

**PLAN OF ARRANGEMENT  
OF  
MAHALO ENERGY LTD.**

**PURSUANT TO THE  
*COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)***

**AUGUST 18, 2010**

**PLAN OF ARRANGEMENT  
OF  
MAHALO ENERGY LTD.  
PURSUANT TO THE  
COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)  
AUGUST 18, 2010**

- THIS PLAN SHOULD BE READ TOGETHER WITH THE PLAN SUMMARY DATED AUGUST 18, 2010, PREPARED BY MAHALO ENERGY LTD., AND THE MONITOR'S REPORT TO CREDITORS DATED AUGUST 18, 2010.
- THE FOLLOWING SCHEDULES ATTACHED HERETO ARE INTEGRAL TO AND FORM PART OF THIS PLAN:

SCHEDULE A – DEFINED TERMS AND INTERPRETATION  
SCHEDULE B – ARTICLES OF REORGANIZATION  
SCHEDULE C – ARTICLES OF REORGANIZATION  
SCHEDULE D – ARTICLES OF REORGANIZATION  
SCHEDULE E – FORM OF PROXY  
SCHEDULE F – MONITOR'S CERTIFICATE  
SCHEDULE G – DRAFT SANCTION ORDER  
SCHEDULE H – INVESTMENT AGREEMENT ARTICLE 6:  
CONDITIONS TO CLOSING  
SCHEDULE I – PLAN SUMMARY

- ALL CAPITALIZED TERMS USED, BUT NOT DEFINED HEREIN, HAVE THE MEANING ASCRIBED TO SUCH TERMS IN SCHEDULE "A".

**ARTICLE 1  
BACKGROUND**

**1.1 Background**

Mahalo Energy Ltd. ("**Mahalo**" or the "**Corporation**") is a publicly listed corporation on the NEX board of the TSX Venture Exchange and is a reporting issuer in the Provinces of BC, AB, SK, MB, ON and PQ. Mahalo was a junior, unconventional natural gas producer whose primary business is the acquisition of, exploration for and development and production of coal bed methane and shale gas in Canada and in the United States, as well as the production of conventional oil and gas in Canada. Mahalo's operations in the United States were conducted by its former wholly owned subsidiary, Mahalo Energy (USA) Inc. ("**Mahalo USA**"), which has now completed its Chapter 11 proceedings in the State of Oklahoma, U.S.A. Mahalo's operations in Canada presently consist solely of receiving payments from a gross overriding royalty, all other assets having been disposed of in these proceedings.

**ARTICLE 2  
PURPOSE AND EFFECT OF PLAN**

**2.1 Purpose**

The purpose of this Plan is to effect a compromise and arrangement of all Claims against Mahalo other than Unaffected Claims, and to cause Alpine, certain other investors, and certain creditors of

Mahalo to become the only shareholders of Mahalo, both as provided for herein and pursuant to an Investment Agreement between Mahalo and Alpine, dated August 18, 2010 (the "**Investment Agreement**"), with a view to increasing the recovery of the Lenders and Unsecured Creditors and reducing the uncertainties, risks, costs, delays and possible losses for all Creditors that will otherwise occur. Mahalo has concluded, and the Monitor agrees, that Affected Creditors will obtain a greater return on their Claims if this Plan is approved than if Mahalo is placed in receivership or bankruptcy and its assets liquidated in that process. If that were to occur, the Lenders would receive all proceeds realized because they have first priority security protecting a substantial claim. Affected Creditors should review this Plan and the Monitor's report to creditors dated August 18, 2010, before voting to accept or reject this Plan. The transactions contemplated by this Plan are to be implemented under the CCAA. In essence, this Plan involves payment by Alpine (and others) of money in exchange for shares of Mahalo and the compromise by all creditors of their claims against Mahalo.

## **2.2 Effect of the Plan**

All Affected Claims will be compromised under this Plan and the compromise of such claims shall be binding upon each Affected Creditor and its heirs, executors, administrators, successors and assigns, as the case may be.

## **2.3 Unaffected Claims**

This Plan does not compromise the following Claims (collectively, the "**Unaffected Claims**") which will be paid or otherwise satisfied in accordance with their respective existing arrangements or terms, or as otherwise may be agreed between the relevant Unaffected Creditor and Mahalo and in any event shall be paid or satisfied prior to or concurrently with the implementation of the Plan:

- (a) the amounts secured by the Administration Charge, in accordance with the CCAA Initial Order and any subsequent Orders;
- (b) all Claims arising or accruing for the provision of goods or the performance of services, or both, to Mahalo, on or after the CCAA Filing Date, with the exception of Restructuring Claims, which will be considered to be Affected Claims;
- (c) that portion of any Claim arising from a cause of action for which Mahalo or its directors are fully indemnified by insurance, to the extent of the coverage of such insurance only (the "**Insured Claims**");
- (d) Special Crown Claims; and
- (e) all Restructuring Costs.

## **ARTICLE 3 CLASSES OF AFFECTED CREDITORS**

### **3.1 Classes of Affected Creditors**

The Unsecured Creditors and the Lenders will each form a separate class for the purpose of considering and voting upon this Plan.

**ARTICLE 4**  
**TREATMENT OF CREDITORS AND MAHALO SHAREHOLDERS**

**4.1 Articles of Reorganization**

Promptly following the making of the Sanction Order, Mahalo will file or cause to be filed the Articles of Reorganization substantially in the form appended as Schedule "B" to this Plan, pursuant to which Mahalo shall, among other things, create two new classes of shares being an unlimited number of Class A Common Shares and an unlimited number of Class B Common Shares.

**4.2 Reorganization**

Following the filing of the Articles of Reorganization, appended as Schedule "B" to this Plan, and the filing of the Monitor's Certificate indicating all conditions precedent are satisfied or waived or a Court Order to like effect, the following steps shall occur forthwith:

- (a) Alpine and the Other Investors shall deliver the Subscription Price to the Monitor, which sum (including any deposits) shall be deposited in a separate bank account and distributed by the Monitor in accordance with Section 4.3 of this Plan;
- (b) Mahalo shall issue that number of Class A Common Shares equal to the Elected Amount, at a subscription price of \$1.00 per share, to Alpine, and shall deliver a certificate representing such shares to Alpine in accordance with this Article 4;
- (c) Mahalo shall issue that number of Class A Common Shares equal to the difference between the Elected Amount and the Maximum Amount, at a subscription price of \$1.00 per share, to the Other Investors, and to the extent the Other Investors do not subscribe for or purchase such shares, to Alpine (to the extent unsubscribed or not purchased) and deliver certificates representing such shares to the Other Investors and Alpine, as applicable, in accordance with this Article 4;
- (d) Mahalo shall issue that number of Class B Common Shares equal in number to the aggregate Class A Common Shares issued under Sections 4.2(b) and (c) of this Plan in favour of the Eligible Unsecured Creditors, allocated among them on a pro rata basis based upon the dollar amount of their respective Unsecured Claims, with fractional claims of less than \$1.00 being disregarded, and deliver such shares (including fractional shares) to the Monitor for delivery to the Eligible Unsecured Creditors in accordance with this Plan;
- (e) Mahalo will file or cause to be files Articles of Reorganization substantially in the form appended as Schedule "C" to this Plan pursuant to which, among other things, the rights, privileges, restrictions and conditions attaching to the common shares of Mahalo shall be changed such that such common shares shall be redeemable by Mahalo for an amount equal to the redemption amount provided for in accordance with the changed terms of such common shares, being nil;
- (f) The common shares of Mahalo shall each be deemed to be redeemed by Mahalo for an amount equal to the redemption amount of such shares, being nil, and then cancelled, and all of the other previously issued and outstanding Securities of Mahalo (other than the Class A Common Shares and Class B Common Shares created and issued pursuant to the Plan), shall be cancelled; and
- (g) Mahalo will file, or cause to be filed, Articles of Reorganization substantially in the form appended as Schedule "D" to this Plan, pursuant to which, among other things, all classes of

shares of Mahalo, other than the Class A Common Shares and the Class B Common Shares, shall be removed.

#### **4.3 Payments and Distributions in Satisfaction of Claims**

If the steps set out in Section 4.2 are completed, the Monitor shall, consistent with Section 4.5 hereof:

- (a) pay all Unsecured Creditors from the Cash Pool and distribute Class B Common Shares to them as follows:
  - (i) a cash payment equal to 100% of the amount of their Claim up to the first \$1,500 thereof;
  - (ii) where an Unsecured Creditor has an Unsecured Claim in excess of \$1,500, an additional proportionate distribution of the remainder of the Cash Pool calculated with reference to the amounts of their respective Unsecured Claims; and
  - (iii) distribute the Class B Common Shares to the Eligible Unsecured Creditors, in each case allocated among them on a pro rata basis based upon the dollar amount of their respective Unsecured Claims in accordance with this Plan;

which payment and distribution shall be accepted by the Unsecured Creditors in full satisfaction of their Unsecured Claims;

- (b) pay all of the Residual Funds, net of any amount paid or reasonably anticipated as required for Unaffected Claims, to the Lenders c/o their solicitors Blake, Cassels & Graydon LLP, 3500 Bankers Hall East, 855 – 2<sup>nd</sup> Street S.W., Calgary, Alberta, T2P 4J8, in trust, which Residual Funds shall be accepted by the Lenders in full satisfaction of their Secured Claims, except with respect to their entitlement to the Outstanding Deposits and Accounts Receivable, as set out in paragraph 4.4 below.

#### **4.4 Payment of Outstanding Deposits and Accounts Receivable**

- (a) If the Corporation receives all or any portion of the Outstanding Deposits or Accounts Receivable after the Plan Implementation Date, the Corporation shall promptly remit all amounts as directed by a direction to pay executed and delivered by all of the Lenders and identifying the Lender to whom the amount is to be remitted and the wire instructions therefor. Notwithstanding the foregoing, the Corporation shall not be obligated to make any effort to collect any Outstanding Deposit or Accounts Receivable whether in the ordinary course of business or otherwise; however, to the extent that any Person that is the holder of any Outstanding Deposits or who settles any Accounts Receivable requests receipts or other reasonable confirmations with respect to payments made to the Corporation by such Person, the Corporation will provide such Person with any such receipts or confirmations and will endeavour to reasonably assist the Lenders in responding to any such requests subject to the Corporation receiving reasonable compensations from the Lenders.
- (b) Mahalo shall be entitled to deduct and withhold from any distribution or payment to be made to the Lenders or to any Person on behalf of the Lenders all such amounts as Mahalo, as the case may be, is (i) required to deduct and withhold with respect to such payment under the ITA or any provision of federal, provincial, territorial, state, local or foreign tax law, in each case, as amended or succeeded, or (ii) entitled to withhold under section 116 of the ITA or any

corresponding provision of provincial law. To the extent that any amount is so withheld, such withheld amount shall be treated for all purposes as having been paid to the Lenders in respect of whom such deduction and withholding was made, provided that such withheld amount shall be promptly remitted by Mahalo to the appropriate tax authority unless a section 116 certificate shall have been issued by the Canada Revenue Agency with a certificate limit at least equal to the distribution or payment to be made to a non-resident.

#### **4.5 Disputed Claims**

If a Claim remains unresolved on the Plan Implementation Date, the Cash Pool and Class B Common Shares will nevertheless be allocated to that Disputed Claim in accordance with Section 4.3 on the basis that such Disputed Claim will be allowed in full, and the Monitor will withhold from the Cash Pool and Class B Common Shares, the cash and Class B Common Shares that are allocated to that Disputed Claim pursuant to Section 4.3 (the "**Withheld Property**"). In addition the Monitor may withhold from the Cash Pool a cash reserves for costs and disbursements, including fees and expenses of the Monitor and its legal counsel, as the Monitor shall determine to be appropriate in relation to Disputed Claims. An unsecured Creditor holding a Disputed Claim will not receive a distribution until such the Disputed Claim is resolved; provided however, that until such Disputed Claim is resolved such Unsecured Creditor shall own the Class B Common Shares that have been allocated to it (and a certificate evidencing such shares shall have been delivered to the Monitor in accordance with Section 4.2(d)) and shall be entitled to vote such shares. Upon resolution of such Disputed Claims, the Unsecured Creditor holding such Claim shall be entitled to the Withheld Property to the extent such Disputed Claim is resolved in such creditor's favour and any remaining balance of the Cash Pool and Class B Common Share portions of the Withheld Property relating to such Disputed Claim will be distributed and transferred to the other Eligible Unsecured Creditors on a pro rata basis based upon the dollar amount of their Unsecured Claims (subject to any applicable withholding provisions under this Article 4). For certainty, fractional shares shall be distributable and transferable in accordance with the foregoing. The Monitor shall distribute any remaining balance of the Cash Reserve in accordance with Section 4.3 upon resolution of all Disputed Claims and payment of all costs and expenses.

#### **4.6 Currency**

For the purposes of voting or distribution, a Claim shall be denominated in Dollars. Any Claim in a currency other than Dollars must be converted to Dollars, and such amount shall be regarded as having been converted at the spot rate of exchange quoted by the Bank of Canada for exchanging such currency to Dollars as at noon on the CCAA Filing Date.

#### **4.7 Extinguishment of Claims**

If any Creditor fails to prove any Claim it may have (each an "**Unproven Claim**") in accordance with the claims procedure set out in the Claims Procedure Order or this Plan prior to the applicable Claims Bar Date, the Unproven Claim will be extinguished upon implementation of the Plan. The Unproven Claim shall be barred, and the holder thereof shall not be entitled to receive any distribution in respect of the Unproven Claim under this Plan, and Mahalo, shall be forever released from any liability or obligation in respect of the Unproven Claim.

#### **4.8 Tax Matters**

- (a) **Allocation of Distributions.** All distributions made pursuant to this Plan in respect of an Affected Claim shall be in satisfaction of the outstanding principal amount of such Affected Claim as of the CCAA Filing Date. No interest or penalties shall accrue or be paid on the

Affected Claims from and after the CCAA Filing Date, and any Claim in respect thereof shall be released in accordance with this Plan. Notwithstanding any other provision of this Plan, each Affected Creditor that is to receive a distribution pursuant to this Plan shall have the sole and exclusive responsibility for the payment and satisfaction of any tax obligation imposed by any Authorized Authority on account of such distribution.

- (b) **Right to Withhold.** The Monitor shall be entitled to deduct and withhold from any cash payment to be made to any Unaffected Creditor or Affected Creditor or to any Person on behalf of any Unaffected Creditor or Affected Creditor all such cash amounts as Mahalo, as the case may be, is (i) required to deduct and withhold with respect to such payment under the ITA or any provision of federal, provincial, territorial, state, local or foreign tax law, in each case, as amended or succeeded, or (ii) entitled to withhold under section 116 of the ITA or any corresponding provision of provincial law. To the extent that any cash amount is so withheld, such withheld amount shall be treated for all purposes as having been paid to the Unaffected Creditor or Affected Creditor, as the case may be, in respect of whom such deduction and withholding was made, provided that such withheld amount shall be promptly remitted by the Monitor to the appropriate tax authority unless a section 116 certificate shall have been issued by the Canada Revenue Agency ("**CRA**") with a certificate limit at least equal to the distribution or payment to be made to a non-resident or unless a "Comfort Letter" shall have been issued by CRA or by any other relevant tax authority which indicates that either there is no obligation to remit tax or that any such obligation is deferred.

## **ARTICLE 5 PROCEDURAL MATTERS**

### **5.1 Classification of Creditors**

For the purposes of considering and voting upon this Plan, the Lenders and the Unsecured Creditors shall each comprise a separate class. Each Affected Creditor shall be entitled to one vote for each whole Dollar of Claim Value, and any fraction of one Dollar of Claim Value shall be ignored for voting purposes. The common shareholders shall not comprise a separate class and therefore shall not be entitled to vote on this Plan in that capacity.

### **5.2 Creditors' Meetings**

- (a) Following the filing of this Plan with the Court, Mahalo shall seek the Creditors' Meeting Order authorizing Mahalo to jointly hold the Creditors' Meeting on the date set by the Creditors' Meeting Order at which the Eligible Voting Affected Creditors shall consider and vote upon this Plan. No Person other than Eligible Voting Affected Creditors shall be entitled to consider and vote upon this Plan. The Creditors' Meeting shall be held in accordance with this Plan, the Creditors' Meeting Order and any other applicable Order in respect of the procedure governing the Creditors' Meeting.
- (b) A representative from the Monitor shall preside as the chair (the "**Chair**") of the Creditors' Meeting and shall decide all matters relating to the conduct of the Creditors' Meeting. The only Persons entitled to attend the Creditors' Meeting are the Chair, representatives of the Monitor, representatives of Mahalo, the Eligible Voting Affected Creditors (including the holders of Proxies), the Scrutineers (as defined below) and the respective legal counsel and financial advisors of any of the foregoing. Any other Person may be admitted to the Creditors' Meeting only on the invitation of the Chair.

- (c) The quorum required at any Creditors' Meeting or any adjournment thereof shall be two Eligible Affected Voting Creditors for the Unsecured Class, and one Eligible Affected Voting Creditor for the Lender Class, present in person or by Proxy. If the requisite quorum is not present at the Creditors' Meeting or if the Chair determines that the Creditors' Meeting has to be postponed for any reason, then the Creditors' Meeting shall be adjourned by the Chair to such date, time and place as may be determined by the Chair.
- (d) The Monitor may appoint scrutineers (the "**Scrutineers**") for the supervision and tabulation of the attendance, quorum and Votes Cast at the Creditors' Meeting. A Person or Persons designated by the Monitor shall act as recording secretary of the Creditor's Meeting.

### 5.3 Procedural Matters

- (a) **Voting Procedure.** Each Affected Creditor may vote in person by attending the Creditors' Meeting or by proxy by submitting its duly completed Proxy in accordance with paragraphs 5.3(d) to 5.3(g) below. The results of any and all votes in respect of any class of Affected Creditors conducted at the Creditors' Meeting shall be binding on each such class of Affected Creditors.
- (b) **Disputed Claims.** The Monitor shall keep separate records and tabulations of votes cast in respect of: (i) Proven Claims; and (ii) Disputed Claims. If approval or non approval of this Plan by the Affected Creditors in any class shall prove to be determined by the Votes Cast in respect of Disputed Claims, such result shall be reported to the Court as soon as reasonably possible with a request to the Court for directions regarding an expedited determination of any material Disputed Claims and an appropriate deferral of the application for the Sanction Order and any other applicable dates. The fact that a Claim is allowed for voting purposes shall not preclude Mahalo or the Monitor from disputing such Claim for distribution purposes. Distributions from the Cash Pool in relation to any Disputed Claim in existence at the Plan Implementation Date will be held in escrow by the Monitor pending settlement or Final Determination of the Disputed Claim and shall not be distributed until there has been a settlement or Final Determination of the Disputed Claim. To the extent that a Final Determination or settlement has been made in respect of a Disputed Claim in an amount which is less than the amount of funds in the Cash Pool attributed to such Disputed Claim, such surplus funds shall be distributed from the Cash Pool to the Affected Creditors on a pro rata basis in accordance with Sections 4.3 and 4.4 of this Plan.
- (c) **Acceptance of Plan.** Votes cast by Eligible Voting Affected Creditors at the Creditors' Meeting shall be binding upon the Eligible Voting Affected Creditors and shall be recorded at the time of the Creditors' Meeting. If the Required Majority of each of the two classes of Affected Creditors is achieved, this Plan shall be approved and shall be deemed to have been agreed to, accepted and approved by the requisite Affected Creditors of each such class. For greater certainty, no class of creditors shall be bound by the terms of this Plan unless each class of creditors shall have agreed to this Plan by the Required Majority.
- (d) **Appointment and Revocation of Proxies.** An Eligible Voting Affected Creditor wishing to appoint a proxy to represent such Eligible Voting Affected Creditor at the Creditors' Meeting may do so by inserting such Person's name in the blank space provided on a Proxy in the form attached hereto as Schedule "C" (the "**Proxy**") and sending or delivering the completed Proxy to the offices of the Monitor, at Alger & Associates Inc., at 400, 602 – 11th Avenue, S.W., Calgary, Alberta, T2R 1J8 attention Guy W. Odhams/Michael Costello, fax: (403) 296-2988, email: godhams@alger.ca/mcostello@alger.ca (the "**Monitor's Office**"). A Proxy must be:

- (i) received at the Monitor's Office by 5:00 p.m. (Calgary time) at least one (1) Business Day immediately prior to the date set for the Creditors' Meeting, or any adjournment thereof, or
- (ii) delivered to the Monitor at the Creditors' Meeting prior to the commencement of the Creditors' Meeting or any adjournment thereof.

Failure to so deposit the Proxy shall result in the invalidation of same. Mahalo may be appointed by a Proxy. Mahalo shall be entitled to solicit and collect Proxies containing votes in favour of this Plan for delivery to the Monitor.

An Eligible Voting Affected Creditor who has given a Proxy may revoke it (as to any matter on which a vote has not already been cast pursuant to its authority) by an instrument in writing executed by such Eligible Voting Affected Creditor or by his or her attorney, duly authorized in writing or, if an Eligible Voting Affected Creditor is not an individual, by an officer or attorney thereof duly authorized, and deposited either at the offices of the Monitor above mentioned on or before the last Business Day preceding the date of the meeting or any adjournment thereof, or with the Chair of the Creditors' Meeting prior to the time of commencement of the Creditors' Meeting, or any adjournment thereof.

- (e) **Signature on Proxy.** The Proxy must be executed by the Eligible Voting Affected Creditor or his duly authorized attorney in writing, or if the Eligible Voting Affected Creditor is not an individual, the Proxy must be signed in its name by an authorized officer whose title should be indicated. The Proxy signed by a person acting as attorney or in some other representative capacity should indicate such person's capacity (following his signature) and it should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such instrument has previously been filed with the Monitor).
- (f) **Voting of Proxies.** The Person named in the Proxy shall vote the Claims of the Eligible Voting Affected Creditor who granted such Proxy in accordance with the direction of such Eligible Voting Affected Creditor on any ballot that may be called for and where such Eligible Voting Affected Creditor specifies a choice with respect to any matter to be voted upon, the Claim shall be voted in accordance with the instructions of such Eligible Voting Affected Creditor. In the absence of any such direction, such Claim shall be voted as an Affirmative Vote.
- (g) **Exercise of Discretion of Proxy.** The accompanying Proxy confers a discretionary authority upon the Person named therein with respect to amendments or variations to the matters identified in the notice of the Creditor's Meeting and in this Plan and with respect to other matters that may properly come before the Creditors' Meeting.
- (h) **Voting by Secured Creditors.** Where, prior to the Creditors' Meeting, the Monitor has determined that the Claims of a Secured Creditor may not be fully secured, such Secured Creditor shall be entitled to vote on this Plan at the Creditors' Meeting as if such Secured Creditor is a member of the class of Unsecured Creditors in respect of that portion of the Claims of such Secured Creditor as has been allowed by the Monitor to be an Unsecured Claim for the purpose of determining a Required Majority in the Unsecured Creditor class. In the event that any portion of the Claims of such Secured Creditor as was allowed by the Monitor as an Unsecured Claim for voting purposes is subsequently determined by the Monitor to be secured, such portion of the Claim shall form part of the Lender class.

- (i) **Acknowledgement of Eligible Unsecured Creditors.** Each of the Eligible Unsecured Creditors acknowledges that Mahalo, pursuant to the Plan Summary, has provided written notice to it, and acknowledges and consents, that (a) all of the shares and other securities in the capital of Mahalo, including the Class A Shares and the Class B Shares to be issued in connection with the implementation of the Plan, will remain subject to the Cease Trade Orders (as defined in the Plan Summary), (b) that the granting of the Partial Revocation Orders does not guarantee the issuance of a full revocation of the cease trade orders in the future, and (c) that Mahalo has sought orders from the relevant Canadian securities commissions to cease to be a reporting issuer in all provinces of Canada in which it is currently a reporting issuer.

#### **5.4 Sanction Order**

- (a) If this Plan is approved by the Required Majority of each class of Affected Creditors, Mahalo shall promptly thereafter apply to the Court for the Sanction Order, which shall be substantially in the form appended to this Plan as Schedule "G".
- (b) The Sanction Order shall include, among other things, the following provisions:
- (i) approval of this Plan;
  - (ii) the releases referred to in Section 7.2 of this Plan;
  - (iii) termination, release and discharge of all CCAA Charges established by the CCAA Initial Order or any other Order of the Court, effective on the Plan Implementation Date;
  - (iv) deeming all Eligible Unsecured Creditors to have made the acknowledgements set out in Section 5.3(i) of this Plan; and
  - (v) authorization of Mahalo to file and otherwise implement the Articles of Reorganization in the forms appended as Schedules "B", "C" and "D" to this Plan.

#### **5.5 Termination of Plan**

In the event that:

- (a) this Plan is not approved by the Required Majority of each class of Affected Creditors in accordance with this Plan;
- (b) the Sanction Order is not granted; or
- (c) the conditions precedent set forth in Article 6 of this Plan and Article 6 of the Investment Agreement are not satisfied or waived in accordance with the terms of this Plan on or before the Plan Implementation Deadline;

then this Plan shall automatically terminate, in which case Mahalo shall not be under any further obligation to continue with implementation of this Plan.

#### **5.6 Court Assistance**

Mahalo reserves the right to seek the assistance and/or direction of the Court regarding any matter relating to this Plan.

**ARTICLE 6**  
**CONDITIONS OF PLAN IMPLEMENTATION AND TERMINATION**

**6.1 Conditions of Plan Implementation**

Implementation in accordance with Article 4 and the releases provided by Article 7 of this Plan are subject to the following conditions precedent for the benefit of Mahalo all or any of which may be waived by Mahalo in accordance with Section 6.2:

- (a) As at the Plan Implementation Date, there is not an Order or other judgment, order, decree, regulation, policy, law or other directive in effect by an Authorized Authority prohibiting, restraining or otherwise preventing the implementation of this Plan in accordance with its terms;
- (b) All approvals, orders, determinations or consents required pursuant to Applicable Law have been obtained on terms and conditions satisfactory to Mahalo and to the Lenders, each acting reasonably, and shall remain in full force and effect on the Plan Implementation Date;
- (c) The Plan Implementation Date shall have occurred on or before October 15, 2010 or such later date as may be agreed to between Mahalo, and the Lenders, or ordered by the Court (the "**Plan Implementation Deadline**");
- (d) The Sanction Order substantially in the form appended as Schedule "F" has been granted and such Sanction Order as at the Plan Implementation Date shall be in full force and effect, not stayed or amended;
- (e) The stay of proceedings under the CCAA Initial Order shall have been extended to at least the Plan Implementation Date and the CCAA Initial Order shall, as at the Plan Implementation Date, be in full force and effect, not stayed or amended after the date hereof (except with the consent of Mahalo);
- (f) The Investment Agreement shall not have been terminated; and
- (g) Prior to or on the Plan Implementation Date, all other conditions precedent set forth in Section 6.1 and 6.2 of the Investment Agreement shall have been satisfied, including, without limitation, the receipt by the Monitor of the Subscription Price, or waived in accordance with the terms of the Investment Agreement or this Plan.

**6.2 Waiver of Condition**

Mahalo with the consent of the Lenders may waive compliance with any of the conditions in Section 6.1 in whole or in part, in their sole discretion, by written notice to the Monitor on the Plan Implementation Date.

**6.3 Conditions Precedent for the Benefit of Alpine**

Implementation of this Plan by Alpine, including providing the funds comprising the Subscription Price, is subject to the conditions contained in Section 6.1 of the Investment Agreement a copy of which conditions are appended to this Plan, along with the relevant defined terms, as Schedule H, which conditions are required to be satisfied or waived pursuant to the Investment Agreement, by Alpine prior to implementation of this Plan. Alpine shall provide notice to the Monitor on the Plan Implementation Date that all such conditions are satisfied or waived, or if they are not, which conditions remain unsatisfied.

#### **6.4 Monitor's Certificate**

Upon written notice from Mahalo to the Monitor that the conditions set out in Section 6.1 above have been satisfied or waived, and from Alpine that the conditions contained in Section 6.1 of the Investment Agreement have been satisfied or waived, the Monitor shall file with the Court a certificate which states that all conditions precedent set out in 6.1 have been satisfied or waived, in substantially the form as the certificate attached as Schedule "D" to this Plan (the "**Monitor's Certificate**"). If, in the opinion of the Monitor, the conditions precedent to implementation of the Plan have been satisfied or waived and Mahalo or Alpine has refused or declined to give the written confirmation of same contemplated in this section, the Monitor may, on five (5) days' prior written notice to Mahalo, the Lenders and Alpine, given no later than the fifth business day following the date on which Mahalo or Alpine, as applicable, refused or declined to give such written confirmation, apply to the Court for leave to file the Monitor's Certificate and if the Court confirms that the conditions precedent to implementation of this Plan have been satisfied or waived, the Monitor shall file the Monitor's Certificate notwithstanding that it has not received the written confirmation from Mahalo or Alpine required by this section.

In the event that such notice is given by the Monitor, (a) the Plan Implementation Date shall be extended to the first business day following the date on which the Court confirms that the conditions precedent to implementation of this Plan have been satisfied or waived (subject to any appeal or review, in which case the Plan Implementation Date shall be the first business day following the date on which such matter is finally determined), or such earlier or later date to which Mahalo or Alpine, as applicable, and the Monitor may agree, and (b) the Plan Implementation Deadline will be extended as necessary to permit the extension of the Plan Implementation Date as aforesaid. Nothing herein shall be construed as a waiver of any condition precedent of Mahalo or Alpine, and in the even the Plan Implementation Date is extended as aforesaid, such conditions shall be satisfied, or waived on such extended Plan Implementation Date, and the provisions of Section 6.3 and this Section 6.4 shall apply, *mutatis mutandis*.

### **ARTICLE 7 PLAN IMPLEMENTATION**

#### **7.1 Release and Discharge of Liens by Secured Creditors**

As soon as reasonably practicable following the Plan Implementation Date, any Affected Creditor that has a Proven Claim shall provide to Mahalo's legal counsel all such financing change statements, notices, instruments, releases, certificates and other documents as may be necessary to release and discharge any writ, charge, lien, security interest or other encumbrance which has been or notice in respect of which has been filed or registered by or on behalf of the Affected Creditor against Mahalo, or any of its respective Assets. Mahalo and its legal counsel shall be, and are hereby, authorized to file, register and record any such document in any office of public record as they may see fit. If for any reason any such documents are not provided or are ineffective, the Affected Creditor shall be deemed to consent to Mahalo obtaining appropriate relief from the Court to effect any such releases and discharge.

#### **7.2 Release of Claims**

Effective on the Plan Implementation Date:

- (a) The Monitor shall be released from all Claims of Affected Creditors other than in respect of its obligations pursuant to this Plan.
- (b) Subject to section 5.1(2) of the CCAA, all Creditors, including, without limitation, the Unsecured Creditors Committee established in the Chapter 11 bankruptcy proceedings of Mahalo USA, shall

be deemed to have released and discharged Mahalo and its directors, officers, including those directors and officers appointed pursuant to the Investment Agreement, employees, agents, affiliates, professional advisors and associates and each and every past and present director, officer, employee, agent, affiliate, professional advisor and associate of Mahalo (collectively, the "**Released Parties**" and individually, a "**Released Party**") from any and all demands, claims, including claims of any past and present officers, directors or employees for contribution and indemnity, actions, causes of action, counterclaims, D&O Claims, Director and Officer Indemnity Claims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, charges and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any person may be entitled to assert, including, without limitation, any and all claims in respect of any environmental condition or damage affecting any of the Assets, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Plan Implementation Date or as a result of the implementation of the Plan relating to, arising out of or in connection with the Assets, business or affairs of Mahalo, whenever and however conducted, the issuance of any security by Mahalo, this Plan, and the CCAA Proceedings.

### **7.3 Monitor's Ongoing Obligations From and After the Plan Implementation Date**

- (a) From and after the Plan Implementation Date, the Monitor shall continue to have, and shall not be released from, its obligations under this Plan, including, but not limited to:
- (i) the completion by the Monitor of all its duties in relation to the claims procedure and all matters related thereto as set out in the Claims Procedure Order and this Plan; and
  - (ii) the completion by the Monitor of all other matters for which it is responsible in the CCAA Proceedings and pursuant to the Orders of the Court made in the CCAA Proceedings from time to time.
- (b) The Monitor reserves the right to seek the assistance and/or direction of the Court regarding its obligations under this Plan before and after the Plan Implementation Date.

### **7.4 Order of Implementation**

The events set forth in Sections 4.1, 4.2(a) through (g) and 4.3 shall be deemed to have occurred in the order set forth in this Plan on the Plan Implementation Date.

## **ARTICLE 8 GENERAL PROVISIONS**

### **8.1 Further Assurances**

Notwithstanding that the transactions and events set out in this Plan may be deemed to occur without any additional act or formality other than as may be expressly set out herein, each of the Persons affected hereto shall make, do, and execute or cause to be made, done or executed all such further acts, deeds, agreements, assignments, transfers, conveyances, discharges, assurances, instruments, documents, elections, consents or filings as may be reasonably required by Mahalo, in order to implement this Plan.

## **8.2 Paramourncy**

Without limiting any other provision hereof, from and after the Plan Implementation Date, in the event of any conflict between this Plan and the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed, or implied, of any contract, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral and any and all amendments or supplements thereto existing as at the Plan Implementation Date between Mahalo, and any other Person affected by this Plan, the terms, conditions and provisions of this Plan shall govern and shall take precedence and priority.

## **8.3 Waiver of Defaults**

From and after the Plan Implementation Date, each Creditor shall be deemed to have waived any and all defaults by Mahalo, arising on or prior to the Plan Implementation Date in respect of any covenant, warranty, representation, term, provision, condition or obligation, express or implied, in every contract, agreement, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral. Any and all notices of default, acceleration of payments and demands for payments under any instrument, or notices given under the CCAA, including without limitation, any notices of intention to proceed to enforce security, shall be deemed to have been rescinded and withdrawn.

## **8.4 Compromise Effective for all Purposes**

The payment, compromise or satisfaction of any Claims under this Plan, if sanctioned and approved by the Court, shall be binding upon each Affected Creditor, and his, her or its heirs, executors, administrators, legal personal representatives, successors and assigns, as the case may be, for all purposes.

## **8.5 Amendments to Plan**

Mahalo reserves the right, with the consent of the Lenders, to file any modification of or amendment to this Plan by way of a supplementary or amended and restated plan or plans of compromise or arrangement or both filed with the Court at any time or from time to time prior to the Creditors' Meeting, in which case any such supplementary or amended and restated plan or plans of compromise or arrangement or both shall, for all purposes, be and be deemed to be a part of and incorporated into this Plan, provided that no such amendment or modification that materially and adversely affects the rights or treatment hereunder of any class of Affected Creditors shall be so filed without first obtaining the approval of the Court. Mahalo shall give notice by publication or otherwise to all Affected Creditors in an affected class of the details of any modifications or amendments prior to the vote being taken to approve this Plan, as modified or amended. Mahalo may propose an alteration or modification to this Plan at the Creditors' Meeting. After such Creditors' Meeting, Mahalo may at any time and from time to time vary, amend, modify or supplement this Plan if the Court determines on notice that such variation, amendment, modification or supplement is of a technical nature that would not be materially prejudicial to the interests of any of the Affected Creditors and is necessary in order to give effect to the substance of this Plan or the Sanction Order.

## **8.6 Notices**

Any notice or other communication to be delivered hereunder will be in writing and will reference this Plan and may, subject to as hereinafter provided, be made or given by mail, personal delivery or by facsimile or email transmission addressed to the respective parties as follows:

(a) if to Mahalo:

MAHALO ENERGY LTD.,  
600, 703 – 6th Avenue S.W.  
Calgary, Alberta T2P 0T9

Attention: David J. Burton  
Fax: (403) 451-3501  
E mail: dburton@mahaloenergy.com

with a copy to:

Burnet, Duckworth & Palmer LLP  
1400, 350 – 7th Avenue S.W.  
Calgary, AB T2P 3N9

Attention: Trevor Batty  
Fax: (403) 260-0332  
E mail: tbatty@bdplaw.com

(b) if to an Affected Creditor:

To the last known address (including fax number or email address) for such Affected Creditors as specified in the Notice of Claim filed by such Affected Creditor or, in the absence of such Notice of Claim, to the last known address for such Affected Creditor as set out in the books and records of Mahalo or such other address of which the Affected Creditor may from time to time notify the Monitor in accordance with this Section, and in the case of any such notice or other communication to be sent to the Lenders, with a copy to:

Blake Cassels & Graydon LLP  
3500 Bankers Hall East  
855 – 2<sup>nd</sup> Street SW  
Calgary, Alberta T2P 4J8

Attention: Kelly Bourassa  
Fax: (403) 260-9700  
E mail: kelly.bourassa@blakes.com

(c) if to the Monitor:

Alger & Associates Inc.  
400, 602 – 11th Avenue S.W.  
Calgary, Alberta T2R 1J8

Attention: Guy W. Odhams/Michael Costello  
Fax: (403) 296-2988  
E mail: godhams@alger.ca/mcostello@alger.ca

with a copy to:

Bennett Jones LLP  
 4500 Bankers Hall East  
 855 – 2nd Street S.W.  
 Calgary, Alberta T2P 4K7

Attention: Ken Lenz  
 Fax: (403) 265-7219  
 E mail: lenzk@bennettjones.com

or to such other address as any party may from time to time notify the others in accordance with this Section. All such notices and communications which are delivered will be deemed to have been received on the date of delivery. All such notices and communications which are faxed or emailed will be deemed to be received on the date faxed or emailed if sent before 3:00 p.m. Calgary time on a Business Day and otherwise will be deemed to be received on the Business Day next following the day upon which such fax or email was sent. Any notice or other communication sent by mail will be deemed to have been received on the third Business Day after the date of mailing.

## **ARTICLE 9 DEFINITIONS AND INTERPRETATION**

### **9.1 Definitions**

In this Plan, unless the context should otherwise require, the capitalized terms and phrases used but not defined herein have the respective meanings given to them in Schedule "A" attached hereto.

### **9.2 Article and Section Reference**

The terms "**this Plan**", "**hereof**", "**hereunder**", "**herein**", and similar expressions refer to this Plan as amended, and not to any particular article, section, subsection, paragraph or clause of this Plan, and include any instrument supplemental hereto. In this Plan, a reference to an article, section, subsection, clause or paragraph shall, unless otherwise stated, refer to an article, section, subsection, paragraph or clause of this Plan.

### **9.3 Extended Meanings**

In this Plan, where the context so requires, any word importing the singular number shall include the plural and vice versa; and any word or words importing gender shall include all genders.

### **9.4 Interpretation Not Affected by Headings**

The division of this Plan into articles, sections, subsections, paragraphs and clauses and the insertion of a table of contents and headings are for convenience of reference and shall not affect the construction or interpretation of this Plan.

### **9.5 Date of Any Action**

In the event that any date on which any action is required to be taken hereunder by any Person is not a Business Day, such action shall be required to be taken on the next succeeding day that is a Business Day.

## **9.6 Currency**

Unless otherwise stated herein, all references to currency in this Plan are to lawful money of Canada.

## **9.7 Statutory References**

Any reference in this Plan to a statute includes all regulations made thereunder, all amendments to such statute or regulations in force from time to time and any statute or regulation that supplements or supersedes such statute or regulation.

## **9.8 Successors and Assigns**

This Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns, as the case may be, of any Person named or referred to in this Plan.

## **9.9 Governing Law**

This Plan shall be governed by and construed in accordance with the laws of Alberta and the federal laws of Canada applicable therein. All questions as to the interpretation of or application of this Plan and all proceedings taken in connection with this Plan and its revisions shall be subject to the exclusive jurisdiction of the Court.

## **9.10 Inclusive Meaning**

As used in this Plan, the words "**include**", "**includes**", "**including**" or any other derivation thereof means, in any case, those words as modified by the words "without limitation".

## **9.11 Schedules**

The following are the Schedules to this Plan, which are incorporated by reference into this Plan and form an integral part hereof

- (a) Schedule "A" — Defined Terms and Interpretation
- (b) Schedule "B" — Articles of Reorganization
- (c) Schedule "C" — Articles of Reorganization
- (d) Schedule "D" — Articles of Reorganization
- (e) Schedule "E" — Form of Proxy
- (f) Schedule "F" — Monitor's Certificate
- (g) Schedule "G" — Draft Plan Sanction Order
- (h) Schedule "H" — Article 6 of Investment Agreement
- (i) Schedule "I" — Plan Summary

## SCHEDULE "A"

### DEFINITIONS

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000 c. B 9, as amended;

"**Administration Charge**" has the meaning given to it in paragraph 32 of the CCAA Initial Order;

"**Accounts Receivable**" means accounts receivable, GST receivable and professional service firm retainers relating to the business of the Corporation to the Plan Implementation Date;

"**Affected Claims**" means all Claims of Affected Creditors;

"**Affected Creditor**" means a Person who is an Unsecured Creditor or a Lender, together with his, her or its respective heirs, executors, administrators, legal representatives, successors and assigns;

"**Affected Unsecured Claim**" means the Affected Claim of an Unsecured Creditor;

"**Affiliate**" means, in relation to any Person, any other Person or group of Persons acting in concert, directly or indirectly, that Controls, is Controlled by or under common Control with the first mentioned Person;

"**Affirmative Votes**" means the votes of the Eligible Voting Affected Creditors who have voted in favour of the Plan at the Creditors' Meeting, in person or by proxy, and "**Affirmative Vote**" shall mean any one of them;

"**Alpine**" means Alpine Capital Corp.;

"**Applicable Law**" means, in relation to any Person, transaction or event, all applicable provisions of law, statutes, rules, regulations, official directives and orders of, and the terms of all judgments, orders and decrees issued by, any Authorized Authority by which such Person is bound or having application to the transaction or event in question;

"**Articles of Reorganization**" means the form of articles of reorganization of Mahalo in the forms attached as Schedules "B", "C" and "D" to this Plan;

"**Assets**" means all of the property, assets, business and undertaking of Mahalo;

"**Authorized Authority**" means, in relation to any Person, transaction or event, any:

- (j) federal, provincial, state, municipal or local governmental body (whether administrative, legislative, executive or otherwise), both domestic and foreign;
- (k) agency, authority, commission, instrumentality, regulatory body, court, or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government;
- (l) court, arbitrator, commission or body exercising judicial, quasi judicial, administrative or similar functions; or

(m) another body or entity created under the authority of or otherwise subject to the jurisdiction of any of the foregoing, including any stock or other securities exchange, in each case having jurisdiction over such Person, transaction or event;

**"Business Day"** means, with respect to any action to be taken, any day other than Saturday, Sunday or a statutory holiday in the place where such action is to be taken;

**"Cash Pool"** means \$357,041 of the Gross Funds to be used by the Monitor for distribution to the Unsecured Creditors;

**"CCAA"** means the *Companies' Creditors Arrangement Act* (Canada), R.S.C. 1985, c. C 36, as amended;

**"CCAA Charges"** means the Administration Charge and the Director's Charge, as defined in the CCAA Initial Order;

**"CCAA Filing Date"** means May 22, 2009, being the date of the CCAA Initial Order;

**"CCAA Initial Order"** means the order granted by the Court in the CCAA Proceedings on May 22, 2009;

**"CCAA Proceedings"** means the proceedings commenced under the CCAA on May 21, 2009 in the Court of Queen's Bench of Alberta, Judicial District of Calgary, as Action No. 0901-07221;

**"Claim"** means any claim of any Person against Mahalo and its directors, officers, employees, agents, affiliates, professional advisors and associates or Mahalo's Assets in connection with any indebtedness, liability or obligation of any kind of Mahalo in existence on the Plan Implementation Date, including any fines, penalties and fees in respect thereof, and any interest accrued thereon, if entitled thereto, howsoever evidenced, and costs payable in respect thereof, whether or not such indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety, insurance deductible or otherwise, and whether or not such indebtedness, liability or obligation is executory or anticipatory in nature, including the right or ability of any Person (including any past or present officer or director of Mahalo) to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which indebtedness, liability or obligation is based in whole or in part on facts existing prior to the Plan Implementation Date, and includes any other claim that would have been a claim provable in bankruptcy had Mahalo become bankrupt on the Plan Implementation Date, including any claims of the Crown and further includes any claim acquired with or connected in any way with Mahalo's securities that are cancelled pursuant to this Plan;

**"Claims Bar Date"** means the "Claims Bar Date" as set out in the Claims Procedure Order, any other Order of the Court, and the Plan, respectively;

**"Claims Procedure Order"** means the Claims Procedure Order of the Court dated January 13, 2010;

**"Claim Value"**, means, with respect to any Creditor, the amount of such Creditor's Proven Claim, or in the case of a Disputed Claim, the value assigned to such Disputed Claim for voting purposes by the Monitor or the Court. The assignment of a Claim Value to a Disputed Claim for purposes of voting at the Creditors' Meeting shall not be construed as an admission that the Disputed Claim is a Proven Claim for distribution or any other purposes;

"**Class A Common Shares**" means the Class A voting common shares of Mahalo to be issued and distributed to Alpine and the Other Investors hereunder and which will have the attributes set forth in the Articles of Reorganization;

"**Class B Common Shares**" means the Class B voting common shares of Mahalo to be issued and distributed to the Eligible Unsecured Creditors hereunder and which will have the attributes set forth in the Articles of Reorganization;

"**Court**" means an Authorized Authority having jurisdiction in the CCAA Proceedings;

"**Creditor**" means any Person having a Claim;

"**Creditors' Meeting**" means the meeting of Eligible Voting Affected Creditors called for the purposes of considering or voting in respect of this Plan, which has been set by the Creditors' Meeting Order;

"**Creditors' Meeting Order**" means the Order of the Court approving this Plan as the Plan to be submitted to the Affected Creditors and giving all necessary directions regarding the Creditors' Meeting and all other things necessary to achieve the implementation of this Plan, as it may be amended or supplemented;

"**Crown**" means Her Majesty in right of Canada or a province thereof;

"**D&O Claim**" means any Claim for which any Person may be indemnified under the Director's Charge;

"**Director and Officer Indemnity Claims**" means all Claims of any director or officer of Mahalo in respect of which such director or officer is entitled to be indemnified under paragraph 22 of the Initial Order but only to the extent that such Claims (a) are secured by the Directors' Charge (as defined in the Initial Order), and (b) are not otherwise released by Section 7.2(b) of the Plan;

"**Director's Charge**" has the meaning given to it in paragraph 23 of the CCAA Initial Order;

"**Disputed Claim**" means any Claim which has been received by the Monitor but has not been accepted as proven or which is being disputed in whole or in part by the Monitor or any other Person entitled to do so and has not been resolved by agreement or by further Order of the Court;

"**Dollars**" and "\$" mean dollars in lawful currency of Canada;

"**Elected Amount**" means the number of Class A Common Shares elected to be purchased by Alpine which shall be equal to a number of Class A Common Shares that is no less than 75% of the Maximum Amount and no greater than the Maximum Amount;

"**Eligible Unsecured Creditors**" means:

- (i) all Unsecured Creditors with Unsecured Claims in an amount of \$10,000, or greater; or
- (ii) the thirty (30) Unsecured Creditors with the largest Unsecured Claims;

whichever number of Unsecured Creditors is smaller;

"**Eligible Voting Affected Creditor**" means an Affected Creditor whose Claim has a Claim Value;

"**Final Determination**" means any determination for which, pursuant to Applicable Law, all time limits for and all rights to dispute, appeal or further appeal (from) such determination have expired or been exhausted, and "**Finally Determined**" shall have a corresponding meaning;

"**Gross Funds**" means all of Mahalo's funds held by the Monitor, in trust, for distribution in accordance with the terms of the Plan;

"**Insured Claims**" has the meaning given to it in Section 2.3(c) of the Plan;

"**ITA**" means the *Income Tax Act* (Canada), as amended;

"**Investment Agreement**" means the Investment Agreement between Mahalo and Alpine, dated August 18, 2010;

"**Lenders**" means Ableco Finance LLC and WFCF;

"**Lender Claim**" means the claim of any Lender;

"**Lenders' Security**" means the security interests granted by Mahalo to the Lenders;

"**Mahalo**" means Mahalo Energy Ltd.;

"**Maximum Amount**" means that number of Offered Shares that is equal to the Subscription Price, as adjusted pursuant to Section 2.3 of the Investment Agreement, divided by \$1.00;

"**Monitor**" means Alger & Associates Inc., as monitor in the CCAA Proceedings;

"**Monitor's Certificate**" has the meaning given to it in Section 6.4 of the Plan;

"**Negative Votes**" means the votes of the Eligible Voting Affected Creditors who have voted against this Plan at the Creditors' Meeting;

"**Notice of Claim**" means the Notice of Claim in substantially the form attached to the Claims Procedure Order, as submitted to the Monitor by an Affected Creditor in accordance with the Claims Procedure Order, the Creditors' Meeting Order or the Plan, and "**Notices of Claim**" means more than one of them;

"**Order**" means any order of the Court in the CCAA Proceedings;

"**Other Investors**" means those investors who are identified by Alpine, by notice to Mahalo, on or prior to the Plan Implementation Date, and any investors identified by Alpine in substitution or replacement thereof;

"**Outstanding Deposits**" means those items comprising the Prepaid Expense balance on the Corporation's trial balance limited to the \$29,000 trustee deposit held in trust for the benefit of the Energy Resources Conservation Board in Royal Bank of Canada account #00009-134-826-7 and the \$188,007 royalty deposit account G94149833 with the Government of Alberta, Department of Energy;

"**Person**" includes any individual, partnership, limited partnership, joint venture, trust, body corporate, unincorporated organization, committee, trade creditors' committee, government or agency or instrumentality thereof, and any other entity howsoever designated or constituted, and "**Persons**" shall mean more than one of them;

"**Plan**" means the Plan of Arrangement to which this Schedule "A" is attached, as restated, supplemented or amended from time to time;

"**Plan Filing Date**" means the date that the Plan was originally filed with the Court, being August 18, 2010;

"**Plan Implementation Date**" means the date that all of the conditions set forth in Article 6 have been satisfied or waived;

"**Plan Implementation Deadline**" has the meaning ascribed to it in Section 6.1;

"**Plan Summary**" means the Plan Summary describing the Plan substantially in the form appended to this Plan as Schedule "I";

"**Proven Claim**" means a Claim from an Affected Creditor in respect of which there has been a Final Determination of such Claim in accordance with the Plan and/or any applicable Order;

"**Proxy**" has the meaning given to it in Section 5.3 of this Plan and "**Proxies**" means more than one of them;

"**Released Parties**" and "**Released Party**" have the meanings given to them respectively in Section 7.2(b) of the Plan;

"**Required Majority**" means, with respect to each class of Affected Creditors, (a) over 50% in number of Affirmative Votes, and (b) at least  $66\frac{2}{3}$  in Claim Value of Affirmative Votes;

"**Residual Funds**" means the Gross Funds net of the Cash Pool;

"**Restructuring Claim**" means any claim to a right of any Person against Mahalo in connection with any indebtedness, liability or obligation of any kind owed to such Person arising out of the restructuring, repudiation, termination or failure to perform by Mahalo after the CCAA Filing Date of any contract, lease or other agreement, whether written or oral;

"**Restructuring Costs**" means all of Mahalo's costs (including legal, accounting, engineering and other consultants), incurred in respect of the CCAA Proceedings up to the Plan Implementation Date, including, without limitation, in the preparation of and implementation of the terms of the Plan, including relating to finalizing the Claims process and determination of priority;

"**Sanction Order**" means an Order sanctioning this Plan and giving all necessary directions regarding its implementation substantially in the form appended to this Plan as Schedule "G";

"**Scrutineers**" has the meaning given to it in Section 5.2(d) of the Plan;

"**Secured Creditors**" means Ableco Finance LLC and WFCF, as well as all other creditors who are "secured creditors" within the meaning of the CCAA;

"**Securities**" has the meaning given to it in the *Securities Act*, R.S.A. 2000, c. S-4, as amended;

"**Special Crown Claims**" means Claims of Her Majesty in right of Canada or a province thereof, for all amounts that are outstanding at the Plan Implementation Date and are of a kind that could be subject to a demand under:

- (a) subsection 224(1.2) of the ITA;
- (b) any provision of the Canada Pension Plan or of the Employment Insurance Act that refers to subsection 224(1.2) of the ITA and provides for the collection of a contribution, as defined in the *Canada Pension Plan*, or an employee's premium, or employer's premium, as defined in the *Employment Insurance Act*, and of any related interest, penalties or other amounts; or
- (c) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the ITA, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum
  - (i) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the ITA, or
  - (ii) is of the same nature as a contribution under the *Canada Pension Plan* if the province is a "province providing a comprehensive pension plan" as defined in subsection 3(1) of the *Canada Pension Plan* and the provincial legislation establishes a "provincial pension plan" as defined in that subsection;

**"Subscription Price"** means aggregate subscription price for the Class A Common Shares to be purchased pursuant to the Investment Agreement which shall be \$2,525,000, subject to adjustment in accordance with the Investment Agreement;

**"Unaffected Claims"** has the meaning given to it in Section 2.3 of the Plan;

**"Unaffected Creditor"** means a Creditor holding an Unaffected Claim, but only in respect of that Unaffected Claim;

**"Unproven Claims"** has the meaning given to it in Section 4.7 of the Plan;

**"Unsecured Claim"** means the Claim of an Unsecured Creditor;

**"Unsecured Creditor"** means a Creditor who is an "unsecured creditor" of Mahalo within the meaning of the CCAA;

**"US Dollars"** means dollars in lawful currency of the United States of America;

**"Votes Cast"** means the sum of the Affirmative Votes and the Negative Votes of the Eligible Voting Affected Creditors present at the Creditors' Meeting in person or by Proxy; and

**"WFCF"** means Wells Fargo Capital Finance LLC (formerly known as Wells Fargo Foothill LLC).

**SCHEDULE "B"**

**ARTICLES OF REORGANIZATION OF MAHALO ENERGY LTD.**

---

**ARTICLES OF REORGANIZATION**

**Business Corporations Act**

Section 192

---

**1. Name of Corporation:**

Mahalo Energy Ltd.

**2. Corporate Access Number:**

**2012903601**

---

**3. In accordance with the Order for Reorganization, the Articles of Incorporation are amended as follows:**

Pursuant to the terms of that certain Plan of Arrangement dated August •, 2010 and the Order of the Queen's Bench of Alberta dated August •, 2010 sanctioning such Plan of Arrangement, the Articles of Incorporation of Mahalo Energy Ltd. are hereby amended:

- (a) pursuant to Section 192, by creating one class of shares designated as Class A Common Shares and one class of shares designated as Class B Common Shares having attached thereto the rights, privileges, restrictions and conditions as referred to in the attached Schedule "A";
- (b) pursuant to Section 192, by cancelling the class of shares designated as Preferred Shares;
- (c) pursuant to Section 192, by deleting Schedule "A" as referred to therein in its entirety and replacing it with the attached Schedule "A", so that the attached Schedule "A" reflects the most current authorized capital of the Corporation, including the rights, privileges, restrictions and conditions attached to each of the shares therein referred to;
- (d) pursuant to Section 192, by deleting Schedule "B" as referred to therein in its entirety and replacing it with the attached Schedule "B"; and
- (e) pursuant to Section 192, by adding the attached Schedule "C".

\_\_\_\_\_  
Name of Person Authorizing (please print)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title (please print)

August •, 2010  
\_\_\_\_\_  
Date

This information is being collected for purposes of corporate registry records in accordance with the Business Corporations Act. Questions about the collection of this information can be directed to the Freedom of Information and Protection of Privacy Co-ordinator for the Alberta Government, Box 3140, Edmonton, Alberta T5J 2G7, (780) 427-7013.

**SCHEDULE "A"**  
**TO THE ARTICLES OF REORGANIZATION**  
**OF**  
**MAHALO ENERGY LTD.**

(share provisions)

The Corporation is authorized to issue an unlimited number of Common Shares, an unlimited number of Class A Common Shares and an unlimited number of Class B Common Shares. The rights, privileges and restrictions of the Common Shares, the Class A Common Shares and the Class B Common Shares are as follows:

(a) The rights of the holders of Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of Common Shares shall be entitled to one (1) vote per Common Share at all meetings of the shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividends:

Subject to the *Business Corporations Act* (Alberta)(the "**ABCA**"), and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of Common Shares shall be entitled to share pro rata with holders of Class A Common Shares and holders of Class B Common Shares in the remaining property of the Corporation upon dissolution, on the basis that one (1) Common Share is equal to both one (1) Class A Common Share and one hundred (100) Class B Common Shares.

(b) The rights of the holders of Class A Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of Class A Common Shares shall be entitled to one (1) vote per Class A Common Share at all meetings of shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividend Rights:

Subject to the ABCA, and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of Class A Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of Class A Common Shares shall be entitled to share pro rata with holders of Common Shares and holders of Class B Common Shares in the remaining property of the Corporation upon dissolution, on the basis that one (1) Class A Common Share is equal to both one (1) Common Share and one hundred (100) Class B Common Shares.

(c) The rights of the holders of Class B Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of the Class B Common Shares shall be entitled to one (1) vote per Class B Common Share at all meetings of shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividend Rights:

Subject to the ABCA, and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of Class B Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of Class B Common Shares shall be entitled to share pro rata with holders of Common Shares and holders of Class A Common Shares in the remaining property of the Corporation upon dissolution, on the basis that one hundred (100) Class B Common Shares are equal to both one (1) Common Share and one (1) Class A Common Share.

(iv) Automatic Conversion:

The Class B Common Shares shall automatically convert into Class A Common Shares, on the basis of one Class A Common Share for every one hundred (100) Class B Common Shares issued and outstanding, immediately upon the occurrence of a Share Placement Event. For the purposes of this Section (iv), a Share Placement Event shall have occurred once the Corporation has issued, in aggregate, to persons, other than Alpine Capital Corp. ("**Alpine**") and persons who do not deal at arm's length with Alpine within the meaning of the *Income Tax Act* (Canada) (Alpine and such persons, collectively, the "**Alpine Parties**"), more Class A Common Shares than the Corporation has issued to Alpine Parties.

(v) Adjustment:

(A) If at any time the Corporation shall subdivide the outstanding Class A Common Shares into a greater number of Class A Common Shares or consolidate the outstanding Class A Common Shares into a lesser number of Class A Common Shares (a "**Share Reorganization**"), or if at any time there shall be a reclassification of the Class A Common Shares outstanding or a change of the Class A Common Shares into other shares or securities, or any other capital reorganization, or a consolidation, amalgamation or merger of the Corporation with or into any other body corporate (other than a consolidation, amalgamation or merger which does not result in any reclassification of the outstanding Class A Common Shares or a change of the Class A Common Shares into other shares or securities), or a transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another body corporate or other entity (a "**Capital Reorganization**"), the Class B Common Shares shall be convertible, in accordance with Section (iv) above, into, and the holder thereof shall be entitled to receive upon such conversion, in lieu of the number of Class A

Common Shares to which such holder was theretofore entitled upon such conversion, the number of Class A Common Shares such holder would have been entitled to receive as a result of a Share Reorganization, or the kind and amount of share or other securities or property which such holder would have been entitled to receive as a result of a Capital Reorganization, if, on the effective date of such Share Reorganization or Capital Reorganization, such holder had been the registered holder of the number of Class A Common Shares to which such holder was theretofore entitled upon such exercise.

(B) The adjustments provided for in this Section (v) are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section (v).

(vi) Fractional Shares:

The Class B Common Shares shall be issuable on a fractional basis and the holders of fractional Class B Common Shares shall be entitled to the right and privileges attaching to the Class B Common Shares on a fractional basis.

(vii) Notwithstanding anything contained in this paragraph, the Corporation shall not be required, upon the conversion of the Class B Common Shares in accordance with paragraph (d), to issue fractions of Class A Common Shares or any other shares or securities, and such Class A Common Shares or other shares or securities into which Class B Common Shares are convertible, shall be rounded down to the nearest whole number upon conversion of the Class B Common Shares.

**SCHEDULE "B"**  
**TO THE ARTICLES OF REORGANIZATION**  
**OF**  
**MAHALO ENERGY LTD.**

(restrictions on share transfer)

No holder of Class B Common Shares may, directly or indirectly, sell, transfer, pledge, charge, mortgage, hypothecate or in any other way dispose of or encumber or subject to the rights of others, the Class B Common Shares that such shareholder legally or beneficially owns unless prior to doing so such action is approved by majority resolution of the directors of the Corporation.

**SCHEDULE "C"**  
**TO THE ARTICLES OF REORGANIZATION**  
**OF**  
**MAHALO ENERGY LTD.**

(other rules and provisions)

- (a) The directors of the Corporation may, without authorization of the shareholders:
  - (i) borrow money on the credit of the Corporation;
  - (ii) issue, reissue, sell or pledge debt obligations of the Corporation;
  - (iii) subject to the *Business Corporations Act* (Alberta), give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and
  - (iv) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any obligation of the Corporation.
- (b) The directors of the Corporation may, by resolution, delegate the powers referred to in Section (a) hereof to a director, a committee of directors or an officer.
- (c) The directors of the Corporation may, between annual general meetings, appoint one or more additional directors of the Corporation to serve until the next annual general meeting, but the number of additional directors shall not at any time exceed 1/3 of the number of directors who held the office at the expiration of the last annual general meeting of the Corporation.
- (d) Meetings of the shareholders may be held at any place within Alberta or at any of the following cities: Vancouver, British Columbia; Victoria, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Ottawa, Ontario; Montreal, Quebec; or Halifax, Nova Scotia.

**SCHEDULE "C"**

**ARTICLES OF REORGANIZATION OF MAHALO ENERGY LTD.**

---

**ARTICLES OF REORGANIZATION**

**Business Corporations Act**

Section 192

---

**1. Name of Corporation:**

Mahalo Energy Ltd.

**2. Corporate Access Number:**

**2012903601**

---

**3. In accordance with the Order for Reorganization, the Articles of Incorporation are amended as follows:**

Pursuant to the terms of that certain Plan of Arrangement dated August •, 2010 and the Order of the Queen's Bench of Alberta dated August •, 2010 sanctioning such Plan of Arrangement, the Articles of Incorporation of Mahalo Energy Ltd. are hereby amended:

- (a) pursuant to Section 192, by changing the rights, privileges, restrictions and provisions currently attached to the Common Shares to the rights, privileges, restrictions and provisions of the Common Shares as set out in the attached Schedule "A"; and
- (b) by deleting Schedule "A" as referred to therein in its entirety and replacing it with the attached Schedule "A", so that the attached Schedule "A" reflects the most current authorized capital of the Corporation, including the rights, privileges, restrictions and conditions attached to each of the shares therein referred to.

---

Name of Person Authorizing (please print)

---

Signature

---

Title (please print)

August •, 2010

---

Date

This information is being collected for purposes of corporate registry records in accordance with the Business Corporations Act. Questions about the collection of this information can be directed to the Freedom of Information and Protection of Privacy Co-ordinator for the Alberta Government, Box 3140, Edmonton, Alberta T5J 2G7, (780) 427-7013.

**SCHEDULE "A"**  
**TO THE ARTICLES OF REORGANIZATION**  
**OF**  
**MAHALO ENERGY LTD.**

(share provisions)

The Corporation is authorized to issue an unlimited number of Common Shares, an unlimited number of Class A Common Shares and an unlimited number of Class B Common Shares. The rights, privileges and restrictions of the Common Shares, the Class A Common Shares and the Class B Common Shares are as follows:

(a) The rights of the holders of Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of Common Shares shall be entitled to one (1) vote per Common Share at all meetings of the shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividends:

Subject to the *Business Corporations Act* (Alberta)(the "**ABCA**"), and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of Common Shares shall be entitled to share pro rata with holders of Class A Common Shares and holders of Class B Common Shares in the remaining property of the Corporation upon dissolution, on the basis that one (1) Common Share is equal to both one (1) Class A Common Share and one hundred (100) Class B Common Shares.

(iv) Redemption:

(A) On the date that the Monitor's Certificate, contemplated in Section 6.4 of the Corporation's Plan of Arrangement pursuant to the proceedings commenced under the *Companies' Creditors Arrangement Act* in the Court of Queen's Bench of Alberta (the "**Court**") (the "**Redemption Date**"), Judicial District of Calgary, as Action No. 0901-07221, is filed with the Court, the Common Shares shall be deemed to have redeemed by the Corporation for the Redemption Price (as defined herein).

(B) For the purposes of this Section (iv), the "**Redemption Price**" in the respect of each of the Common Shares shall be nil.

(C) On the Redemption Date, the holder of Common Shares will not be entitled to exercise any rights of the holders of Common Shares.

(b) The rights of the holders of Class A Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of Class A Common Shares shall be entitled to one (1) vote per Class A Common Share at all meetings of shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividend Rights:

Subject to the ABCA, and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of Class A Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of Class A Common Shares shall be entitled to share pro rata with holders of Common Shares and holders of Class B Common Shares in the remaining property of the

Corporation upon dissolution, on the basis that one (1) Class A Common Share is equal to both one (1) Common Share and one hundred (100) Class B Common Shares.

(c) The rights of the holders of Class B Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of the Class B Common Shares shall be entitled to one (1) vote per Class B Common Share at all meetings of shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividend Rights:

Subject to the ABCA, and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of Class B Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of Class B Common Shares shall be entitled to share pro rata with holders of Common Shares and holders of Class A Common Shares in the remaining property of the Corporation upon dissolution, on the basis that one hundred (100) Class B Common Shares are equal to both one (1) Common Share and one (1) Class A Common Share.

(iv) Automatic Conversion:

The Class B Common Shares shall automatically convert into Class A Common Shares, on the basis of one Class A Common Share for every one hundred (100) Class B Common Shares issued and outstanding, immediately upon the occurrence of a Share Placement Event. For the purposes of this Section (iv), a Share Placement Event shall have occurred once the Corporation has issued, in aggregate, to persons, other than Alpine Capital Corp. ("**Alpine**") and persons who do not deal at arm's length with Alpine within the meaning of the *Income Tax Act* (Canada) (Alpine and such persons,

collectively, the "**Alpine Parties**"), more Class A Common Shares than the Corporation has issued to Alpine Parties.

(v) Adjustment:

(A) If at any time the Corporation shall subdivide the outstanding Class A Common Shares into a greater number of Class A Common Shares or consolidate the outstanding Class A Common Shares into a lesser number of Class A Common Shares (a "**Share Reorganization**"), or if at any time there shall be a reclassification of the Class A Common Shares outstanding or a change of the Class A Common Shares into other shares or securities, or any other capital reorganization, or a consolidation, amalgamation or merger of the Corporation with or into any other body corporate (other than a consolidation, amalgamation or merger which does not result in any reclassification of the outstanding Class A Common Shares or a change of the Class A Common Shares into other shares or securities), or a transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another body corporate or other entity (a "**Capital Reorganization**"), the Class B Common Shares shall be convertible, in accordance with Section (iv) above, into, and the holder thereof shall be entitled to receive upon such conversion, in lieu of the number of Class A Common Shares to which such holder was theretofore entitled upon such conversion, the number of Class A Common Shares such holder would have been entitled to receive as a result of a Share Reorganization, or the kind and amount of share or other securities or property which such holder would have been entitled to receive as a result of a Capital Reorganization, if, on the effective date of such Share Reorganization or Capital Reorganization, such holder had been the registered holder of the number of Class A Common Shares to which such holder was theretofore entitled upon such exercise.

(B) The adjustments provided for in this Section (v) are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section (v).

(vi) Fractional Shares:

The Class B Common Shares shall be issuable on a fractional basis and the holders of fractional Class B Common Shares shall be entitled to the right and privileges attaching to the Class B Common Shares on a fractional basis.

(vii) Notwithstanding anything contained in Section (a)(iv) above, the Corporation shall not be required, upon the conversion of the Class B Common Shares in accordance with Section (a)(iv) above, to issue fractions of Class A Common Shares or any other shares or securities, and such Class A Common Shares or other shares or securities into which Class B Common Shares are convertible, shall be rounded down to the nearest whole number upon conversion of the Class B Common Shares.

**SCHEDULE "D"**

**ARTICLES OF REORGANIZATION OF MAHALO ENERGY LTD.**

---

**ARTICLES OF REORGANIZATION**

**Business Corporations Act**

Section 192

---

**1. Name of Corporation:**

Mahalo Energy Ltd.

**2. Corporate Access Number:**

**2012903601**

---

**3. In accordance with the Order for Reorganization, the Articles of Incorporation are amended as follows:**

Pursuant to the terms of that certain Plan of Arrangement dated August •, 2010 and the Order of the Queen's Bench of Alberta dated August •, 2010 sanctioning such Plan of Arrangement, the Articles of Incorporation of Mahalo Energy Ltd. are hereby amended:

- (a) pursuant to Section 192, by cancelling the class of shares designated as Common Shares; and
- (b) pursuant to Section 192, by deleting Schedule "A" as referred to therein in its entirety and replacing it with the attached Schedule "A", so that the attached Schedule "A" reflects the most current authorized capital of the Corporation, including the rights, privileges, restrictions and conditions attached to each of the shares therein referred to.

---

Name of Person Authorizing (please print)

---

Signature

---

Title (please print)

August •, 2010

---

Date

This information is being collected for purposes of corporate registry records in accordance with the Business Corporations Act. Questions about the collection of this information can be directed to the Freedom of Information and Protection of Privacy Co-ordinator for the Alberta Government, Box 3140, Edmonton, Alberta T5J 2G7, (780) 427-7013.

**SCHEDULE "A"**  
**TO THE ARTICLES OF REORGANIZATION**  
**OF**  
**MAHALO ENERGY LTD.**

(share provisions)

The Corporation is authorized to issue an unlimited number of Class A Common Shares and an unlimited number of Class B Common Shares. The rights, privileges and restrictions of the Class A Common Shares and the Class B Common Shares are as follows:

(a) The rights of the holders of Class A Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of Class A Common Shares shall be entitled to one (1) vote per Class A Common Share at all meetings of shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividend Rights:

Subject to the *Business Corporations Act* (Alberta) (the "**ABCA**"), and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of Class A Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of Class A Common Shares shall be entitled to share pro rata with holders of Class B Common Shares in the remaining property of the Corporation upon dissolution, on the basis that one (1) Class A Common Share is equal to one hundred (100) Class B Common Shares.

(b) The rights of the holders of Class B Common Shares are equal in all respects and include the following:

(i) Voting Rights:

The holders of the Class B Common Shares shall be entitled to one (1) vote per Class B Common Share at all meetings of shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote.

(ii) Dividend Rights:

Subject to the ABCA, and subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, the holders of the Class B Common Shares shall be entitled to receive, as and when declared by the directors of the Corporation, dividends at such rate as may be determined from time to time by the directors of the Corporation.

(iii) Dissolution:

The holders of the Class B Common Shares shall be entitled to share pro rata with holders of Class A Common Shares in the remaining property of the Corporation upon dissolution, on the basis that one hundred (100) Class B Common Shares are equal to one (1) Class A Common Share.

(iv) Automatic Conversion:

The Class B Common Shares shall automatically convert into Class A Common Shares, on the basis of one Class A Common Share for every one hundred (100) Class B Common Shares issued and outstanding, immediately upon the occurrence of a Share Placement Event. For the purposes of this Section (iv), a Share Placement Event shall have occurred once the Corporation has issued, in aggregate, to persons, other than Alpine Capital Corp. ("**Alpine**") and persons who do not deal at arm's length with Alpine within the meaning of the *Income Tax Act* (Canada) (Alpine and such persons, collectively, the "**Alpine Parties**"), more Class A Common Shares than the Corporation has issued to Alpine Parties.

(v) Adjustment:

(A) If at any time the Corporation shall subdivide the outstanding Class A Common Shares into a greater number of Class A Common Shares or consolidate the

outstanding Class A Common Shares into a lesser number of Class A Common Shares (a "**Share Reorganization**"), or if at any time there shall be a reclassification of the Class A Common Shares outstanding or a change of the Class A Common Shares into other shares or securities, or any other capital reorganization, or a consolidation, amalgamation or merger of the Corporation with or into any other body corporate (other than a consolidation, amalgamation or merger which does not result in any reclassification of the outstanding Class A Common Shares or a change of the Class A Common Shares into other shares or securities), or a transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another body corporate or other entity (a "**Capital Reorganization**"), the Class B Common Shares shall be convertible, in accordance with Section (iv) above, into, and the holder thereof shall be entitled to receive upon such conversion, in lieu of the number of Class A Common Shares to which such holder was theretofore entitled upon such conversion, the number of Class A Common Shares such holder would have been entitled to receive as a result of a Share Reorganization, or the kind and amount of share or other securities or property which such holder would have been entitled to receive as a result of a Capital Reorganization, if, on the effective date of such Share Reorganization or Capital Reorganization, such holder had been the registered holder of the number of Class A Common Shares to which such holder was theretofore entitled upon such exercise.

(B) The adjustments provided for in this Section (v) are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section (v).

(vi) Fractional Shares:

The Class B Common Shares shall be issuable on a fractional basis and the holders of fractional Class B Common Shares shall be entitled to the right and privileges attaching to the Class B Common Shares on a fractional basis.

(vii) Notwithstanding anything contained in this paragraph, the Corporation shall not be required, upon the conversion of the Class B Common Shares in accordance

with Section (iv), to issue fractions of Class A Common Shares or any other shares or securities, and such Class A Common Shares or other shares or securities into which Class B Common Shares are convertible, shall be rounded down to the nearest whole number upon conversion of the Class B Common Shares.

**SCHEDULE "E"**

**PLAN OF ARRANGEMENT  
OF  
MAHALO ENERGY LTD.**

**PURSUANT TO THE**

***COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)***

**FORM OF PROXY**

For use at the meeting of Eligible Voting Affected Creditors of Mahalo Energy Ltd. ("**Mahalo**") to be held on September 15, 2010 at the offices of Burnet Duckworth & Palmer LLP (BD&P), 1400, 350 – 7<sup>th</sup> Avenue S.W., Calgary Alberta.

If you are unable to attend the meeting of the Eligible Voting Affected Creditors, to be held on September 15, 2010 at the offices of BD&P (or on such other date as may be set by Order and consented to by Mahalo) to consider the resolution described below, and any amendments thereto, (the "**Creditors' Meeting**") in person, please complete and execute this form of proxy (a "**Proxy**") and deliver it in accordance with the instructions set forth below. If an Affected Creditor wishes to be represented at the Creditors' Meeting, or any adjournment thereof, by proxy, this Proxy (or other appropriate Proxy) must be completed and executed by the Affected Creditor or by the Affected Creditor's attorney, authorized in writing. An Affected Creditor may appoint a proxyholder (a "**Proxyholder**"), other than a person designated in this Proxy, who need not be a Affected Creditor, to attend and act on the Affected Creditor's behalf at the Creditors' Meeting. This right may be exercised (i) by striking out the name of the person designated in this Proxy and by inserting, in the space provided, the name of the person the Affected Creditor wishes to appoint as a representative; or (ii) by completing and executing another appropriate form of proxy. All terms defined in the Plan of Arrangement for Mahalo dated August 18, 2010 (the "**Plan**") accompanying this Proxy shall, unless otherwise defined in this Proxy, have the same meaning when used in this Proxy.

The undersigned Affected Creditor hereby appoints \_\_\_\_\_, or failing him/her, \_\_\_\_\_ as Proxyholder of the undersigned, with full power of substitution, to attend and act at the Creditors' Meeting, and at any adjournment thereof, in the manner and to the extent authorized by this Proxy and with the authority conferred by this Proxy, and, without limiting the generality of the foregoing, the Proxyholder is directed to vote as specified below.

In respect of the proposed resolution to approve a plan of arrangement under the *Companies' Creditors Arrangement Act* (Canada), the Proxyholder is directed to vote as follows:

For \_\_\_\_\_ Against \_\_\_\_\_

**The Plan is proposed to the Affected Creditors to the extent of their Proven Claims. Only the Eligible Voting Affected Creditors will be entitled to vote at the Creditors' Meeting, or any adjournment thereof.**

The Proxyholder may vote in her/his discretion on amendments to matters identified in the notice respecting the Creditors' Meeting and on all other matters that may properly come before the Creditors' Meeting, or any adjournment thereof

DATED at \_\_\_\_\_ in the Province of \_\_\_\_\_, this \_\_\_\_ day of \_\_\_\_\_ 2010.

---

Name of Affected Creditor (please print)

---

Signature of Affected Creditor

---

Type and Amount of Claim of the Affected Creditor

Notes:

- (1) Properly completed Proxies to be used at the Creditors' Meeting must be sent or delivered to the offices of Alger & Associates Inc. (the "Monitor") at 400, 602 – 11th Avenue, S.W., Calgary, Alberta, T2R 1J8, attention Guy W. Odhams/Michael Costello, fax: (403) 296-2988, email: godhams@alger.ca/mcostello@alger.ca, by 5:00 p.m. (Calgary time) at least one (1) Business Day prior to the date of the Creditors' Meeting, or any adjournment thereof, or with the Monitor prior to the time of commencement of the Creditors' Meeting, or any adjournment thereof.
- (2) Where no specific choice is specified in this Proxy, the amount of the Claim of the Affected Creditor will be voted for the approval of the resolution referred to above.
- (3) This Proxy must be dated and executed by the Affected Creditor or by the Affected Creditor's attorney authorized in writing, or, if the Affected Creditor is not an individual, the Proxy must be signed in its name by an authorized officer whose title should be indicated. The Proxy signed by a person acting as attorney or in some other representative capacity should indicate such person's capacity (following his signature) and it should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such instrument has previously been filed with the Monitor). If this Proxy is not dated in the space provided above, it shall be deemed to bear the date on which it was mailed to the Affected Creditor.
- (4) This Proxy may be revoked (as to any matter on which a vote has not already been cast pursuant to its authority) by an instrument in writing executed by the Affected Creditor or by his or her attorney, duly authorized in writing or, if the Affected Creditor is not an individual, by an officer or attorney thereof duly authorized, and deposited either at the offices of the Monitor above mentioned on or before the last Business Day preceding the date of the Creditors' Meeting or any adjournment thereof, or with the Chair of the Creditors' Meeting prior to the time of commencement of the Creditors' Meeting, or any adjournment thereof.

**SCHEDULE "F"**  
**PLAN OF ARRANGEMENT**  
**OF**  
**MAHALO ENERGY LTD.**  
**PURSUANT TO THE**  
***COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)***

**MONITOR'S CERTIFICATE**

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 A PLAN OF COMPROMISE OR ARRANGEMENT O**  
**MAHALO ENERGY LTD.**

**MONITOR'S CERTIFICATE**

**RECITALS**

- A. Pursuant to the order of this Honourable Court dated May 22, 2009 (the "**CCAA Initial Order**"), Mahalo Energy Ltd. ("**Mahalo**") filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C 36, as amended;
- B. Pursuant to the CCAA Initial Order, Alger & Associates Inc. was appointed the Monitor of Mahalo (the "**Monitor**") with the powers, duties and obligations set out in the CCAA Initial Order;
- C. Mahalo has filed a Plan of Arrangement under the CCAA dated August 18, 2010 (the "**Plan**"), which Plan has been approved by the Required Majority and sanctioned by the Court; and
- D. Unless otherwise indicated herein, initially capitalized terms used herein have the respective meanings set out in the Plan.

**THE MONITOR HEREBY CERTIFIES** that the conditions precedent set out in Sections 6.1 and 6.3 of the Plan have been satisfied or waived in accordance with the Plan on October •, 2010 and that accordingly, the Plan Implementation Date is October••, 2010.

DATED at Calgary, Alberta, this • day of October, 2010.

**ALGER & ASSOCIATES INC.** , in its capacity  
as Monitor of Mahalo and not in its personal or  
corporate capacity

By: \_\_\_\_\_  
Name:  
Title:

**SCHEDULE "G"**

**DRAFT SANCTION ORDER**

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  
THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000, c.B-9, AS AMENDED

**AND IN THE MATTER OF MAHALO ENERGY LTD.**

Applicant

BEFORE THE HONOURABLE ) At the Court House, in the City of Calgary, in the  
JUSTICE \_\_\_\_\_ ) Province of Alberta, on \_\_\_\_\_,  
IN CHAMBERS ) \_\_\_\_\_, 2010.

**SANCTION ORDER**

UPON the Application of Mahalo Energy Ltd. ("Mahalo", the "Corporation" or the "Applicant"); AND UPON reading the Affidavit of \_\_\_\_\_ sworn \_\_\_\_\_, 2010, filed (the "Affidavit"), the Report of the Monitor, Alger & Associates Inc., filed, and the pleadings and proceedings filed in this Action; AND UPON being advised by counsel to the Applicant that notice of this application was given by serving a copy of the Creditors' Meeting Order granted \_\_\_\_\_, in accordance with its terms, and that no other party was served with Notice;

**IT IS HEREBY ORDERED AJUDGED AND DECLARED THAT:**

**SERVICE**

1. Service is hereby deemed in order and service upon any interested party other than the persons served is hereby dispensed with.

DEFINITIONS

2. Any capitalized terms not otherwise defined in this Order shall have the meanings ascribed to them in the Plan of Arrangement of the Applicant dated \_\_\_\_\_, (the "Plan").
3. In this Order, wherever reference is made to this Order being effective on the Plan Implementation Date, the Order will be deemed to be effective as of 12:01 a.m., Mountain Time, on the Plan Implementation Date.

MEETING OF CREDITORS

4. The Plan, Instrument of Proxy, the Monitor's Report and a copy of the \_\_\_\_\_, 2010 Order (the "Creditors' Meeting Order") were duly sent or delivered to each Creditor substantially in accordance with the Creditors' Meeting Order and the *Companies' Creditors Arrangement Act* ("CCAA"). Notice to holders of Mahalo's Securities is expressly dispensed with.
5. The Creditor's Meeting was duly convened and held in accordance with the CCAA and the Creditors' Meeting Order.

SANCTION OF PLAN

6. The Applicant has complied with the provisions of the CCAA and the Orders of this Court made in this proceeding in all material respects.
7. The Plan has been approved by the requisite majority of the Creditors' Class created under the Plan in conformity with Section 6 of the CCAA and the terms of the Creditors' Meeting Order.
8. The terms and conditions of the Plan are both substantively and procedurally fair and in the best interests of Mahalo's Creditors and the Applicant.
9. The Plan is sanctioned and approved pursuant to Section 6 of the CCAA and section 192 of the *Alberta Business Corporations Act* ("ABCA"), and is binding on all Creditors and holders of Securities of Mahalo.
10. No meetings or votes of any holders of Securities in Mahalo are required in connection with the Plan.
11. Upon filing of a Monitor's Certificate, pursuant to Section 6.4 of the Plan, indicating that the conditions precedent to the implementation of the Plan are either satisfied or waived, the Applicant and the Monitor are authorized and directed to take all actions necessary or appropriate to implement the steps and proceedings contemplated pursuant to the Plan.

12. At the Plan Implementation Date, the Plan will be effective and will inure to the benefit of and be binding upon the Applicant, the Affected Creditors, and all other persons in the sequence, if any, stipulated in the Plan or this Sanction Order.
  
13. Subject to the performance of Mahalo of its obligations under the Plan, all obligations, agreements or releases to which Mahalo is a party shall be and remain in full force and effect, unamended, as at the Plan Implementation Date unless terminated or repudiated or deemed to be terminated or repudiated by Mahalo pursuant to the CCAA Initial Order or any other Order and no party to any such obligation, agreement or lease shall on or following the Plan Implementation Date, accelerate, terminate, refuse to renew, rescind, refuse to perform or otherwise repudiate its obligations thereunder or enforce or exercise (or purport to enforce or exercise) any right or remedy under or in respect of such obligation or agreement by reason:
  - (a) of any event which occurred prior to, and not continuing after, the Plan Implementation Date, or which is or continues to be suspended or waived under the Plan, which would have entitled any other party thereto to enforce its rights or remedies;
  - (b) that Mahalo sought or obtained relief or has taken steps as part of the Plan or under the CCAA;
  - (c) of any default or event of default arising as a result of the financial condition or insolvency of Mahalo;
  - (d) of the effect upon Mahalo at the completion of any of the transactions contemplated under the Plan; or
  - (e) of any compromises, settlements, restructurings pursuant to the Plan.
  
14. From and after the Plan Implementation Date, all persons shall be deemed to have waived any and all defaults then existing, previously committed, or caused by Mahalo, any non-compliance with or default under any covenant, warranty, representation, term, provision, condition or obligation, express or implied in any contract, instrument, credit document, guarantee, agreement for sale, lease, or other agreement, written or oral, and any and all amendments or supplements thereto (each "Agreement") existing between such person and Mahalo or any other person, and which non-compliance, breach or default is applicable to Mahalo or results from any circumstance or event applicable to Mahalo or its obligations under any agreement and any and all notices of default and demands for payment under any agreement shall be deemed to be of no further force or effect.

15. From and after the Plan Implementation Date, each Creditor and any person affected by the Plan will be deemed to have consented and agreed to all of the provisions of the Plan in its entirety. In particular, each Creditor shall be deemed on its own behalf and on behalf of its heirs, executors, administrators, successors and assigns, for all purposes:
  - (a) to have executed and delivered to Mahalo all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out the Plan in its entirety;
  - (b) to have waived any default by Mahalo in any provision, express or implied, in any agreement or other arrangements existing between such Creditor and Mahalo that occurred on or prior to the Plan Implementation Date;
  - (c) to have agreed if there is any conflict between the provision, express or implied, of any agreement or other arrangement existing between such Creditor and Mahalo as at the Plan Implementation Date (other than those entered into by Mahalo on, after or with effect from the Plan Implementation Date) and the provisions of the Plan, then the provisions of the Plan take precedence and priority and the provisions of such agreement are amended accordingly; and
  - (d) to have released and discharged absolutely all Claims against Mahalo and its agents, directors, officers, employees, counsel and the Monitor in accordance with the provisions of Section 7.2 of the Plan.
  
16. Each of the Eligible Unsecured Creditors is deemed to acknowledge that Mahalo, pursuant to the Plan Summary, has provided written notice to it, and deemed to acknowledge and consent, that:
  - (a) all of the shares and other securities in the capital of Mahalo, including the Class A Shares and the Class B Shares to be issued in connection with the implementation of the Plan, will remain subject to the Cease Trade Orders (as defined in the Plan Summary);
  - (b) that the granting of the Partial Revocation Orders does not guarantee the issuance of a full revocation of the cease trade orders in the future; and
  - (c) that Mahalo has sought orders from the relevant Canadian securities commissions to cease to be a reporting issuer in all provinces of Canada in which it is currently a reporting issuer.
  
17. Any distributions which are to be made pursuant to the terms of the Plan may be made by either Mahalo or the Monitor.

18. The release referred to in Section 7.2 of the Plan and the other provisions of the Plan relating to Creditors shall become effective on the Plan Implementation Date in accordance with the Plan.
19. From and after the Plan Implementation Date, any and all Claims against Mahalo of any nature are hereby compromised, discharged and released in accordance with the Plan and the ability of any persons to proceed against Mahalo in respect of or relating to any claim is forever discharged, restrained and released and all proceedings with respect to, in connection with or relating to such Claims are permanently stayed, subject only to the rights of the Creditors to receive distributions pursuant to the Plan in respect of their Claims.
20. From and after the Plan Implementation Date, all liens, including all security registrations against Mahalo, in favour of any Creditor in respect of a Claim or a Disputed Claim are hereby discharged and extinguished.
21. At any time on or after the Plan Implementation Date, Mahalo is authorized to complete any steps, including but not limited to the preparation, execution, and filing of necessary documentation, required to effect the discharge of any registration made against Mahalo by a Creditor.
22. Following the making of this Order, Mahalo shall file, or cause to be filed, the Articles of Reorganization appended to the Plan as Schedules "B", which, among other things, create two new classes of Shares: Class "A" Common Shares and Class "B" Common Shares.
23. Promptly following the filing of the Articles of Reorganization appended to the Plan as Schedule "B" and the filing of the Monitor's Certificate indicating all conditions precedent are satisfied or fulfilled or a Court Order to like effect, the following steps shall occur forthwith:
  - (a) Alpine and the Other Investors shall deliver the Subscription Price to the Monitor, which sum (including any deposits) shall be deposited in a separate bank account and distributed by the Monitor in accordance with the Plan;
  - (b) Mahalo shall issue that number of Class A Common Shares equal to the Elected Amount, at a subscription price of \$1.00 per share, to Alpine, and shall deliver a certificate representing such shares to Alpine in accordance with Article 4 of the Plan;
  - (c) Mahalo shall issue that number of Class A Common Shares equal to the difference between the Elected Amount and the Maximum Amount, at a subscription price of \$1.00 per share, to the Other Investors, and to the extent the Other Investors do not subscribe for or purchase such shares, to Alpine (to the extent unsubscribed or not purchased) and deliver certificates

representing such shares to the Other Investors and Alpine, as applicable, in accordance with Article 4 of the Plan;

- (d) Mahalo shall issue that number of Class B Common Shares equal in number to the aggregate Class A Common Shares issued under Sections 4.2(b) and (c) of the Plan in favour of the Eligible Unsecured Creditors, allocated among them on a pro rata basis based upon the dollar amount of their respective Unsecured Claims, and deliver such shares (including fractional shares) to the Monitor for delivery to the Eligible Unsecured Creditors in accordance with the Plan;
- (e) Mahalo will file or cause to be filed Articles of Reorganization substantially in the form appended as Schedule "C" to the Plan pursuant to which, among other things, the rights, privileges, restrictions and conditions attaching to the common shares of Mahalo shall be changed such that such common shares shall be redeemable by Mahalo for an amount equal to the redemption amount provided for in accordance with the changed terms of such common shares, being nil;
- (f) The common shares of Mahalo shall each be deemed to be redeemed by Mahalo for an amount equal to the redemption amount of such shares, being nil, and then cancelled, and all of the other previously issued and outstanding Securities of Mahalo (other than the Class A Common Shares and Class B Common Shares created and issued pursuant to the Plan), shall be cancelled; and
- (g) Mahalo will file, or cause to be filed, Articles of Reorganization substantially in the form appended as Schedule "D" to the Plan, pursuant to which, among other things, all classes of shares of Mahalo, other than the Class A Common Shares and the Class B Common Shares, shall be removed.

24. The events set forth in paragraphs 22 and 23(a) through (g) shall be deemed to have occurred in the order set forth in the Plan as contemplated by the Plan.

25. The Monitor shall, consistent with Section 4.3 of the Plan:

- (a) Pay all Unsecured Creditors from the Cash Pool and distribute Class B Common Shares to them as follows:
  - (i) a cash payment equal to 100% of the amount of their Claim up to the first \$1,500 thereof;

- (ii) where an Unsecured Creditor has an Unsecured Claim in excess of \$1,500, an additional proportionate distribution of the remainder of the Cash Pool calculated with reference to the amounts of their respective Unsecured Claims; and
- (iii) distribute the Class B Common Shares to the Eligible Unsecured Creditors, in each case allocated among them as one (1) share per dollar of their respective Unsecured Claims, with fractional claims of less than \$1.00 being disregarded;

which payment and distribution shall be accepted by the Unsecured Creditor in full satisfaction of their Unsecured Claims; and

- (b) pay all of the Residual Funds, net of any amount paid or reasonably anticipated as required for Unaffected Claims, to the Lenders, which Residual Funds shall be accepted by the Lenders in full satisfaction of their Secured Claims, except with respect to the Outstanding Deposits and Accounts Receivable, as set out below.

26. Mahalo shall, consistent with Section 4.4 of the Plan:

- (a) Promptly remit all or any portion of the Outstanding Deposits or Accounts Receivable that it receives after the Plan Implementation Date to the Lenders as directed by a direction to pay executed and delivered by all of the Lenders and identifying the Lender to whom the amount is to be remitted and the wire instructions therefore. Notwithstanding the foregoing, the Corporation shall not be obligated to make any effort to collect any Outstanding Deposit or Accounts Receivable whether in the ordinary course of business or otherwise; however, to the extent that any Person that is the holder of any Outstanding Deposits or who settles any Accounts Receivable requests receipts or other reasonable confirmations with respect to payments made to the Corporation by such Person, the Corporation will provide such Person with any such receipts or confirmations and will endeavour to reasonably assist the Lenders in responding to any such requests subject to the Corporation receiving reasonable compensations from the Lenders; and
- (b) Be entitled to deduct and withhold from any distribution or payment to be made to the Lenders or to any Person on behalf of the Lenders all such amounts as Mahalo, as the case may be, is (i) required to deduct and withhold with respect to such payment under the ITA or any provision of federal, provincial, territorial, state, local or foreign tax law, in each case, as amended or succeeded, or (ii) entitled to withhold under section 116 of the ITA or any corresponding provision of provincial law. To the extent that any amount is so withheld, such withheld amount shall be treated for all purposes as having been paid to Lenders in respect of whom such

deduction and withholding was made, provided that such withheld amount shall be promptly remitted by Mahalo to the appropriate tax authority unless a section 116 certificate shall have been issued by the Canada Revenue Agency with a certificate limit at least equal to the distribution or payment to be made to a non-resident.

#### DISPUTED, LATE AND UPDATED CLAIMS

27. Subject to the following paragraph, Exhibit "A" to the Affidavit of \_\_\_\_\_ dated \_\_\_\_\_, 2010 sets out all Claims against the Applicant and the obtaining by the Applicant of this Order shall be deemed to constitute prejudice with respect to any other Claim made or asserted after the granting of this Order.
28. The Claims of \_\_\_\_\_ shall be adjudicated by a process substantially similar in form and timing to that set out in the Claims Process Order, and when resolved, paid from the remainder of the Cash Pool and Shares retained by the Monitor pursuant to paragraph 4.5 of the Plan the same amount per dollar of claim as was received by Creditors whose Claims are resolved.

#### TERMINATION OF CCAA PROCEEDINGS

29. Upon the expiry of the Stay Period, the Applicant's proceedings under the CCAA and the provisions of the Initial Order (the "CCAA Proceedings"), are terminated (the "CCAA Termination Date").
30. Except as otherwise expressly outlined herein, Alger & Associates Inc. shall be discharged from its duties as Monitor of the Applicant effective as of the CCAA Termination Date.
31. The Monitor is authorized and directed, on behalf of the Applicant, to make distributions to creditors of Mahalo from the Cash Pool, the Residual Funds and the Class B Shares in accordance with the Plan, this Order and any further Order of this Honourable Court.
32. Notwithstanding the discharge of the Monitor, the Monitor shall have the authority to complete any duties that may be incidental to the termination of the CCAA Proceedings, including duties regarding the resolution of outstanding Claims and the distribution of funds.
33. The Monitor shall hold a charge on the Residual Funds for the ongoing reasonable fees and expenses of the Monitor and its counsel and such charge shall be released on the completion of its duties under the Plan.

RELEASE OF THE MONITOR, MAHALO AND ITS AND DIRECTORS

34. Without limiting the terms of the CCAA Plan, all actions and conduct of the Monitor are hereby approved and the Monitor has satisfied all of its respective obligations up to and including the CCAA Termination Date and the Monitor shall not be liable for any act or omission on the part of the Monitor, including with respect to any reliance thereof, including without limitation, any act or omission pertaining to the discharge of their respective duties under the Plan or with respect to any other duties and obligations in respect of the implementation of the Plan, save and except for any claim or liability arising out of any fraud, gross negligence or wilful misconduct on the part of the Monitor. Subject to the foregoing, any claims against the Monitor in connection with the performance of its respective duties are hereby stayed, extinguished and forever barred.
35. No action or other proceeding shall be commenced against the Monitor in any way arising from or related to its capacity or conduct as Monitor, except with prior leave of this Court on notice to the Monitor, and upon further order securing, as security for costs, the solicitor and his own client costs of the Monitor in connection with any proposed action or proceeding.
36. Subject to section 5.1(2) of the CCAA, all Creditors, shall be deemed to have released and discharged Mahalo and its directors, officers, including those directors and officers appointed pursuant to the implementation of the Investment Agreement, employees, agents, affiliates, professional advisors and associates and each and every past and present director, officer, employee, agent, affiliate, professional advisor and associate of Mahalo (collectively, the "Released Parties" and individually, a "Released Party") from any and all demands, claims, including claims of any past and present officers, directors or employees for contribution and indemnity, actions, causes of action, counterclaims, D&O Claims, Director and Officer Indemnity Claims, Employee Termination Claims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, charges and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any person may be entitled to assert, including, without limitation, any and all claims in respect of any environmental condition or damage affecting any of the Assets, whether known or unknown, matured or unmatured, foreseen or unforeseen, certain or contingent, existing or hereafter arising, based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Plan Implementation Date or as a result of the implementation of the Plan, relating to, arising out of or in connection with any matter, cause or thing, including, without limitation, relating to the Assets, business or affairs of Mahalo whenever and however conducted, this Plan, and the CCAA Proceedings; all without any other recourse whatsoever against such Released Parties on the part of such persons establishing claims or any other persons.

37. No action or other proceeding shall be commenced against any of the directors or officers of the Applicant relating to any matter arising from or related to its capacity or conduct as directors or officers, respectively, during the CCAA Proceedings, except with prior leave of this Court on notice to the director or officer and upon further Order securing, as security for costs, the solicitor and his own client costs of the directors and officers, as the case may be, in connection with any proposed action or proceeding.

#### DISCHARGE OF CHARGES

38. Upon and after the Plan Implementation Date, the charges and security interests created pursuant to the CCAA Initial Order and any subsequent Orders in these proceedings, including the Director's Charge and the Administration Charge (the "Charges"), shall only attach to and be payable from the Residual Funds in the Monitor's possession. On the CCAA Termination Date, the Charges, apart the Charge created in favour of the Monitor by this Order, shall be fully and finally terminated, discharged and released.

#### SHAREHOLDERS' MEETING

39. Pursuant to s. 132 of the ABCA, Mahalo shall be permitted to postpone convening its 2009 annual meeting and subsequent meetings of its shareholders until [date].

#### GENERAL

40. Notwithstanding (a) the pendency of the CCAA Proceedings and the declarations of insolvency made therein, (b) the pendency of any motions for receiving orders hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) in respect of the Applicant and any receiving orders issued pursuant to any such motions, and (c) the provisions of any federal or provincial statute, any actions, steps or proceedings entered into or taken by the Applicant or any agreements entered into as part of the implementation of the Plan shall (i) constitute legal, valid and binding obligations and shall be enforceable against the Applicant in accordance with the terms thereof, and (ii) do not constitute conduct meriting an oppression remedy, settlements, fraudulent preferences, fraudulent conveyances or other challengeable or reviewable transactions under any applicable law, federal, provincial or otherwise.
41. Pursuant to the CCAA, this Order shall have full force and effect in all provinces of Canada. This Court requests the aid and recognition of: (i) any Court or any judicial, regulatory or administrative body in any province or territory and the Federal Court of Canada; (ii) any judicial, regulatory or administrative tribunal or other court constituted pursuant to the Parliament of Canada or the legislature of any province; (iii) any Court or any judicial, regulatory or administrative body of the United States; and (iv)

the states or other subdivisions of the United States and of any other nation or state to act in aid of or be complimentary to this Court in carrying out the terms hereof.

42. Provisional execution notwithstanding any appeal or leave to appeal from the present judgment is hereby authorized.

---

J.C.Q.B.A.

ENTERED this \_\_\_\_ day of September, 2010.

---

Clerk of the Court

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 the  
***BUSINESS CORPORATIONS ACT***, R.S.A. 2000, C.  
B-9

**AND IN THE MATTER OF  
MAHALO ENERGY LTD.**

Applicant

---

**SANCTION ORDER**

---

BURNET, DUCKWORTH & PALMER LLP  
Barristers & Solicitors  
1400, 350 – 7<sup>th</sup> Avenue S.W.  
Calgary, Alberta  
T2P 3N9

Attention: Trevor Batty  
Telephone: (403) 260-0263  
Fax: (403) 260-0332  
  
File No.: 60470-42

## SCHEDULE "H"

### ARTICLE 6 OF INVESTMENT AGREEMENT

#### ARTICLE 6 CONDITIONS TO CLOSING

##### 6.1 Definitions

In this Schedule "H":

- (a) "**Administration Charge**" has the meaning attributed to it in Schedule "A" to the Plan of Arrangement.
- (b) "**Alpine**" means Alpine Capital Corp.
- (c) "**Agreement**" means the Investment Agreement between Alpine and the Corporation, dated August 18, 2010, together with the Schedules attached thereto and made a part thereof, all as amended, supplemented or modified from time to time.
- (d) "**Articles of Reorganization**" means the form of articles of reorganization of the Corporation in the form attached as Schedules "B", "C" and "D" to the Plan of Arrangement.
- (e) "**Board**" means the board of directors of the Corporation.
- (f) "**CCAA Proceedings**" means the CCAA Proceedings of Mahalo pending in the Court of Queen's Bench of Alberta, Judicial District of Calgary.
- (g) "**Change of Control**" means the occurrence of any of the following in respect of a corporation: (i) the acceptance by shareholders of such corporation who own in the aggregate 50% or more of all of the issued shares of such corporation of any offer, whether by way of a takeover bid or otherwise, for all or any of the outstanding shares of such corporation; (ii) the acquisition, by whatever means, by a Person (or two or more Persons who, in such acquisition, have acted jointly or in concert or intend to exercise jointly or in concert any voting rights attaching to the shares acquired), directly or indirectly, of beneficial ownership of such number of shares or rights to acquire shares of such corporation that, together with such Person's or Persons' then-owned shares and rights to acquire shares of such corporation, if any, represent (assuming the full exercise of such rights) 50% or more of the combined voting rights attached to such corporation's then-outstanding shares; or (iii) the entering into of any agreement by such corporation to merge, consolidate, restructure, amalgamate, initiate an arrangement or be absorbed by, into or with another Person if upon completion of any such transaction the Persons who were shareholders of such corporation immediately prior to the completion of such transaction do not own a majority of the outstanding shares or other equity interests of the corporation or other entity resulting from such transaction; provided that, for greater certainty, the transactions contemplated by the Agreement shall not constitute a "Change of Control" for the purposes of this definition.
- (h) "**Claim**" has the meaning attributed to it in Schedule "A" to the Plan of Arrangement.

- (i) "**Class A Common Shares**" means the class A common shares in the capital of the Corporation having the terms and conditions set forth in the Articles of Reorganization.
- (j) "**Closing**" means the completion of the transactions contemplated by the Agreement including the Subscription.
- (k) "**Closing Date**" means the date that is as soon as practicable following the Order being obtained in the CCAA Proceedings and in any event shall be no later than 2:00 p.m. (Calgary time) on the 30<sup>th</sup> day following the date on which the Order is obtained or such later date as is mutually agreed to among the Parties, unless an appeal is filed and stay obtained prior thereto.
- (l) "**Closing Time**" means the time that the documents or actions effecting the transactions comprising the Closing are delivered or taken and released from the terms of any escrow governing the Closing.
- (m) "**Common Shares**" means the common shares in the capital of the Corporation.
- (n) "**Corporation**" means Mahalo Energy Ltd.
- (o) "**CTO Revocation Orders**" means orders from the Securities Regulatory Authorities permanently revoking each of the Existing Cease Trade Orders.
- (p) "**Existing Cease Trade Orders**" means the cease trade orders of the Alberta Securities Commission issued June 22, 2010, the British Columbia Securities Commission issued June 30, 2010, the Manitoba Securities Commission dated July 28, 2010, the Ontario Securities Commission issued July 12, 2010 and the Autorite Des Marches Financiers issued July 20, 2010, any cease trade orders issued further to or in replacement of, such orders and any other order, ruling or determination issued during the Interim Period having the effect of ceasing, suspending or restricting trading in any securities of the Corporation or the sale of any or all of the Offered Shares.
- (q) "**GORR**" means the Royalty Agreement with Trafina Energy Ltd. and Sedna Oil and Gas Ltd. dated September 4, 2009 as amended in the agreement dated October 20, 2009.
- (r) "**Interim Period**" means the period from and after August 18, 2010 to and including the Closing Date.
- (s) "**NEX**" means the NEX board of the TSX Venture Exchange.
- (t) "**Non Reporting Issuer Order**" means an Order from the Securities Regulatory Authorities that the Corporation is not a reporting issuer.
- (u) "**Normal Course Agreements**" means any agreements that Corporation is a party to that have fixed payment terms over the term of the agreement;
- (v) "**Offered Shares**" means the number of Class A Common Shares to be issued by the Corporation as contemplated by the Agreement at the Closing Time pursuant to the Plan of Arrangement.

- (w) "**Order**" means an order obtained through the CCAA Proceedings sanctioning the Plan of Arrangement and giving all necessary directions regarding its implementation substantially in the form attached as Schedule "G" to the Plan of Arrangement.
- (x) "**Parties**" means each of the Corporation and Alpine, and "**Party**" means any one of them.
- (y) "**Person**" includes an individual, a partnership, a body corporate, a trust, a joint venture, an unincorporated organization, a union, a government or any department or agency thereof and the heirs, executors, administrators or other legal representatives of an individual.
- (z) "**Plan of Arrangement**" means the plan of arrangement of the Corporation, dated August 18, 2010, as amended or supplemented from time to time.
- (aa) "**Restructuring Costs**" means all of the Corporation's costs (including legal, accounting, engineering and other consultants), incurred in respect of the CCAA Proceedings, other than the Administration Charge, up to the Plan Implementation Date, including, without limitation, in the preparation of and implementation of the terms of the Plan of Arrangement, including relating to finalizing the Claims process and determination of priority.
- (bb) "**Securities Regulatory Authorities**" means, collectively, the Alberta Securities Commission and each securities regulatory authority in each jurisdiction in which the Corporation is a reporting issuer.
- (cc) "**Seismic Agreements**" means all agreements to which the Corporation is a party involving the purchase, sale, ownership, licensing or management of, or access to seismic data.
- (dd) "**Signing Date**" means the date of the Agreement.
- (ee) "**Subscription**" means Alpine's agreement to purchase, and the Corporation's agreement to issue and sell, that number of the Offered Shares elected to be purchased by Alpine, all in accordance with and subject to the terms and conditions in the Agreement.
- (ff) "**Tax Act**" means the *Income Tax Act* (Canada), as amended.

## 6.2 Conditions to the Obligations of Alpine to Close

The obligation of Alpine to complete the Subscription pursuant to this Agreement is subject to the fulfilment, on or prior to the Closing Date, of the following conditions precedent:

- (a) all representations and warranties of the Corporation contained in this Agreement shall, except where a specific time is otherwise indicated, be true at and as of the Signing Date, and to the extent within the reasonable control of the Party, the Closing Date as if made then in each case, except for inaccuracies which are not in the aggregate material, and a certificate to that effect from a senior officer of the Corporation or a consultant performing the duties of a senior officer of the Corporation (without personal liability) shall have been delivered to Alpine;

- (b) the Corporation shall have complied with and performed in all material respects all covenants and agreements required by this Agreement to be complied with and performed by the Corporation at or prior to the Closing Date and a certificate to that effect from a senior officer of the Corporation or a consultant performing the duties of a senior officer of the Corporation (without personal liability) shall have been delivered to Alpine;
- (c) Alpine shall have received delivery of all documents required to be delivered to it pursuant to Section 3.2(a)
- (d) the Order shall have been obtained and shall not have been stayed, set aside, overturned or varied in a manner materially adverse to Alpine, no appeal therefrom shall have been made, and Alpine shall not, in its sole opinion, have a reasonable apprehension that an appeal therefrom could be made;
- (e) all contracts that the Corporation has entered into, including, but not limited to, the Seismic Agreements, will be repudiated with provision made for any claims arising therefrom in the Plan of Arrangement, such that upon the Plan of Arrangement being completed, the Corporation shall not be party to any contract or agreement of any nature whatsoever other than the GORR and any Normal Course Agreements not exceeding \$10,000 in the aggregate. For greater certainty, the Seismic Agreements shall not be considered Normal Course Agreements;
- (f) the Corporation shall own the GORR, free of all claims, liens and encumbrances whatsoever and shall not have taken any action, permitted any action to be taken or not taken or consented to any action, subsequent to the date of this Agreement, which could result in any material reduction in value of the GORR;
- (g) Dave Burton shall have resigned from the Board effective upon the later of the receipt by the Corporation of the CTO Revocation Orders and Closing, Bill Gallacher and Gary Dundas shall have continued as directors upon Closing and, if Alpine provides the names of two nominees to the Corporation ten days prior to Closing, such two nominees of Alpine shall have been appointed to the Board effective upon the later of the receipt by the Corporation of the CTO Revocation Orders and Closing, and all such appointed and continuing directors shall continue until the next annual general meeting of the Corporation or until his successor is duly elected or appointed, unless his office is vacated earlier in accordance with the Corporation's articles or by-laws;
- (h) the Board shall have appointed officers of the Corporation as recommended by Alpine;
- (i) the Corporation shall be free of any indebtedness, obligations and liabilities whatsoever, including, but not limited to, the costs and expenses associated with the CCAA Proceedings and the audit performed in connection with the preparation of the audited financial statements for the Corporation for the year ended December 31, 2009, other than as expressly contemplated by the Plan of Arrangement;
- (j) Closing shall occur by not later than October 15, 2010;
- (k) all requisite third party and regulatory approvals shall have been obtained, and there shall be no action or proceeding outstanding, pending or threatened which could materially impede the Subscription or the Arrangement;

- (l) during the Interim Period, there shall not have been a Change of Control of the Corporation or an acquisition of control of the Corporation for the purposes of the Tax Act;
- (m) there shall not have been any change, or proposed change, to tax laws whether by legislative or judicial action, nor any change to or in the Canada Revenue Agency's assessing and administrative policies and practices prior to Closing where such change, in the opinion of Alpine, acting reasonably, could have material adverse tax consequences to Alpine or the Corporation relevant to this transaction.;
- (n) no order, ruling or determination having the effect of ceasing, suspending or restricting trading in any securities of the Corporation or the sale of any or all of the Offered Shares shall be pending, threatened or issued, and Alpine shall not, in its sole discretion, have a reasonable apprehension that any such order, ruling or determination could be issued;
- (o) the NEX shall have approved the de-listing of the Common Shares from the NEX and no securities of the Corporation shall be trading on any market place as defined in National Instrument 21-101 *Marketplace Operation*;
- (p) the CTO Revocation Orders and the Non-Reporting Issuer Order are granted prior to and conditional upon the Order being granted pursuant to the Plan of Arrangement;
- (q) the interests in and to the remaining oil and gas well held by the Corporation shall have been transferred from the Corporation to Trafina Energy Ltd. and Sedna Oil and Gas Ltd. on terms and conditions satisfactory to Alpine; and
- (r) all Restructuring Costs shall have been paid in full, and no further Restructuring Costs shall be accruing.

**SCHEDULE "I"**  
**PLAN SUMMARY**  
**MAHALO ENERGY LTD.**

**Introduction**

The following is a summary of certain information contained in the Plan of Arrangement, dated August 18, 2010 (the "Plan"). The capitalized terms used in this summary are as defined in the Plan. This summary is qualified in its entirety by the more detailed information appearing or referred to elsewhere in the Plan. You are urged to read the Plan and not to rely on this summary. All dollar amounts referred to herein are expressed in Canadian dollars unless otherwise stated.

**Creditors' Meeting**

The Creditors' Meeting will be held on Wednesday, September 15, 2010 at the offices of Burnet, Duckworth & Palmer LLP, 1400 – 350 7<sup>th</sup> Avenue S.W., Calgary Alberta at 10:00 a.m. . The purpose of the Creditors' Meeting is to consider and, if thought advisable, to approve the Plan.

**Purpose of the Plan**

The purpose of the Plan is to effect a compromise of the liabilities of the Mahalo and effect its corporate reorganization. The ultimate purpose of the Plan is to enable Mahalo to continue as a going concern. Mahalo believes that Creditors affected by the Plan will derive greater benefit from the continued operation of Mahalo than they would recover in a liquidation of Mahalo. Accordingly, the Plan is designed to provide a fair recovery to the Lenders and Unsecured Creditors and to provide Mahalo with the corporate structure necessary to continue its business operations from and after the Plan Implementation Date.

**Creditors' Classes**

The classification of Claims for purposes of voting and distribution are based on a commonality of interest of such Claims such that Creditors with essentially similar rights against Mahalo and who are receiving essentially similar treatment have been grouped together in two classes: Lenders and Unsecured Creditors.

**Treatment of Unsecured Creditors**

If the Required Majority of Creditors vote to accept the Plan, then on the Plan Implementation Date or, in the case of a Disputed Unsecured Claim, as soon as reasonably practicable after the date any such Disputed Unsecured Claim becomes a Proven Unsecured Claim, but in no case earlier than the Plan Implementation Date, each holder of a Proven Unsecured Claim shall receive in full satisfaction, settlement, release and discharge of and in exchange for such Proven Unsecured Claim:

- (i) a cash payment equal to 100% of the amount of their Unsecured Claim up to the first \$1,500 thereof;
- (ii) where an Unsecured Creditor has an Unsecured Claim in excess of \$1,500, an additional proportionate distribution of the remainder of the Cash Pool calculated with reference to the amounts of their respective Unsecured Claims; and

- (iii) distribute the Class B Common Shares to the Eligible Unsecured Creditors, in each case allocated among them on a pro rata basis based upon the dollar amount of their respective Unsecured Claims;

in accordance with the provisions of the Plan.

### **Treatment of Lenders**

If the Required Majority of Creditors vote to accept the Plan, then on the Plan Implementation Date, the Lenders shall receive in full satisfaction, settlement, release and discharge of and in exchange for their Proven Claim:

- (i) the Residual Funds, net of any amount paid or reasonably anticipated as required for Unaffected Claims; and
- (ii) if Mahalo receives all or any portion of the Outstanding Deposits or Accounts Receivable after the Closing Time, as defined in the Investment Agreement, Mahalo will remit all amounts received directly to the Lenders;

in accordance with the provisions of the Plan.

### **Approval of the Plan**

To become effective with respect to a particular Class, the Plan must be approved by a majority in number of Creditors in each Class having aggregate claims representing not less than two-thirds in value of all Proven Claims in each Class who are present and voting at the particular Creditors' Meeting, either in person or by proxy.

The Plan must also be sanctioned by a final order of the Court.

### **Reporting Issuer/Cease Trade Order Background**

Mahalo is currently a reporting issuer in the provinces of Alberta, British Columbia, Manitoba, Ontario and Quebec. As a reporting issuer, Mahalo is subject to statutory obligations that generally apply to public companies, including, without limitation, obligations to make on-going disclosure of its business and affairs including, without limitation, disclosure of financial statements on a quarterly and audited annual basis and immediate disclosure of material changes in its business, operations or capital.

Each of the securities commissions of Alberta, British Columbia, Manitoba, Ontario and Quebec, have issued the cease trade orders attached to this Summary as Schedule "A" (collectively, the "**Cease Trade Orders**"), directing that all trading in securities of Mahalo cease. These orders were issued because Mahalo failed to meet certain of its disclosure obligations involving the filing of financial statements and related filings after CCAA proceedings had been commenced and it had been determined that the existing shares of Mahalo had no value because there were insufficient funds to pay creditors in full. Pursuant to further orders attached to this Summary as Schedule "B" (collectively, the "**Partial Revocation Orders**") issued by each of these securities commissions, the Cease Trade Orders have been varied to the limited extent necessary to permit the transactions contemplated by the Plan including the issuance of the Class A Shares to Alpine and the Other Investors and the Class B Shares to the Eligible Unsecured Creditors. The Cease Trade Orders will continue to apply to the Class A Shares and Class B Shares issued pursuant to the Plan, unless the Cease Trade Orders are fully revoked.

Mahalo has sought an order of each of the securities commissions in which it is a reporting issuer, that Mahalo cease to be a reporting issuer. If Mahalo is successful in obtaining such orders, it will no longer be subject to many of the statutory obligations that typically apply to public companies including, without limitation, any statutory requirement to make on-going disclosure of its business and affairs.

In addition, Mahalo has sought orders from the relevant securities commissions to fully revoke the Cease Trade Orders.

There can be no assurance that Mahalo will be successful in obtaining any of the foregoing orders or that it will be successful in ceasing to be a reporting issuer or successful in having the Cease Trade Orders fully revoked.

Pursuant to the Plan and the Order, each of the Eligible Unsecured Creditors will have notice and will be deemed to acknowledge and consent: (a) that all of the shares and other securities in the capital of Mahalo, including the Class A Shares and the Class B Shares to be issued in connection with the implementation of the Plan, will remain subject to the Cease Trade Orders, (b) that the granting of the Partial Revocation Orders does not guarantee the issuance of a full revocation of the cease trade orders in the future, and (c) that Mahalo has sought orders from the relevant Canadian securities commissions asking those securities commissions to grant orders that permit Mahalo to cease to be a reporting issuer in all provinces of Canada in which it is currently a reporting issuer.

### **Timing of Implementation**

Mahalo intends, if possible, to implement the Plan in accordance with the following timetable:

September 15, 2010 - Creditors' Meetings to approve the Plan

September 16, 2010 - Application to Court for the Sanction Order

October 6, 2010 – Appeal period for Sanction Order expires

October 15, 2010 – Plan Implementation Deadline

For clarity, Mahalo intends to commence implementation of the Plan immediately following the granting of the Sanction Order and not to wait for the expiry of the appeal period. Certain of these deadlines can be extended or abridged with the consent of the parties.

### **Conditions**

There are certain conditions that must be satisfied following approval of the Plan before the Plan will become effective. These conditions are described in more detail in the Plan.

Dated: August 18, 2010