOR
ALGER & ASSOCIATES INC.

JULY 27, 2010

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EXHIBITS

- A. Cash Flow – Actual vs. Budget for the Period Ended July 23, 2010
- B. Projected Cash Flow to October 15, 2010.

INTRODUCTION

1. On May 21, 2009, Mahalo Energy Ltd. (“Mahalo” or the “Company”) filed a petition pursuant to the provisions of the *Companies’ Creditors Arrangement Act* (“CCAA”) in the Court of Queen’s Bench of Alberta (the “Court”). On May 22, 2009 the Court granted an order (the “CCAA Initial Order”), which, amongst other things, appointed Alger & Associates Inc. (“Alger”) as Monitor (“Monitor”) of Mahalo.
2. The Monitor’s previous reports provided this Honourable Court with information on Mahalo’s affairs, sale of the Company’s assets, updates on Mahalo’s restructuring efforts and applications for extensions of the stay period to August 6, 2010.
3. Copies of certain relevant information related to these proceedings, including the Initial Order, the Petition, the supporting affidavits, the Stay Extension Orders and the Sale Approval and Vesting Order, may be obtained from the Monitor’s website (www.alger.ca/engagements.htm).
4. All defined terms from the Monitor’s previous reports are applicable to this report.
5. The purpose of the Monitor’s Eighth Report is to provide this Honourable Court with:
 - a. Updated information on Mahalo’s operations and restructuring activities since the filing of the Monitor’s Seventh Report;
 - b. Summary of Cashflow for the period ending July 23, 2010;
 - c. Projected Cash Flow for the Period ended October 15, 2010
 - d. Status of the Claims and Disallowance process; and
 - e. The status of Mahalo’s intended corporate transaction previously disclosed in the Monitor’s seventh report.

Limitations of Report

6. The information contained in this report has been obtained from the records of Mahalo and is based upon discussions with, and representations made by, management.

POST CCAA OPERATIONS

Sale of Assets

7. All transfers to the Purchaser are now complete. The Company has applied for the refund of the \$29,000 ERCB deposit and expects receipt imminently.

Actual Cash Flow for period ended July 23, 2010

8. Attached as Exhibit A is a detailed analysis of Mahalo's actual versus budgeted cash flow for the period ended July 23, 2010. A summary comparison of the actual versus budgeted cash flow for this period is as follows:

Mahalo Energy Ltd. Actual vs. Budgeted Cash Flow For the Period May 22, 2009 to July 23, 2010	Budget	Actual	Difference
Opening Cash on hand	\$59,798	\$59,798	-
Cash Receipts	3,441,448	3,444,678	3,230
Cash Disbursements	<u>(3,491,824)</u>	<u>(3,316,261)</u>	<u>175,564</u>
Closing Cash on Hand	\$9,422	188,215	\$ 178,793

9. The actual cash disbursements for the period were less than the budgeted amount as professional and consulting fees payments were deferred to subsequent periods as reflected in the projected cash flows discussions following. Even without this deferment, cash disbursements would have still been under the overall budgeted amount.

Expenditure Variances in Excess of Budget Thresholds

10. Pursuant to Clause 26 (b) of the CCAA Initial Order, as amended, line item expenditure variances greater than 10% of the budgeted expenses (15% on a three week average basis) are required to be reported to the Lenders.
11. The only item in excess of the threshold variances was the 2009 audit cost, which was 30% in excess of budget. The budgeted amount erroneously did not factor in the administrative surcharge applicable on the audit firm's engagements or GST. In addition, more time was incurred on the audit relative to initial expectations.

Cash Flow Budget for period ending October 15, 2010

12. The Company has prepared a cash flow budget for the period ending October 15, 2010, which is attached as Exhibit "B" to this report. A summary of this cash flow budget for this period is as follows:

Mahalo Energy Ltd.	
Budgeted Cashflow Summary	
Period ending October 15, 2010	
Opening cash on hand	\$ 188,216
<u>Cash Receipts</u>	
Deposits and Receivable collections	215,300
Gross Over-riding Royalty	25,500
	240,800
<u>Cash Disbursements</u>	
Restructuring costs	(192,000)
Payroll, Consultants and related	(176,083)
Other G&A	(44,175)
	(412,258)
Closing cash on hand	\$ 16,758

13. The following are the explanations for the budgeted figures:

Cash Receipts

- GORR: Mahalo has retained a GORR on the sale of the Canadian assets sold to the Purchaser.
- Accounts Receivable: Mahalo anticipates nominal receipts for recoverable GST.
- Deposit receipts: Mahalo anticipates the receipt of \$29,000 from the release of a deposit held on behalf of the ERCB and an additional receipt of \$185,000 from the release of the royalty deposit held by the Alberta government.

Disbursements

- Payroll, consultants: the payroll and consultants costs reflect the personnel required to help administer the remaining Canadian activities.
- Other G&A: costs for external consultants, professionals, rent, and other G&A.
- Restructuring costs: costs of the Company's counsel and that of the Monitor and its counsel for this period. These costs will be supplemented by professional costs required to complete the potential corporate transaction outlined further in the report.
14. Due to the timing of their receipt of the budget to October 15, 2010, the budget has not yet been formally approved by the Lenders. However, it is hoped that formal approval will be received prior to the Court application to extend the CCAA Stay.

Remaining Assets

Accounts Receivable

15. Aside from a number of doubtful accounts that have been fully provided for, the Company has only a nominal amount of recoverable GST.

Prepaid expenses / Deposits

16. The current remaining deposit balance is approximately \$218,000, comprised of an ERCB deposit of \$29,000 and an Alberta Crown Royalty deposit of \$189,000.
17. With the transfer of all of the remaining properties now complete, the Company anticipates the receipt of the royalty and ERCB deposits following the completion of applicable government processes and the transfer of the remaining well. The \$29,000 ERCB deposit is anticipated to be received within the budget period. The Company expects that it will also receive its royalty deposit back within the budget period. The Monitor considers this expectation reasonable in the circumstances.

GORR

18. The GORR retained by the Company from the sale of the remaining Canadian properties continues to produce income for the Company and is intended to be part of the proposed Corporate Transaction being negotiated as discussed later in report.

Seismic Library

19. The Company's seismic library is subject to a transfer fee that will otherwise eliminate any value realization efforts.
20. Discussions with marketing agents revealed that, with the applicable transfer fee, which the owner of the seismic library confirmed, was now applicable following the sale of substantially all of the Company's assets in 2009, there would be no net proceeds realizable by the Company if it attempted to sell the seismic library.

21. The candidate outlined in the Corporate Transaction section following does not wish to retain the seismic library with its required monthly archiving fee and as such this contract is being repudiated as a condition of the Corporate Transaction.

Investment in and advances to Mahalo USA

22. As disclosed in the affidavit of David Burton of May 20, 2010, a copy of which is available at www.alger.ca/engagements.htm, there will be no recovery from Mahalo's investments in and advances to Mahalo USA.

Corporate Transaction

23. As outlined in previous Monitor reports, the Company possesses certain physical assets and 2009 tax pools in excess of \$70 million, a 2010 loss on its \$29 million in advances to Mahalo USA and a 2010 loss on its \$23 million investment in Mahalo USA, all of which may have realization values within a properly structured corporate transaction.
24. In March 2010, Mahalo engaged Alger & Associates Inc. ("Alger") as a Corporate Transaction Advisor to conduct a process to identify a party to pursue a corporate transaction to monetize some or all of the remaining assets and the tax pools.
25. During the process several parties submitted letters of intent ("LOI") in regard to a corporate transaction. A due diligence process was completed and the Company entered into an LOI with one of the parties.
26. Mahalo has negotiated and participated in the drafting of a definitive 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.
27. The execution of the Investment Agreement and the submission of the Plan of Arrangement will have to be delayed for the reasons outlined in the Cease Trade Orders discussion following.

Cease Trade Orders

28. The following discussion has been obtained from the Affidavit of David Burton of July 27, 2010, which is posted at <http://alger.ca/mahalo/index.html>.

- a. 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").
- b. 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 of Arrangement with the Court. As a result, the Regulatory Authorities have delayed Mahalo's initial timeline with the issuance of the CTOs.
- c. 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;
- d. 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.
- e. 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:

1. Mahalo will submit its application to the Regulatory Authorities the week of July 26, 2010;
2. The Regulatory Authorities will grant the partial revocation order by mid-August;
3. 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;
4. 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
5. The corporate transaction will close on or before October 15, 2010.

Claims Process

29. The Court granted a Claims Process Order on January 13, 2010 and the Company and the Monitor conducted the necessary steps to implement the claims process shortly thereafter. The Monitor has received 85 unsecured claims totalling \$5.74 million and the Monitor has issued or will soon be issuing partial disallowances for approximately \$1.78 million of those claims. Additional information on this matter will be contained in a future Monitor's report.

Creditor Matters

Pre-CCAA Creditors

30. Various pre-CCAA creditors have contacted the Monitor. All such creditors have been informed of the terms of CCAA Initial Order.
31. Additional creditors that were not included in Mahalo's vendor listings have contacted the Monitor and have been provided with the required information and have also been added to the Monitor's creditor listing and included in the aforementioned claims process.

Post-CCAA Creditors

32. Mahalo has paid all of its operating expenses on a current basis.

EXTENSION OF STAY PERIOD

33. The current stay period expires on August 6, 2010 and Mahalo will be applying for a further extension to October 15, 2010. The extension is necessary for Mahalo to:

- Continue the efforts to monetize Mahalo's remaining assets through the Corporate Transaction process previously discussed, including concluding matters with the relevant securities commissions regarding the required partial revocation of the CTOs;
- Complete the claims process, including continuing issuances of notices of disallowance to applicable claimants; and
- File a Plan of Arrangement based on a successful Corporate Transaction.

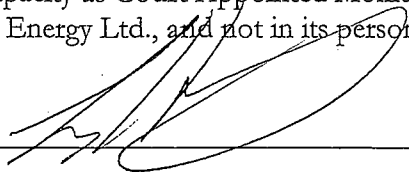
34. Mahalo has continued to act in good faith and with due diligence to work on a restructuring plan to the benefit of its creditors and shareholders.

35. The Monitor is of the opinion that an extension of the stay period is appropriate in the circumstances and recommends that the Court grant the stay to the October 15, 2010 date contained in Mahalo's application.

Respectfully submitted on this 27th day of July, 2010.

Alger & Associates Inc.

In its capacity as Court Appointed Monitor of
Mahalo Energy Ltd., and not in its personal capacity.



Per: Guy W.L. Odhams
Senior-Vice President

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

EXHIBIT A

In Canadian \$

	Cumulative		Variance	
	Budget	Actual	In \$'s	% of budget
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%
Severence/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	\$ 9,422	\$ 188,215	\$ 178,793	1897.6%

Mahalo Energy Cash Flow Budget

EXHIBIT B

(CD \$'s except for unit data)	Week ending										Totals			
	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
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		(41,500)	(8,000)	(26,917)			(8,000)		(26,917)		(8,000)		(26,917)	(24,000)
Canadian Payroll & consultants							(26,917)				(26,917)			(176,083)
Canadian Benefits		(9,975)												(9,975)
Securities Commissions														-
Travel														-
Meals and entertainment														-
Stationary		(500)				(500)					(500)			(1,500)
Communication														-
Insurance														-
Computer license rentals		(800)				(800)					(800)			(2,400)
Severance/Vacation pay		(100)				(100)					(100)			(300)
Bank fees		(2,000)				(2,000)					(2,000)			(6,000)
Other G&A		(54,875)	(8,000)	(26,917)		(3,400)	(34,917)		(26,917)		(38,317)		(26,917)	(220,258)
Sub-total operating disbursements														
Management fee														
Professional Fees:														(2,000)
2010 Audit			(2,000)											(8,000)
2009 Tax Return														
Corporate Transaction costs/retainers														
BDP		(52,000)				(20,000)					(20,000)			(92,000)
Alger & Counsel		(25,000)	(15,000)			(30,000)					(20,000)			(90,000)
Cash required		(130,575)	(24,500)	(26,917)		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	166,824	140,408	140,408	140,408	113,491	113,491	43,674	43,674	16,758	16,758

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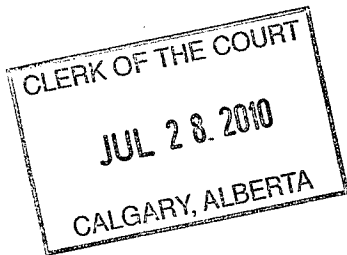
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Alger & Associates Inc.
400, 602 11th Avenue S.W
Calgary, Alberta T2R 1J8
Guy Odhams
Telephone: (403) 296-3143
Email: godhams@alger.ca
