

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 B.E. ROMAINE) Province of Alberta, on Thursday, September 16,
IN CHAMBERS) 2010.

SANCTION ORDER

UPON the Application of Mahalo Energy Ltd. ("Mahalo", the "Corporation" or the "Applicant"); AND UPON reading the Affidavit of David Burton sworn September 15, 2010, filed (the "Affidavit"), the Tenth 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 August 23, 2010, 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 August 18, 2010, (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 August 23, 2010 Order (the "Creditors' Meeting Order") were duly sent or delivered to each Creditor, or posted to Monitor's website, 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, 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.

27. 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.

TERMINATION OF CCAA PROCEEDINGS

28. 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").
29. 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.
30. 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.
31. 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.
32. 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

33. 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 or as allowed pursuant to an Order made by the Court under paragraph 34 of this Sanction Order. 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.
34. 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 such conditions as directed by the Court and on notice to the Monitor.
35. 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.

36. 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

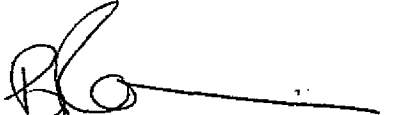
37. Upon and after the Plan Implementation Date, the charges and security interests created pursuant to the CCAA Initial Order and any subsequent Orders in these proceedings, including the Director's Charge and the Administration Charge (the "Charges"), shall only attach to and be payable from the Residual 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

38. 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 June 30, 2011.

GENERAL

39. 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.
40. 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.
41. Provisional execution notwithstanding any appeal or leave to appeal from the present judgment is hereby authorized.



J.C.Q.B.A.

ENTERED this 17th 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

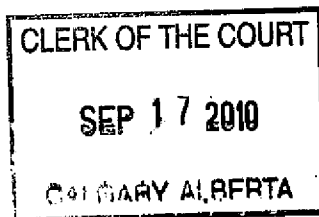
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SANCTION ORDER

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