



**Unaudited Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended September 30, 2008**

**MAHALO ENERGY LTD.***Unaudited Interim Consolidated Financial Statements*

(See basis of presentation- note 2)

**Consolidated Balance Sheets**

(\$000's)

<b>As at</b>	<b>September 30 2008</b>	<b>December 31 2007</b>
		(restated - notes 2 & 4)
<b>ASSETS</b> (note 6)		
Current		
Cash	\$ -	\$ 3,973
Accounts receivable	16,305	13,995
Prepaid and deposits	1,067	977
	17,372	18,945
Deferred financing costs (note 6)	3,182	-
Unrealized gain on financial instruments (note 12)	2,943	-
Property and equipment (note 5)	125,201	98,924
Assets held for sale (note 4)	11,051	75,778
	\$ 159,749	\$ 193,647
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Bank indebtedness	\$ 242	\$ -
Accounts payable and accrued liabilities	22,629	20,924
Bank debt (note 6)	63,761	-
	86,632	20,924
Long-term debt (note 6)	-	51,334
Asset retirement obligations (note 7)	1,144	871
Asset retirement obligations related to assets held for sale (note 4)	1,842	3,219
Future income taxes	3,547	2,050
	93,165	78,398
<b>Shareholders' equity</b>		
Share capital (note 8)	158,979	158,979
Warrants (note 8)	1,990	1,990
Contributed surplus (note 8)	9,753	8,117
Deficit	(104,138)	(53,837)
	66,584	115,249
	\$ 159,749	\$ 193,647
Commitments (notes 12 & 13)		

*See accompanying notes to the unaudited interim consolidated financial statements*

**MAHALO ENERGY LTD.***Unaudited Interim Consolidated Financial Statements***Consolidated Statements of Operations, Comprehensive Loss and Deficit**

(\$000's, except per share)

<b>For the Periods Ended September 30</b>	<b>Three Months</b>		<b>Nine Months</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
		(restated - notes 2 & 4)		(restated - notes 2 & 4)
<b>REVENUES</b>				
Petroleum and natural gas revenue	\$ 9,477	\$ 7,410	\$ 26,470	\$ 21,880
Royalty expense	(2,327)	(1,891)	(6,660)	(5,369)
	7,150	5,519	19,810	16,511
Gain on financial instruments (note 12)	2,943	-	2,943	-
	10,093	5,519	22,753	16,511
<b>EXPENSES</b>				
Operating	1,982	1,032	4,378	3,233
Transportation	641	617	1,623	1,253
General and administrative	1,390	975	3,423	3,529
Stock-based compensation (note 8)	445	514	1,423	1,283
Foreign exchange (gain) loss (note 10)	3,284	(450)	3,773	(2,804)
Interest and financing costs (note 6)	1,011	603	2,249	1,617
Depletion, depreciation and accretion	3,219	2,879	8,333	8,537
	11,972	6,170	25,202	16,648
Loss before income tax	1,879	651	2,449	137
Current income taxes	5	7	15	20
Future income taxes	617	271	1,315	534
Loss from continuing items	2,501	929	3,779	691
Loss from discontinued items (note 4)	15,802	884	46,522	2,329
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>18,303</b>	<b>1,813</b>	<b>50,301</b>	<b>3,020</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>85,835</b>	<b>51,327</b>	<b>53,837</b>	<b>49,749</b>
Adoption of accounting policy	-	-	-	(371)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 104,138</b>	<b>\$ 53,140</b>	<b>\$ 104,138</b>	<b>\$ 53,140</b>
<b>Net loss per share from continuing operations (note 8)</b>				
Basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.06)	\$ (0.01)
<b>Net loss per share from discontinued operations (note 8)</b>				
Basic and diluted	\$ (0.27)	\$ (0.01)	\$ (0.79)	\$ (0.04)
<b>Net loss per share (note 8)</b>				
Basic and diluted	\$ (0.31)	\$ (0.03)	\$ (0.85)	\$ (0.05)

**MAHALO ENERGY LTD.***Unaudited Interim Consolidated Financial Statements*

## Consolidated Statements of Cash Flows

(\$000's)

For the Periods Ended September 30	Three Months		Nine Months	
	2008	2007	2008	2007
		(restated - notes 2 & 4)		(restated - notes 2 & 4)
<b>OPERATING ACTIVITIES</b>				
Net loss from continuing items	\$ (2,501)	\$ (929)	\$ (3,779)	\$ (691)
Non-cash items:				
Stock-based compensation	446	514	1,423	1,283
Depletion, depreciation and accretion	3,219	2,879	8,333	8,537
Unrealized financial derivative gain (note 12)	(2,943)	-	(2,943)	-
Unrealized foreign exchange (gain) loss (note 10)	3,482	(403)	3,885	(1,552)
Amortization of deferred financing fee	219	-	219	-
Future income tax expense	617	271	1,315	534
	2,539	2,332	8,453	8,111
Cashflows from discontinued operations	881	1,001	6,707	2,261
	3,420	3,333	15,160	10,372
Change in non-cash working capital (note 11)	(550)	482	(3,333)	(3,062)
	2,870	3,815	11,827	7,310
<b>FINANCING ACTIVITIES</b>				
Issue of common shares	-	-	-	450
Exercise of stock options	-	-	-	42
Bank debt	(3,433)	7,805	10,016	8,565
Financing costs (note 6)	-	-	(3,402)	-
	(3,433)	7,805	6,614	9,057
<b>INVESTING ACTIVITIES</b>				
Expenditure on property and equipment	(18,739)	(7,390)	(34,506)	(23,467)
(Increase) decrease in assets held for sale	16,882	(4,139)	10,506	3,728
Change in non-cash working capital (note 11)	2,229	1,486	1,344	3,128
	372	(10,043)	(22,656)	(16,611)
<b>DECREASE IN CASH</b>	(191)	1,577	(4,215)	(244)
<b>CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD</b>	(51)	(535)	3,973	1,287
<b>CASH (BANK INDEBTEDNESS), END OF PERIOD</b>	\$ (242)	\$ 1,043	\$ (242)	\$ 1,043

*See accompanying notes to the unaudited interim consolidated financial statements*

## **NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For The Three and Nine Months Ended September 30, 2008 and 2007**

*All amounts are expressed in Canadian dollars unless otherwise stated*

### **1. NATURE OF OPERATIONS**

Mahalo Energy Ltd. (“Mahalo” or the “Company”) was incorporated under the *Business Corporations Act (Alberta)* on April 21, 2004. Mahalo completed its initial public offering and was listed on the Toronto Stock Exchange on July 29, 2005. Mahalo has one wholly-owned subsidiary, Mahalo Energy (USA) Inc. The Company’s primary business is the acquisition of, exploration for and development and production of coal bed methane and shale gas in the United States.

### **2. BASIS OF PRESENTATION**

These unaudited interim consolidated financial statements have been prepared using generally accepted accounting principles (GAAP) on the basis that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these financial statements, and that the Company will be able to continue its business activities.

The future operation of the Company is dependant on its ability to successfully explore, develop and produce economically viable reserves and market petroleum products from its properties, raise capital and receive the continued financial support from its lenders (see note 6). As at September 30, 2008, the Company had a working capital deficiency of \$69.3 million, an accumulated deficit of \$104.1 million and is in breach of certain covenants under its bank credit agreement. The Company is currently working with its lenders to rectify this issue. However, if an acceptable solution is not achieved and the debt is called, the Company will require additional capital to continue its activities and discharge its obligations.

Management believes that the going concern assumption is appropriate for these financial statements. If this assumption is not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

Certain information and disclosures normally required in the notes to the financial statements under GAAP have been condensed or omitted. The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2007, after giving effect to the adoption of new accounting standards discussed in note 3.

All prior period amounts in the financial statements and notes have been restated to reflect the discontinued operations. Due to the planned disposition of the Canadian assets the Company is now considered to only have one geographical reporting unit.

The unaudited interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto as at and for the year ended December 31, 2007.

The results of operations for the three and nine months ended September 30, 2008 may not be indicative of the results for the 2008 fiscal year.

### **3. NEW ACCOUNTING POLICIES AND PRONOUNCEMENTS**

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400 - General Standards of Financial Statement Presentation, 1535 - Capital Disclosures, 3031- Inventories, 3862 - Financial Instruments - Disclosures and 3863 - Financial Instruments - Presentation. The new standards were adopted prospectively.

Section 1400 requires management to assess an entity's ability to continue as a going concern and to provide disclosure of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. The adoption of this standard did not have an impact on the Company's financial statements.

Section 1535 establishes standards for disclosing information regarding an entity's capital and how it is managed. The section specifies the disclosure of i) objectives, policies, and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance. The adoption of this standard did not impact the Company's financial results but did require additional disclosure as set forth in note 9.

Section 3031 provides enhanced guidance for the measurement, costing, and disclosures of inventories. The standard provides that inventories be measured at the lower of cost and net realizable value, permits write-ups of subsequent increases in net realizable value of previously impaired inventories, and prohibits the use of the LIFO costing method. The adoption of this standard did not have an impact on the Company's financial statements.

Sections 3862 and 3863 replace section 3861 - Financial Instruments – Disclosure and Presentation. Under section 3862, the Company is required to disclose the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments and how those risks are managed. Section 3863 provides further guidance on the classification of financial liabilities vs. equity, and when netting of financial assets and financial liabilities is appropriate. The adoption of these standards did not impact the Company's financial results but did result in additional disclosures as set forth in note 12.

#### **Recent Accounting Pronouncements Not Yet Adopted**

On January 1, 2009, the Company will be required to adopt CICA Handbook Section 3064 - Goodwill and Intangible Assets which establishes guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including guidance on pre-production and start-up costs, requiring that these costs be expensed as incurred. The current goodwill standards are carried forward unchanged from that included in the previous section 3062. The effects on the Company's financial statements are currently being reviewed but are not expected to be significant.

On February 13, 2008, the Canadian Accounting Standards Board confirmed the use of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The changeover date for Canadian publicly accountable enterprises is January 1, 2011 and will require restatement of comparative figures. IFRS will replace the current CICA Handbook as Canadian GAAP. Significantly increased disclosure will be required under IFRS, especially for interim reporting. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. The effects on the Company's financial statements are currently being reviewed.

#### **4. ASSETS HELD FOR SALE AND WRITE-DOWN OF PROPERTY AND EQUIPMENT**

Mahalo has committed to dispose of its remaining Canadian resource assets, including certain unconventional natural gas properties which were previously going to be retained. An agent has been engaged to facilitate the process. The Company has determined that there is a significant probability that the majority of the assets held for sale as at September 30, 2008 will be sold within the next year.

Since the assets expected to be sold encompass the entire business segment or cost centre under full cost accounting, the Company has applied "discontinued operations" accounting as required under Canadian GAAP. A value of \$11.1 million, representing the estimated fair value less costs to sell, has been assigned to the assets resulting in an impairment charge of \$16.3 million being taken in the quarter (\$48.6 million on a year to date basis). The assets to be sold have been reclassified from "property and equipment" to "assets held for sale" in

the unaudited consolidated financial statements at September 30, 2008. A liability of \$1.8 million, being the asset retirement obligations associated with the assets held for sale, has also been reclassified on the consolidated balance sheet.

The results of operations related to the assets and liabilities held for sale are as follows:

(\$000's)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
<b>Revenue</b>				
Petroleum and natural gas revenue	\$ 4,298	\$ 3,980	\$ 16,956	\$ 10,813
Royalty expense	(593)	(876)	(3,163)	(2,139)
Other	7	36	25	157
	3,712	3,140	13,818	8,831
<b>Expenses</b>				
Operating and transportation	1,643	1,281	4,126	3,548
General & administrative	423	345	1,288	1,534
Interest	762	455	1,697	1,220
Depletion, depreciation and accretion	386	1,943	4,629	4,858
Writedown of property and equipment	16,300	-	48,600	-
	19,514	4,024	60,340	11,160
Loss from discontinued operations	\$ (15,802)	\$ (884)	\$ (46,522)	\$ (2,329)

Interest was allocated to discontinued operations based on asset values.

During the three months ended September 30, 2008, the Company disposed of certain assets that had been held for sale for total net proceeds of \$16.9 million.

## 5. PROPERTY AND EQUIPMENT

(\$000's)	Cost	Accumulated		Net Book Value
		Depletion and Depreciation		
<b>September 30, 2008</b>				
Petroleum and natural gas properties and equipment	\$ 156,139	\$ 31,252	\$ 124,887	
Other	1,053	739	314	
	\$ 157,192	\$ 31,991	\$ 125,201	
<b>December 31, 2007</b>				
Petroleum and natural gas properties and equipment	\$ 121,888	\$ 23,259	\$ 98,629	
Other	562	267	295	
	\$ 122,450	\$ 23,526	\$ 98,924	

Costs associated with unproven properties excluded from costs subject to depletion at September 30, 2008 amounted to \$24,741,411(December 31, 2007 - \$22,477,723).

Future development costs of \$27,824,260 (December 31, 2007 - \$30,773,400) have been included in the costs subject to depletion at September 30, 2008.

The Company capitalized \$213,476 (2007 - \$171,841) of stock based compensation during the nine months ended September 30, 2008.

The carrying value of the Company's petroleum and natural gas properties and related facilities is limited to the amount calculated under the ceiling test at the balance sheet date. The Company did not have a ceiling test write-down associated with its petroleum and natural gas properties and related facilities at September 30, 2008.

At September 30, 2008, the Company applied a ceiling test to its petroleum and natural gas properties and equipment using expected market prices of:

Year	Henry Hub Gas (US \$/MMbtu)
2008	7.57
2009	8.15
2010	8.58
2011	8.54
2012	8.41
Escalate thereafter	2.0 % per year

## 6. BANK DEBT

On June 30, 2008, the Company replaced its \$75.0 million Union Bank credit facility with a new US \$105 million credit facility (the "Facility") with Ableco Finance LLC (the "Lender"). The Facility is a four year committed facility comprised of a US \$65 million revolving credit facility (with an initial borrowing base set at US \$50 million), a US \$25 million term facility (fully funded at closing) and a US \$15 million delay draw term facility which is available for future acquisitions and capital expenditures, subject to the satisfaction of certain pre-conditions. At expiry, outstanding borrowings become due and payable.

The revolving portion of the Facility bears interest at a margin spread over the Lender's Base Rate/Eurodollar Rate, each being specifically defined under the credit agreement, of 1.75 to 2.75 percent per annum while the term and the delay draw term portions bear interest at a margin spread of 7.50 to 9.50 percent per annum. The percentage spread in each case is dependent upon Mahalo's choice of utilizing a Base Rate or Eurodollar Rate loan option and, with respect to the term loan portions of the facility, is also dependent upon the Company's asset coverage ratio (total proved reserves divided by bank debt).

The Facility is secured by a first floating charge on the Company's Canadian assets and a first lien on its United States assets. Included in the terms and conditions are requirements to meet certain financial covenants and ratios, to achieve specified monthly minimum production levels and to maintain contracts to fix the price on a specified minimum percentage of projected sales volumes.

The Company paid fees and expenses to the Lender of approximately \$3.4 million to establish the Facility; such costs will be deferred and amortized over the life of the Facility. As at September 30, 2008, US \$38.4 million (Cdn \$40.7 million) was drawn on the revolver portion and US \$21.8 million (Cdn \$23.1 million) was drawn on the term loan portion of the Facility. The average effective interest rate on borrowings under the facility for the three months ended September 30, 2008 was 9.2 per cent.

The Facility, as originally structured, anticipated the sale of Canadian resource assets. The Company has been working with the lender to renegotiate certain of the terms and conditions to reflect the Company's revised resource asset base and projected operations as a result of such sale.

At September 30, 2008, the Company was in non-compliance with respect to the "minimum production" covenant, the "consolidated leverage ratio" covenant, and the "consolidated interest coverage ratio" covenant as

defined in the credit agreement. The Company has not received a waiver with respect to the covenant defaults; consequently, the Company has reclassified its bank debt as a current liability as at September 30, 2008. The Company is negotiating with the lender to seek a remedy to this situation.

Under the terms of the Facility agreement, if any event of default occurs and is continuing, the administrative agent shall, at the request of, or may, with the consent of, the required lenders, take any or all of the following actions:

- a) declare the commitment of each lender to make loans and any obligation of the L/C issuer to make L/C credit extensions to be terminated, whereupon such commitments and obligation shall be terminated;
- b) declare the unpaid principal amount of all outstanding loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other loan document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the loan parties; and
- c) require that the borrowers cash collateralize the letters of credit; and
- d) exercise on behalf of itself and the lenders all rights and remedies available to it and the lenders under the loan documents;

## 7. ASSET RETIREMENT OBLIGATIONS

A reconciliation of the asset retirement obligation relating to continuing operations is provided below:

(\$000's)		
December 31, 2007	\$	871
Liabilities incurred		213
Accretion expense		60
September 30, 2008	\$	1,144

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems and processing facilities.

At September 30, 2008, the estimated total undiscounted amount required to settle the asset retirement obligations, adjusted for inflation of 2%, is approximately \$5.3 million (December 31, 2007 - \$4.7 million). This amount has been discounted using a credit adjusted risk free interest rate of 8.5 percent. The expected period until settlement is dependent upon the useful lives of the underlying assets, which currently extend up to 50 years.

## 8. SHARE CAPITAL

### (a) Authorized

Unlimited number of voting common shares with no par value.

Unlimited number of non-preferred shares issuable in series.

### (b) Issued

	Number of Shares	Amount (\$000's)
September 30, 2008 and December 31, 2007	59,298,035	\$ 158,979

The weighted average number of shares outstanding is as follows:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Weighted average basic	59,298,035	59,298,035	59,298,035	59,226,466
Weighted average diluted	59,298,035	59,298,035	59,298,035	59,226,466

For the three and nine month periods ended September 30, 2008 and 2007, all outstanding share purchase and performance warrants and stock options were anti-dilutive.

**(c) Share Purchase Warrants**

At September 30, 2008, the Company had outstanding 292,800 performance warrants at a strike price of \$4.92 per share. The warrants will become 100 percent vested when the Company's stock price is \$8.33 per share on a 45 day weighted average trading basis. The warrants expire July 29, 2010. The warrants carry a "Put Right" whereby the warrant holders, at their option, may receive cash in an amount equal to the excess of the market price at the time of exercise over the strike price. The warrants will be valued by the changes in the market price of the common shares at the end of each accounting period and will be amortized into earnings over their expected life once the performance condition becomes likely. No value has been assigned to these warrants.

In addition at September 30, 2008, the Company had warrants which enable the warrant holder to acquire 1,440,000 common shares at \$4.17 per share. The value assigned to these warrants was \$1,990,412 using the Black-Scholes option-pricing model. These warrants expire November 30, 2009.

**(d) Stock Options**

The following table provides a continuity of stock options outstanding and the weighted average share prices for which shares have been reserved.

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, December 31, 2007	4,722,033	4.15
Granted	912,000	2.46
Forfeited	1,043,467	4.01
Outstanding, September 30, 2008	4,590,566	3.62
Exercisable, September 30, 2008	2,909,147	4.08

The following summarizes information about stock options outstanding at September 30, 2008:

Range of Exercise Price	Options Outstanding	Weighted Average Exercise Price (\$)	Weighted Average Remaining Term (Years)	Options Exercisable	Weighted Average Exercise Price (\$)	Weighted Average Remaining Term (Years)
\$2.29 to \$3.95	2,607,266	2.83	3.44	975,847	3.01	3.03
\$4.19 to \$4.77	1,704,900	4.56	1.83	1,704,900	4.56	1.83
\$5.00 to \$5.25	268,400	5.16	1.91	221,734	5.15	1.85
\$7.38 to \$7.40	10,000	7.40	2.26	6,666	7.40	2.26
	4,590,566	3.62	2.75	2,909,147	4.08	2.24

**(e) Stock-Based Compensation**

The fair value of stock options granted was estimated using the Black-Scholes option-pricing model. Weighted average assumptions and resulting fair value for stock options granted during the nine months ended September 30, 2008 are as follows:

Risk free interest rate (%)	3.1
Expected life (years)	5.0
Expected volatility (%)	94
Weighted average fair value per share (\$)	1.68

During the three and nine months ended September 30, 2008, the Company recorded stock-based compensation of \$0.6 million and \$1.6 million (2007 - \$0.6 million and \$1.5 million) related to options granted under the formal stock option plan, of which \$0.4 million and \$1.4 million (2007 - \$0.5 million and \$1.3 million) was recognized as an expense and \$0.2 million and \$0.2 million (2007 - \$0.1 million and \$0.2 million) was capitalized to property and equipment.

**(f) Stock Option Modification**

During the three months ended September 30, 2008 the Company re-priced 557,000 options (none of which were held by Officers, directors or senior management). These options had original exercise prices ranging from \$3.01 to \$7.38 and were re-priced to have an exercise price of \$2.29 (the current stock price at the date the re-price took place). This re-pricing resulted in approximately \$130,000 of additional stock based compensation to be recognized.

**(g) Contributed Surplus**

The following table reconciles Mahalo's contributed surplus:

(\$000's)		
December 31, 2007	\$	8,117
Stock-based compensation costs		1,636
September 30, 2008	\$	9,753

**9. Management of Capital Structure**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Company considers its capital structure to include working capital, long-term debt and shareholders' equity. Mahalo may from time to time make adjustments to its capital expenditure program and sell assets or issue new debt or equity; however, there is no assurance that debt or equity financing will be available on terms acceptable to the Company.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company prepares annual capital expenditure budgets, which are updated at least quarterly to reflect results of operations and capital deployment, changes to forecasted prices and costs, general industry conditions and other factors. The annual and updated budgets are approved by the Board of Directors.

Mahalo's capital structure at September 30, 2008 is set forth in the following table.

(\$000's)	
Current assets	\$ 17,372
Accounts payable, accrued liabilities and bank indebtedness	22,871
Bank debt	63,761
Working capital (deficiency)	\$ (69,260)
Shareholders' equity	\$ 66,584

Working capital and long-term debt fluctuate primarily as a result of normal operational activity and the timing and level of capital expenditures. Mahalo's share capital is not subject to external restrictions; the approved borrowing base under the revolving bank credit facility is, however, based to a significant extent on the estimated value of the Company's petroleum and natural gas reserves. In addition, the Company must comply with the following debt covenants under the bank credit facility (all ratios defined in the agreement); interest rate coverage ratio, consolidated leverage ratio, current ratio, minimum liquidity, asset coverage ratio, minimum production, minimum hedging positions and maximum capital expenditures.

At September 30, 2008, the Company was in non-compliance with respect to the "minimum production" covenant, the "consolidated leverage ratio" covenant, and the "consolidated interest coverage ratio" covenant as defined in the credit agreement. The Company has not received a waiver with respect to the covenant defaults; consequently, the Company has reclassified the related debt as a current liability as at September 30, 2008. The Company is negotiating with the lender to seek a remedy to this situation.

The Company has not declared or paid any dividends on its outstanding common shares. Any decision to pay dividends will be made by the Board of Directors on the basis of the Company's earnings, financial requirements and other conditions existing at the time.

## 10. FOREIGN EXCHANGE

During the three and nine months ended September 30, 2008, the Company recorded a net foreign exchange loss of \$3,281,044 and \$3,769,763 (2007 – gain of \$450,833 and \$2,804,663) of which a foreign exchange loss of \$3,481,282 and \$3,885,088 (2007 – gain of \$403,835 and \$1,552,702) was unrealized at the period end. The amounts reflect the impact of fluctuations in the Canadian/United States exchange rate on monetary assets and liabilities and revenues and expenses of the Company that are denominated in United States dollars.

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital for the three and nine months ended September 30 was as follows:

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Decrease (increase) in non-cash working capital				
Accounts receivable	\$ (4,116)	\$ (2,055)	\$ (6,611)	\$ (1,708)
Prepaid and deposits	(1,839)	1,837	(2,404)	1,054
Accounts payable and accrued liabilities	7,634	2,186	7,026	720
Net change in non-cash working capital	\$ 1,679	\$ 1,968	\$ (1,989)	\$ 66
Relating to:				
Operating activities	\$ (550)	\$ 482	\$ (3,333)	\$ (3,062)
Investing activities	2,229	1,486	1,344	3,128
Net change in non-cash working capital	\$ 1,679	\$ 1,968	\$ (1,989)	\$ 66

## 12. FINANCIAL INSTRUMENTS

### (a) Fair value of financial instruments

The Company's financial instruments as at September 30, 2008 include cash, accounts receivable, deposits, accounts payable and long-term debt. The fair value of cash, accounts receivable, deposits, accounts payable, and long-term debt approximate their carrying amounts due to their short terms to maturity or the variable rate of interest on the long-term debt.

<b>Financial Instrument</b>	<b>Category</b>
Cash	Held for trading
Accounts receivable	Loans and receivables
Accounts payable	Other liabilities
Long-term debt	Other liabilities

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include credit risk, market risk on commodity and foreign exchange risk, interest rate risk and liquidity risk. These risks are outlined more fully below.

### (b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. A substantial portion of the Company's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk. Mahalo generally grants unsecured credit but routinely assesses the financial strength of its customers.

The Company's policy to mitigate credit risk is to establish marketing relationships with large purchasers. Mahalo historically has not experienced any collection issues with its petroleum and natural gas marketers, however given the size of the balances outstanding and in light of current market conditions the Company has obtained collateral from its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bills being issued to the partner. However, the joint venture receivables are typically from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and occasional disagreement between parties. The Company attempts to mitigate this risk by obtaining partner approval of significant capital expenditures prior to performance of the project. The Company does not typically obtain collateral from joint venture partners; however, in certain circumstances a cash call may be requested in advance of the start of a project. In some cases, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

Additionally, the Company enters into physical fixed price forward sales contracts with its gas marketers, with whom we have letters of credit, and financial derivative contracts with a large credit worthy banking institution.

The carrying amount of accounts receivable generally represent the maximum credit exposure faced by the Company. The Company does not have an allowance for doubtful accounts and has not written off any receivables during the nine months ended September 30, 2008. The Company does not believe that any of the accounts receivable are impaired and that the counterparties are of high credit quality.

The Company considers its receivables to be aged as follows:

<b>(\$000's)</b>	<b>September 30, 2008</b>	
Not past due (less than 90 days)	\$	14,206
Past due (greater than 90 days)		2,099
	\$	16,305

**(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The contractual maturities of accounts payable are due and payable within less than one year.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. In addition, Mahalo utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving credit facility (note 6).

At September 30, 2008, the Company was in non-compliance with respect to the "minimum production" covenant, the "consolidated leverage ratio" covenant, and the "consolidated interest coverage ratio" covenant as defined in the credit facility agreement. The lender has declined to waive the covenant defaults. As a result the Company has reclassified the debt as current. The Company is negotiating with the lender to seek a remedy to this situation.

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the value of the financial instruments. The object of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company utilizes commodity price contracts to manage market risks relevant to commodity prices when considered prudent. The Company attempts to minimize the impact of commodity price volatility by entering into physical fixed price sales contracts and financial derivative contracts for at least 80 percent of expected daily gas sales volumes, as required by the Company's loan agreement. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

**(e) Foreign currency exchange risk**

Foreign currency exchange risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's operations in Canada and the United States are integrated, which results in the economic exposure of the United States entity to be tied to the functional currency of the parent company. Currently, the Company's foreign exchange translation exposure principally reflects the impact of fluctuations in the Canadian/United States exchange rate on monetary assets and liabilities and revenues and expenses of the Company. In addition, the underlying market prices for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. If foreign exchange rates had changed by \$0.01, with all other variables held constant, net earnings for the nine months ended September 30, 2008 would change by an estimated \$0.6 million. The Company had no forward exchange rate contracts in place as at September 30, 2008.

**(f) Commodity price risk**

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. The Company minimizes the impact of commodity price volatility by entering into physical fixed price sales contracts and financial derivative contracts for at least 80 percent of expected daily gas sales volumes, as required by the Company's loan agreement.

The Company has sales contracts outstanding with respect to the physical delivery of natural gas at a fixed price. The following is a summary of the physical fixed price forward sales commitments as at September 30, 2008.

	Daily Volume	Contract Price	Term
Sell	3,000 MMbtu	US \$7.40/MMbtu	November 2007 - October 2008
Sell	1,000 MMbtu	US \$7.00/MMbtu	April 2008 - October 2008
Sell	1,500 MMbtu	US \$7.185/MMbtu	February 2008 - January 2009
Sell	1,000 MMbtu	US \$7.10/MMbtu	April 2008 - October 2008
Sell	2,000 MMbtu	US \$9.65/MMbtu	June 2008 - October 2008
Sell	3,000 MMbtu	US \$10.22/MMbtu	November 2008 - June 2009
Sell	2,750 MMbtu	US \$10.35/MMbtu	November 2008 - June 2009
Sell	1,000 MMbtu	US \$10.26/MMbtu	November 2008 - July 2009

In addition, the Company has entered into a participating natural gas swap contract whereby the Company will receive a floor price of \$10/MMbtu for 5,000 MMbtu/day and will participate for 31 percent of the price in excess of \$10/MMbtu. The term is for the period July 2009 to May 2010. The September 30, 2008 mark-to-market on this contract was an asset of \$2,943,320. Fair values for this commodity price derivative are provided by the financial intermediary with whom the transaction was completed and tested by the Company for reasonableness based on comparing current market price and the fixed price of the contracts.

During the three months ended September 30, 2008, the Company entered into a contract to purchase 2,000 GJ of natural gas per day at CDN \$7.80 per GJ to offset an existing physical fixed price contract to sell 2,000 GJ per day at CDN \$7.43 per GJ. The term of the offsetting arrangement is September 1, 2008 to December 31, 2008.

Taking into account the contracts listed above, the impact of a CDN \$1.00 change per MMbtu on remaining volumes results in an estimated \$0.2 million impact on pre-tax income for the nine months ended September 30, 2008.

**(g) Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its long-term debt which bears a floating rate of interest. If interest rates had changed by 1.0%, with all other variables held constant, net earnings for the nine months ended September 30, 2008 would change by an estimated \$0.5 million. The Company had no interest rate swap or financial contracts in place during the nine months ended September 30, 2008.

**13. COMMITMENTS**

The Company has committed to certain payments over the next five years as follows:

	2008	2009	2010	2011	2012	Total
(\$000's)						
Office lease	\$ 196	\$ 626	\$ 655	\$ 515	\$ 92	\$ 2,085
Equipment usage	-	1,341	2,376	-	-	3,717
	\$ 196	\$ 1,967	\$ 3,031	\$ 515	\$ 92	\$ 5,802

The equipment usage obligation results from a drilling rig lease contract with a drilling company entered into on January 27, 2006. The terms of the contract include a commitment to utilize a specific drilling rig for a minimum of 250 days per year for three years, with the contract taking effect upon release of the rig to Mahalo. The rig was released to Mahalo in 2007. The terms of the agreement specify that the Company is obligated to pay a minimum standby rate of \$9,504 per day.

Subsequent to September 30, 2008 the Company entered into the following physical fixed price sales contracts:

	<b>Daily Volume</b>	<b>Contract Price</b>	<b>Term</b>
Sell	3000 MMbtu	US \$4.50/MMbtu	October 2008
Sell	1,500 MMbtu	US \$4.10/MMbtu	November 2008
Sell	1,500 MMbtu	US \$4.25/MMbtu	November 2008
Sell	3000 MMbtu	Pan Index - US\$ 0.08/MMbtu	December 2008
Sell	2000 MMbtu	Pan Index + US \$0.01/MMbtu	January 2009 - June 2009
Sell	3000 MMbtu	US \$5.40/MMbtu	December 2008
Sell	5000 MMbtu	Pan Index + US \$0.05/MMbtu	July 2009 - May 2010

Subsequent to September 30, 2008 the Company entered into the following financial fixed price sales contracts:

	<b>Daily Volume</b>	<b>Contract Price</b>	<b>Term</b>
Sell	5000 MMbtu	HH - US \$1.12 Pan/MMbtu	July 2009 - May 2010
Sell	2500 MMbtu	US \$5.43/MMbtu	December 2008
Sell	5000 MMbtu	US \$7.44/MMbtu	January 2009 - December 2009
Sell	2500 MMbtu	US \$8.10/MMbtu	January 2010 - December 2010

#### **14. RELATED PARTY TRANSACTIONS**

The Company is related to Avenir Capital Corporation and Avenir Operating Corp. by virtue of certain directors in common. The Company conducts joint operating activities with these companies in the normal course of business.

During the three and nine months ended September 30, 2008, the Company sold certain non-core properties to Avenir Operating Corp. for \$4.0 million. The measurement basis used for the transaction was an independent reserves valuation as at December 31, 2007. The sale was consummated through a public process and the transaction value was compared with current market sales metrics from an independent public source. The asset sale transaction was a cash transaction and did not include any ongoing contractual or other commitments.

During the nine months ended September 30, 2007, the Company sold certain non-core properties to Avenir Operating Corp. for \$7.2 million. The measurement basis used for the transaction was an independent reserves valuation as at December 31, 2006. The transaction value was also compared with current market sales metrics from an independent public source. The asset sale transaction was a cash transaction and did not include any ongoing contractual or other commitments.



## **Quarterly Report**

**For the Three and Nine Months ended September 30, 2008**  
(Unaudited)

# Message to Shareholders

Mahalo Energy Ltd. ("Mahalo" or the "Company") announces its results for the three and nine months ended September 30, 2008.

<b>Summary of Results</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept 30 2008</b>	<b>Sept 30 2007</b>	<b>Sept 30 2008</b>	<b>Sept 30 2007</b>
		<i>(Restated)(2)</i>		<i>(Restated)(2)</i>
<b>Financial</b> (\$000's except per share)(1)				
Continuing operations:				
Petroleum and natural gas revenue	<b>9,477</b>	7,410	<b>26,470</b>	21,880
Operating netback	<b>4,527</b>	3,870	<b>13,809</b>	12,025
Net loss from continuing operations	<b>(2,501)</b>	(929)	<b>(3,779)</b>	(691)
Per share - basic & diluted	<b>(0.04)</b>	(0.02)	<b>(0.06)</b>	(0.01)
Net loss	<b>(18,303)</b>	(1,813)	<b>(50,301)</b>	(3,020)
Per share - basic & diluted	<b>(0.31)</b>	(0.03)	<b>(0.85)</b>	(0.05)
Funds from continuing operations	<b>2,539</b>	2,332	<b>8,453</b>	8,111
Per share - basic	<b>0.05</b>	0.04	<b>0.14</b>	0.14
Funds from operations	<b>3,420</b>	3,333	<b>15,160</b>	10,372
Per share - basic	<b>0.06</b>	0.06	<b>0.26</b>	0.18
Capital expenditures (net)				
Continuing operations	<b>18,739</b>	7,390	<b>34,506</b>	23,467
Discontinued operations	<b>(16,882)</b>	4,139	<b>(10,506)</b>	(3,728)
Net debt, end of period	<b>69,260</b>	61,796	<b>69,260</b>	61,796
<b>Operational</b> (1)				
Average daily sales volumes (boe)				
Continuing operations	<b>2,191</b>	2,107	<b>2,090</b>	1,939
Discontinued operations	<b>870</b>	1,300	<b>1,158</b>	1,009
Total	<b>3,061</b>	3,407	<b>3,248</b>	2,948
Continuing operations:				
Average selling price (\$/boe)	<b>47.01</b>	38.23	<b>46.23</b>	41.33
Operating netback (\$/boe)	<b>22.46</b>	19.97	<b>24.12</b>	22.71

(1) Refer to special advisories regarding use of non-GAAP financial measures and barrel of oil equivalent ("boe") measures.

(2) Comparative periods have been restated to reflect "discontinued operations" accounting.

## Q3 2008 Highlights

- **Increased sales revenues from continuing operations by 28% over third quarter 2007.**
- **Increased operating netback from continuing operations by 17% over third quarter 2007.**
- **Realized an increase in per unit operating netback from continuing operations of 12% over third quarter 2007.**
- **Drilled 35 (16.4 net) successful coal bed methane wells in the United States.**
- **Realized net proceeds of \$16.9 million from sale of Canadian resource assets.**

## Financial

Mahalo has committed to dispose of all of its Canadian resource assets. Since the assets encompass Mahalo's entire Canadian resource cost centre, the Company has applied "discontinued operations accounting" as required under Canadian GAAP. Financial information for prior periods has been restated to reflect this change.

During the quarter, the Company generated funds from continuing operations of \$2.5 million on related sales revenues of \$9.5 million. During this same period, the Company recorded a loss from continuing operations of \$2.5 million. During the nine months ended September 30, 2008, the Company generated funds from continuing

operations of \$8.5 million on related sales revenues of \$26.5 million and recorded a loss from continuing operations of \$3.8 million.

Funds from operations amounted to \$3.4 million and \$15.2 million for the three and nine months ended September 30, 2008, respectively. This compared to funds from operations of \$3.3 million and \$10.4 million in the same periods of 2007. During the three and nine months ended September 30, 2008, the Company recorded Canadian property and equipment write-downs of \$16.3 million and \$48.6 million, respectively. The write-downs related to discontinued operations, were non-cash in nature and did not impact funds from operations.

As at September 30, 2008, the Company was in breach of certain covenants under its bank credit agreement. The Company is currently working with its lenders to rectify this issue. If an acceptable solution is not achieved and the debt is called, the Company will require additional capital to continue its activities and discharge its obligations.

## **Operations**

Mahalo continues to enjoy success in its core operation of drilling and producing Hartshorne CBM wells in eastern Oklahoma. With the previously announced sale of Canadian resource assets, the Company is now solely focused on its Hartshorne CBM and underlying Caney and Woodford shale gas assets.

The third quarter of 2008 has been period of change and transition for Mahalo in a deteriorating business environment. In early July, the price for West Texas Intermediate crude oil on the New York Mercantile Exchange (NYMEX) peaked at over US \$147 and then fell to about US \$100 by the close of the quarter. Oil prices have continued to decline rapidly since. More importantly for Mahalo, natural gas prices at the Henry Hub peaked at over US \$13 per Mcf in early July before dropping to less than US \$8 per Mcf by the end of September. In the midcontinent region, where Mahalo sells its US natural gas production, the realized gas price is typically about US \$1 below the Henry Hub price. A third party operated interstate pipeline rupture in early September resulted in this differential increasing dramatically such that realized prices dropped to the range of US \$3 to US \$4 per Mcf and occasionally much lower. Mahalo put hedges in place in July 2008 which has protected the Company to some degree from this dramatic price erosion. It is anticipated that this pipeline rupture will be repaired and normal service will be restored in November. This should result in a return to normal gas price differentials.

During the third quarter, the Company sold Canadian resource assets for net proceeds of approximately Cdn \$16.9 million, net of adjustments. The proceeds were applied against debt. The remaining Canadian resource assets held for sale include one further transaction expected to close in November 2008; the remainder of the resource assets are being evaluated by several potential purchasers. The assets expected to be sold in November are the Canadian CBM assets that we had previously intended to retain. With low gas prices, it is economically more attractive to monetize these assets in favor of Hartshorne CBM drilling in Oklahoma.

With the previous, although short-lived, improvement in gas prices, an expanded credit facility and anticipated proceeds from the sale of Canadian resource assets, Mahalo embarked on an aggressive capital expenditure program in the third quarter. Of a total capital expenditure of \$18.7 million, \$12.6 million was invested on United States Hartshorne CBM drilling, completions and tie-ins. A total of 35 (16.4 net) CBM wells were drilled with a 100 per cent success rate. The Company also spent \$1.0 million to drill a 100 per cent working interest Caney shale gas well which has not yet been completed and \$3.1 million on land acquisition and leasing in Oklahoma. A total of \$2.0 million was invested in other projects, the most significant of which is a commercial salt water disposal facility which will provide additional revenue commencing in the fourth quarter of 2008.

Previous quarter production issues related to high ambient temperatures moderated during the third quarter; this, along with improvements to gathering system performance, resulted in a stabilization of base production. The aggressive and successful Hartshorne CBM drilling program during the third quarter saw gross Company interest (before royalty) average daily natural gas production from Oklahoma operations climb through the third quarter from approximately 2,000 boe per day to over 2,300 boe per day with not all wells drilled during the quarter contributing by quarter's end. Current production from the area is approximately 2,500 boe per day.

## **Corporate**

As previously announced, Mr. Duncan Chisholm has resigned as President, CEO and Director of Mahalo. Mr. Chisholm will continue to provide advice on strategic matters to the Board of Directors and Mahalo management under a consulting arrangement until the end of 2009. Mr. James Burns has been appointed President, CEO and a Director of Mahalo. Mr. Burns was previously the Chief Operating Officer. As well, Mr. David Burton has been appointed Chief Operating Officer. Mr. Burton was previously the Vice President, Engineering and Business Development.

## **Outlook**

Mahalo has seen dramatic changes in the operating environment with the steep drop in North American natural gas prices, the effects of the midcontinent pipeline rupture and its further negative impact on natural gas prices, and uncertainty created by the current global financial crisis. In response to these changes, Mahalo will, for the foreseeable future, restrict its activity to the Hartshorne CBM assets that provide the Company with strong economic results in the current environment and will restrict capital spending to less than available cash flow. Full cycle economics for Hartshorne CBM drilling based on results to date indicate a break even natural gas price still well below current prices. The Company is also protected in this current environment by hedges put in place earlier in the year.

The Company expects to exit fiscal 2008 with sales volume from continuing (United States) operations of approximately 2,600 boe per day. The sales volume from Canadian resource assets remaining to be sold is currently about 225 boe per day; the Company expects to complete the sale of all or substantially all of these remaining properties in the fourth quarter. Total funds from operations for 2008 is expected to be lower than the \$21 million previously anticipated, principally as a result of operational and pricing uncertainties discussed above. During the nine months to September 30, 2008, the Company generated funds from continuing and discontinued operations combined of \$15.2 million.

Going forward, the Company will focus diligently on selective CBM drilling, production optimization, cost containment and debt reduction. It is unlikely that Mahalo will add a new, operated CBM core area in Oklahoma during first half 2009 as previously anticipated. Mahalo will also seek to monetize the value of its shale gas resource through alternate means such as a farm out or sale.

On behalf of the Board of Directors  
"Signed"

James Burns  
President and Chief Executive Officer

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is dated November 13, 2008 and should be read in conjunction with the Unaudited Consolidated Financial Statements and accompanying notes for the three and nine months ended September 30, 2008 and the Audited Consolidated Financial Statements and accompanying notes and the MD&A for the year ended December 31, 2007.

The Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2008 have been prepared using generally accepted accounting principles (GAAP) on the basis that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in the financial statements, and that the Company will be able to continue its business activities.

The future operation of the Company is dependant on its ability to successfully explore, develop and produce economically viable reserves and market petroleum products from its properties, raise capital and receive the continued financial support from its lenders. As at September 30, 2008, the Company had a working capital deficiency of \$69.3 million, an accumulated deficit of \$104.1 million and was in breach of certain covenants under its bank credit agreement. The Company is currently working with its lenders to rectify this issue. However, if an acceptable solution is not achieved and the debt is called, the Company will require additional capital to continue its activities and discharge its obligations.

Management believes that the going concern assumption is appropriate for these financial statements. If this assumption is not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

### READER GUIDANCE

*This MD&A contains forward-looking information and statements, refers to and discusses certain non-GAAP financial measures and aggregates certain oil and gas information in terms of barrels of oil equivalent. The reader is specifically referred to and encouraged to read the section entitled "Special Cautionary Advisories" at the end of this MD&A.*

The reporting and measurement currency is the Canadian dollar, unless otherwise specified. Production and sales volumes reflect the Company's working interest before royalties, unless otherwise noted. Certain columns in tables may not add due to rounding.

Readers should be aware that historical results are not necessarily indicative of future performance. Additional information relating to the Company, including the Company's 2007 Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) or at the Company's web-site at [www.mahaloenergy.com](http://www.mahaloenergy.com).

### PRIMARY BUSINESS

Mahalo Energy Ltd. ("Mahalo" or the "Company") is a publicly traded company (TSX: CBM) focused on acquisition, exploration, development and production of unconventional natural gas, principally coalbed methane ("CBM") and shale gas in the Arkoma Basin in the state of Oklahoma, U.S.A. The Company also has some unconventional and conventional exploration and production operations in Western Canada; the Canadian resource assets and operations are in the process of being sold and are considered to be "discontinued operations" as further discussed in this MD&A. The Company's head office is in Calgary, Alberta, Canada.

Mahalo Energy Ltd. has one wholly-owned subsidiary, Mahalo Energy (USA) Inc., a company incorporated under the laws of Delaware. Unless the context otherwise requires, references herein to "Mahalo" or the "Company" include Mahalo Energy Ltd. and Mahalo Energy (USA) Inc.

On May 21, 2008, Mahalo announced that it would pursue the sale of its Canadian resource assets and focus on its United States Hartshorne CBM and Woodford and Caney Shale assets and opportunities. Following the

announcement, Mahalo decided to retain certain Canadian CBM properties. As a result of that decision and since the resource assets to be sold encompassed less than an entire business segment or cost centre under full cost accounting, the Company did not apply “discontinued operations accounting” at June 30, 2008. The Company did reclassify the subject resource assets and liabilities to “assets held for sale” and “asset retirement obligations related to assets held for sale” in the Unaudited Consolidated Financial Statements at June 30, 2008. A value equal to the lower of carrying amount or estimated fair value (less costs to sell) was assigned to the assets. A majority of the assets held for sale at June 30, 2008 were sold in third quarter 2008 with related closings occurring in late September. Sales proceeds of approximately \$16.9 million, net of adjustments, were applied against debt.

With the recent dramatic weakening of commodity prices, a rapidly slowing worldwide economy and significant tightening of credit markets, the Company during the third quarter revisited its decision to retain certain Canadian CBM resource assets; the Company has decided to sell these assets. These assets generated sales volumes of approximately 75 boe per day and 110 boe per day in the three and nine months ended September 30, 2008, respectively. Related sales revenues amounted to approximately \$0.4 million and \$1.6 million while related operating netback was approximately \$0.1 million and \$0.2 million, respectively, during these periods. Sales proceeds will be applied against debt.

Since all of the remaining resource assets in the Company’s Canadian full cost pool are for sale, the Company has applied “discontinued operations accounting” at September 30, 2008. This has resulted in various changes to how financial results are presented. The net loss and funds from the operation of the Canadian resource assets have been segregated and reported as being from “discontinued operations” on the consolidated statements of operations, consolidated statements of cash flows and throughout this MD&A. Comparative period results have been restated to conform to current period presentation.

## RESULTS OF OPERATIONS

The following table provides a comparison of results for the three and nine month periods ended September 30, 2008 with the corresponding periods of 2007 and with the immediately preceding quarter ended June 30, 2008.

Summary of Results	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
<b>Financial</b> (\$000's except per share) (1)		(Restated) (2)	(Restated) (2)		(Restated) (2)
Continuing operations:					
Petroleum and natural gas revenue	9,477	9,213	7,410	26,470	21,880
Operating netback	4,527	4,836	3,870	13,809	12,025
Net loss from continuing operations	(2,501)	(887)	(929)	(3,779)	(691)
Per share - basic & diluted	(0.04)	(0.01)	(0.02)	(0.06)	(0.01)
Net loss from discontinued operations	(15,802)	(30,616)	(884)	(46,522)	(2,329)
Per share - basic & diluted	(0.27)	(0.52)	(0.01)	(0.79)	(0.04)
Net loss	(18,303)	(31,503)	(1,813)	(50,301)	(3,020)
Per share - basic & diluted	(0.31)	(0.53)	(0.03)	(0.85)	(0.05)
Funds from continuing operations	2,539	2,798	2,332	8,453	8,111
Per share - basic	0.05	0.05	0.04	0.14	0.14
Funds from discontinued operations	881	3,570	1,002	6,707	2,261
Per share - basic	0.01	0.06	0.02	0.11	0.04
Funds from operations	3,420	6,368	3,334	15,160	10,372
Per share - basic	0.06	0.11	0.06	0.26	0.18
Capital expenditures, net					
Continuing operations	18,739	10,470	7,390	34,506	23,467
Discontinued operations	(16,882)	3,167	4,139	(10,506)	(3,728)
Net debt, end of period	69,260	67,451	61,796	69,260	61,796

(1) Refer to special advisories regarding use of non-GAAP financial measures.

(2) Comparative periods have been restated to reflect “discontinued operations” accounting.

During third quarter 2008, the Company generated funds from continuing operations of \$2.5 million on related sales revenues of \$9.5 million and recorded a loss from continuing operations of \$2.5 million. During the nine months

ended September 30, 2008, the Company generated funds from continuing operations of \$8.5 million on related sales revenues of \$26.5 million and recorded a loss from continuing operations of \$3.8 million.

Summarized results of discontinued operations are also reflected in the above table. The higher net loss from discontinued operations in the three month periods ended September 30, 2008 and June 30, 2008 and the nine month period ended September 30, 2008 resulted primarily from Canadian property and equipment write-downs of \$32.3 million and \$16.3 million in the second and third quarters, respectively. The write-downs were non-cash in nature and did not impact funds from operations.

### Petroleum and natural gas revenue

	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
		<i>(Restated)</i>	<i>(Restated)</i>		<i>(Restated)</i>
<b>Average daily sales volumes (boe)</b>					
Continuing operations	<b>2,191</b>	2,029	2,107	<b>2,090</b>	1,939
Discontinued operations	<b>870</b>	1,254	1,300	<b>1,158</b>	1,009
	<b>3,061</b>	3,283	3,407	<b>3,248</b>	2,948
<b>Continuing operations:</b>					
Petroleum and natural gas revenue (\$000s)	<b>9,477</b>	9,213	7,410	<b>26,470</b>	21,880
Average realized selling price (\$/Mcf)	<b>7.83</b>	8.32	6.37	<b>7.70</b>	6.89
Average realized selling price (\$/boe)	<b>47.01</b>	49.90	38.23	<b>46.23</b>	41.33

*(1) Refer to special advisories regarding use of barrel of oil ("boe") equivalent measures.*

Sales revenues from continuing operations reflect natural gas produced and sold in the United States. All of the natural gas produced by Mahalo from continuing operations is from properties in Oklahoma; the gas is delivered for sale into the Oklahoma Gas Transmission and Centre Point East pipeline system.

Previous quarter production issues related to high ambient temperatures moderated during the third quarter; this, along with improvements to gathering system performance, resulted in a stabilization of base production. During third quarter 2008, the Company participated in drilling 35 (16.4 net) Hartshorne CBM wells in Oklahoma with a 100 per cent success rate. The aggressive and successful drilling program saw average daily natural gas production from continuing operations climb through the third quarter from approximately 2,000 boe per day to over 2,300 boe per day with not all wells drilled contributing by quarter's end.

The Company realized an average sales price of \$47.01 per boe in third quarter 2008 compared with \$49.90 per boe in second quarter 2008. Although average sales volumes increased by eight per cent over the preceding quarter, the lower realized price allowed for an increase in sales revenues from continuing operations of less than three percent. When comparing the current quarter with the corresponding quarter of 2007, average daily sales volumes, average realized per boe sales price and total sales revenues from continuing operations were up by 4 percent, 23 percent and 28 percent, respectively.

In first half 2008, North American natural gas prices strengthened considerably, approaching a two year high. Factors included a reduction in natural gas storage levels which had been at a record high entering the previous winter heating season. During this same period, world crude oil prices reached levels never seen before. During the third quarter, crude oil prices experienced a substantial downward correction; natural gas prices also softened considerably.

For Mahalo, natural gas prices at the Henry Hub peaked above US \$13 per Mcf in early July before dropping to less than US \$8 per Mcf by the end of September. In the midcontinent region, where Mahalo sells its US natural gas production, the realized gas price is typically about US \$1 below the Henry Hub price. An early September rupture at a third party interstate pipeline caused this differential to increase fairly significantly. Hedges put into place in July 2008 protected the Company to some degree from the price erosion. Although Mahalo does not transport volumes on this pipeline, its sales volumes on an adjacent pipeline were negatively impacted to a small extent

following the quarter end. It is anticipated that the pipeline rupture will be repaired in November, resulting in a return to normal gas price differentials.

Prices for North American natural gas are expected to remain extremely volatile and unpredictable as markets react rapidly to news events, weather forecasts and natural gas inventory reports. Mahalo attempts to protect its cash flow from commodity price volatility, principally by entering into fixed price physical sales contracts and hedging arrangements when considered prudent.

### Royalty expense

Royalties are paid to government entities and other land and mineral rights owners. Oklahoma government royalty assessments are generally based on the price realized for the underlying petroleum product.

	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
		<i>(Restated)</i>	<i>(Restated)</i>		<i>(Restated)</i>
<b>Continuing operations:</b>					
Royalty expense (\$000s)	2,327	2,373	1,891	6,660	5,369
Royalty expense (\$/boe)	11.54	12.85	9.76	11.63	10.14
Royalty expense (% of revenue)	25%	26%	26%	25%	25%

### Operating expense

Operating expense includes various costs, the most significant of which are contractor labour, compression, chemicals and treating supplies, water disposal, equipment rental, minor well workovers and operator overhead.

	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
		<i>(Restated)</i>	<i>(Restated)</i>		<i>(Restated)</i>
<b>Continuing operations:</b>					
Operating expense (\$000s)	1,982	1,480	1,032	4,378	3,233
Operating expense (\$/boe)	9.83	8.02	5.32	7.65	6.11

Per unit operating costs were higher in the current and preceding quarter as a result of additional contract labour and supervision, consulting services and compression costs along with increased costs for these services. Operating expense during these periods also included adjustments relating to prior periods.

### Transportation expense

Transportation expense from continuing operations includes costs to move saleable oil and gas from the crude oil wellhead or natural gas plant outlet to its ultimate point of sale.

	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
		<i>(Restated)</i>	<i>(Restated)</i>		<i>(Restated)</i>
<b>Continuing operations:</b>					
Transportation expense (\$000s)	641	523	617	1,623	1,253
Transportation expense (\$/boe)	3.18	2.84	3.18	2.83	2.37

## Operating netback

Operating netback is a non-GAAP financial measure of net oil and gas revenue commonly used in the oil and gas industry. The Company uses this non-GAAP measure, in conjunction with a barrel of oil equivalent volumetric measure, to assess comparability of sales and related costs. The following table reflects natural gas sales volumes and the components of operating netback from continuing operations for the respective quarterly periods under comparison.

	Three Months Ended Sept 30		Three Months Ended Jun 30		Three Months Ended Sept 30	
	2008	\$/boe	2008	\$/boe	2007	\$/boe
<i>(\$000s, except boe and \$/boe) (1)</i>			<i>(Restated)</i>		<i>(Restated)</i>	
<b>Continuing operations:</b>						
Average daily sales volume (boe)	2,191		2,029		2,017	
Petroleum and natural gas revenue	9,477	47.01	9,213	49.90	7,410	38.23
Royalties	2,327	11.54	2,373	12.85	1,891	9.76
Operating and transportation	2,623	13.01	2,004	10.86	1,649	8.50
<b>Operating netback</b>	<b>4,527</b>	<b>22.46</b>	<b>4,836</b>	<b>26.19</b>	<b>3,870</b>	<b>19.97</b>

*(1) Refer to special advisories regarding use of non-GAAP financial measures and barrel of oil equivalent measures.*

Operating netback from continuing operations during the three months ended September 30, 2008 increased by \$0.7 million or \$2.49 per boe when compared with the same period in 2007. The increase of \$0.7 million included a positive variance of \$0.2 million due to higher volumes and \$1.8 million due to a higher average realized sales price. The benefit of the higher volume and sales price was partially offset by the impact of a higher per unit royalty rate and a higher per unit operating and transportation cost; these reduced operating netback by \$0.4 million and \$0.9 million, respectively.

Operating netback from continuing operations during the current quarter decreased by \$0.3 million or \$3.73 per boe when compared with the immediately preceding quarter of 2008. The decrease of \$0.3 million included a positive variance of \$0.4 million due to higher sales volumes and \$0.3 million due to a lower per unit royalty rate. The benefit was more than offset by a lower average realized sales price and a higher per unit operating and transportation cost; these reduced operating netback by \$0.6 million and \$0.4 million, respectively.

The following table reflects natural gas sales volumes and the components of operating netback from continuing operations for the respective nine month periods under comparison.

	Nine Months Ended Sept 30		Nine Months Ended Sept 30	
	2008	\$/boe	2007	\$/boe
<i>(\$000s, except boe and \$/boe) (1)</i>			<i>(Restated)</i>	
<b>Continuing operations:</b>				
Average daily sales volume (boe)	2,090		1,939	
Petroleum and natural gas revenue	26,470	46.23	21,880	41.33
Royalties	6,660	11.63	5,369	10.14
Operating and transportation	6,001	10.48	4,486	8.48
<b>Operating netback</b>	<b>13,809</b>	<b>24.12</b>	<b>12,025</b>	<b>22.71</b>

*(1) Refer to special advisories regarding use of non-GAAP financial measures and barrel of oil equivalent measures.*

Operating netback from continuing operations increased by \$1.8 million or \$1.41 per boe during the nine months ended September 30, 2008 when compared with the same period in 2007. The increase of \$1.8 million included a positive variance of \$1.0 million due to higher sales volumes and \$2.8 million due to a higher average realized sales price. The benefit of the higher volume and sales price was partially offset by a higher per unit royalty rate and a higher per unit operating and transportation cost; these reduced operating netback by \$0.9 million and \$1.1 million, respectively.

### **Gain on financial instruments**

During third quarter 2008, the Company recorded an unrealized mark-to-market gain of \$2.9 million related to a participating natural gas swap contract whereby the Company will receive a floor price of US \$10 per Mmbtu for 5,000 Mmbtu per day and 31 per cent of the price in excess of US \$10 per Mmbtu. The term of the arrangement is July 1, 2009 to May 31, 2010.

### **General and administrative expense**

General and administrative expense from continuing operations amounted to \$1.4 million in third quarter 2008, \$1.2 million in second quarter 2008 and \$1.0 million in third quarter 2007. During the nine months ended September 30, 2008 and 2007, such expense was \$3.4 million and \$3.5 million, respectively.

### **Stock-based compensation expense**

Stock-based compensation from continuing operations results from the amortization of the aggregate fair value of stock options over their related vesting period. The amount is primarily determined by the number of options granted, the vesting period and the estimated fair value of the options. Stock-based compensation expense remained relatively unchanged during the three quarterly periods under comparison, ranging from \$0.4 million to \$0.5 million per quarter. During the nine months ended September 30, 2008 and 2007, such expense was \$1.4 million and \$1.3 million, respectively.

### **Foreign exchange gains and losses**

Shifts in currency rates result in foreign exchange gains and losses when account balances in a currency other than the reporting currency are settled during the period or translated at the period end. A significant portion of the Company's monetary assets and liabilities and revenues and expenses are denominated in United States dollars; they are translated to Canadian dollars at the period end for financial reporting purposes.

During the current quarter, the Company recorded a foreign exchange loss of \$3.3 million. The majority of the loss related to the period end translation of the Company's US\$ denominated long term debt; the related exchange loss was unrealized at September 30, 2008. The Canadian/US dollar exchange rate declined to \$ 0.943 at September 30, 2008 from \$0.981 at June 30, 2008. The average Canadian/US dollar exchange rate declined during the current quarter to \$0.960 from \$0.990 in the immediately preceding quarter.

### **Interest and financing expense**

On June 30, 2008, the Company replaced its previous Cdn \$75.0 million Union Bank of California credit facility with a US \$105 million four year, committed revolving and term loan facility. The new lender is Ableco Finance LLC. The Union Bank facility was due to expire in early 2009. Fees and other costs of approximately \$3.4 million were paid to Ableco Finance LLC to establish the new facility; such costs are being deferred and amortized to interest and financing expense over the term of the facility.

Interest and financing expense from continuing operations amounted to \$1.0 million in third quarter 2008, \$0.7 million in second quarter 2008 and \$0.6 million in third quarter 2007. For the nine months ended September 30, 2008 and 2007, such expense was \$2.3 million and \$1.6 million, respectively. The Company has not capitalized any interest and financing expense.

### **Depletion, depreciation and accretion expense**

Depletion, depreciation and accretion expense from continuing operations is reflected in the following table.

	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
<i>(\$000s, except per boe)</i>		<i>(Restated)</i>	<i>(Restated)</i>		<i>(Restated)</i>
<b>Continuing operations:</b>					
Depletion and depreciation expense	<b>3,197</b>	2,642	2,860	<b>8,273</b>	8,479
Accretion expense	<b>22</b>	19	19	<b>60</b>	58
Depletion, depreciation and accretion expense	<b>3,219</b>	2,661	2,879	<b>8,333</b>	8,537
Depletion and depreciation <i>(\$/boe)</i>	<b>15.86</b>	14.31	14.75	<b>14.45</b>	16.02

Depletion and depreciation expense is computed on a unit of production basis. Such expense, on a boe basis, fluctuates from period to period primarily as a result of changes in the underlying proved reserves base and in the amount of costs subject to depletion and depreciation.

The Company records an asset retirement obligation which reflects the present value of the estimated clean-up and restoration costs of wells, well sites, gathering lines and processing facilities at the time they are acquired or constructed and put into use. The liability is also adjusted when properties and related asset retirement obligations are disposed of. The asset retirement liability is increased each reporting period due to the passage of time and the related amount, referred to as "accretion", is charged to earnings in the period. The Company's asset retirement obligation amounted to \$1.1 million and \$0.9 million at September 30, 2008 and December 31, 2007, respectively. (The amounts exclude \$1.8 million and \$3.2 million relating to resource assets held for sale at September 30, 2008 and December 31, 2007, respectively)

### Income tax expense

Future income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes (book value) and the amounts used for income tax purposes (tax basis). Future income tax assets, which result when the tax basis of assets exceed the book basis, are only recognized to the extent that their realization is considered more likely than not based upon projections of operating results and tax planning strategies available to the Company.

During third quarter 2008, the Company recorded future income tax expense from continuing operations of \$0.6 million compared with \$0.3 million in the immediately preceding quarter and in the third quarter of 2007. At the end of third quarter 2008, the Company had a future income tax liability of \$3.5 million which related solely to its United States operations. In Canada, the Company had an income tax asset which was fully offset by a valuation allowance at September 30, 2008.

### LIQUIDITY AND CAPITAL RESOURCES

The future operation of the Company is dependant on its ability to successfully explore, develop and produce economically viable reserves and market petroleum products from its properties, raise capital and receive the continued financial support from its lenders.

The Company's strategy is to focus on resource projects that offer the greatest opportunity to maximize funds flow generation and shareholder value. The Company's capital resources consist primarily of funds from operations, existing credit facilities and access to debt and capital markets. In addition, the Company has realized cash proceeds from the sale of certain non-core oil and gas assets in its on-going rationalization of its resource asset base and most recently, as a result of its decision to dispose of its Canadian resource assets.

Funds from operations, which represent net earnings adjusted for non-cash items, is a non-GAAP measure used by Mahalo to assess its operating results and its ability to generate funds to finance future capital investment and service debt. The Company considers net income (loss) and cash provided by operating activities to be the most

directly comparable GAAP measures to the non-GAAP measure, funds from operations. The following table illustrates the relationship between these measures. The table also reflects cash provided by (used in) operating, financing and investing activities and the aggregate change in cash during the respective periods.

	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
<i>(\$ 000s) (1)</i>		<i>(Restated)</i>	<i>(Restated)</i>		<i>(Restated)</i>
<b>Net loss from continuing operations</b>	<b>(2,501)</b>	(887)	(929)	<b>(3,779)</b>	(691)
<b>Net loss from discontinued operations</b>	<b>(15,802)</b>	(30,616)	(884)	<b>(46,522)</b>	(2,329)
<b>Net income (loss)</b>	<b>(18,303)</b>	(31,503)	(1,813)	<b>(50,301)</b>	(3,020)
Non-cash items	<b>21,723</b>	37,872	5,146	<b>65,461</b>	13,392
<b>Funds from operations</b>	<b>3,420</b>	6,369	3,333	<b>15,160</b>	10,372
Change in non-cash working capital related to operating activities	<b>(550)</b>	50	482	<b>(3,333)</b>	(3,062)
<b>Cash provided by operating activities</b>	<b>2,870</b>	6,419	3,815	<b>11,827</b>	7,310
<b>Cash provided by (used in) financing activities</b>	<b>(3,433)</b>	3,773	7,805	<b>6,614</b>	9,057
<b>Cash provided by (used in) investing activities</b>	<b>372</b>	(12,556)	(10,043)	<b>(22,656)</b>	(16,611)
<b>Increase (decrease) in cash</b>	<b>(191)</b>	(2,364)	1,577	<b>(4,215)</b>	(244)

*(1) Refer to special advisories regarding use of non-GAAP financial measures.*

Cash provided by operating activities takes into account earnings adjusted for non-cash items, and includes a further adjustment for the change in operating-related, non-cash working capital that occurred during the respective periods. The majority of the change in non-cash working capital relating to operating activities involved shifts in accounts receivable and accounts payable and the timing of cash receipts and payments.

## Operating activities

The major factors that accounted for the change in funds from continuing operations during third quarter 2008, when compared with the immediately preceding quarter, were as follows:

<i>(\$ 000s) (1)</i>		
<b>Funds from continuing operations in second quarter 2008</b>		<b>2,798</b>
Increase (decrease) as a result of:		
Higher operating netback		
Higher sales volumes		<b>445</b>
Lower realized sales prices		<b>(583)</b>
Lower per unit royalties expense		<b>265</b>
Higher per unit operating and transportation expense		<b>(435)</b>
Higher general and administrative expense		<b>(148)</b>
Higher interest and financing costs		<b>(93)</b>
Lower realized foreign exchange loss		<b>292</b>
Other		<b>(2)</b>
<b>Funds from continuing operations in third quarter 2008</b>		<b>2,539</b>

*(1) Refer to special advisories regarding use of non-GAAP financial measures.*

## Financing activities

On June 30, 2008, the Company replaced its \$75 million Union Bank credit facility with a new US \$105 million credit facility (the "Facility") with Ableco Finance LLC (the "Lender"). The Facility is a four year committed facility comprised of a US \$65 million revolving credit facility (with an initial borrowing base set at US \$50 million), a US \$25 million term facility (fully funded at closing) and a US \$15 million delay draw term facility which is available for future acquisitions and capital expenditures, subject to the satisfaction of certain pre-conditions. All borrowings under the Facility are denominated in US dollars. At expiry, outstanding borrowings become due and payable.

The revolving portion of the Facility bears interest at a margin spread over the Lender's Base Rate/Eurodollar Rate, each as specifically defined under the credit agreement, of 1.75 to 2.75 percent per annum while the term and the delay draw term portions bear interest at a margin spread of 7.50 to 9.50 percent per annum. The margin spread in each case is dependent upon Mahalo's choice of utilizing a Base Rate or Eurodollar Rate loan option and, with respect to the term loan portions of the facility, is also dependent upon the Company's asset coverage ratio.

The Facility is secured by a first floating charge on the Company's Canadian assets and a first lien on its United States assets. Included in the terms and conditions are requirements to meet certain financial covenants and ratios, to achieve specified monthly minimum production levels and to maintain swap contracts to fix the price on a specified minimum percentage of projected post royalty sales volumes.

As at September 30, 2008, US \$38.4 million (Cdn \$40.7 million) was drawn on the revolver portion and US \$21.8 million (Cdn \$23.1 million) was drawn on the term loan portion of the Facility.

The Facility, as originally structured, anticipated the Company's sale of its Canadian resource assets. The Company has been working with the lender to renegotiate certain of the terms and conditions to reflect the Company's revised resource asset base and projected operations as a result of such sale.

At September 30, 2008, the Company was in non-compliance with respect to the "minimum production" covenant, the "consolidated leverage ratio" covenant, and the "consolidated interest coverage ratio" covenant as defined in the credit agreement. The Company has not received a waiver with respect to the covenant defaults; consequently, the Company has reclassified its bank debt as a current liability as at September 30, 2008. The Company is negotiating with the lender to seek a remedy to this situation.

### Investing activities

The Company has since its inception expanded its oil and gas asset and production base through farm-ins, corporate and property acquisitions and exploration and development activity. The following table reflects cash expenditures on property and equipment (net of proceeds from dispositions) for discontinued and continuing operations during the periods under comparison.

	Three Months Ended			Nine Months Ended	
	Sept 30 2008	Jun 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
(\$000s)		(Restated)	(Restated)		(Restated)
Discontinued operations	<b>(16,882)</b>	3,167	4,139	<b>(10,506)</b>	(3,728)
Land and seismic	<b>3,079</b>	2,107	1,018	<b>6,366</b>	2,372
Drilling and completions	<b>13,850</b>	7,513	4,646	<b>25,299</b>	19,079
Facilities and equipment	<b>1,810</b>	850	1,726	<b>2,841</b>	2,016
Continuing operations	<b>18,739</b>	10,470	<b>7,390</b>	<b>34,506</b>	23,467
<b>Cash expenditures, net</b>	<b>1,857</b>	13,637	<b>11,529</b>	<b>24,000</b>	19,739

Of the total cash expenditure of \$18.7 million related to continuing operations during the three months ended September 30, 2008, \$12.6 million was spent on Hartshorne CBM drilling, completions and tie-ins in the United States. A total of 35 (16.4 net) CBM wells were drilled with a 100 per cent success rate. The Company also spent \$1.0 million to drill a 100 per cent working interest Caney shale gas well, which has not yet been completed, and \$3.1 million on land acquisition and leasing in Oklahoma. A total of \$2.0 million was invested in other projects.

Net cash expenditures on discontinued operations during the current quarter include proceeds of approximately \$16.9 million, net of adjustments, on the sale of Canadian resource assets. The proceeds were applied against long-term debt.

## Contractual obligations

As at the date of this MD&A, the Company has committed to certain payments as follows:

Years ended December 31	2008	2009	2010	2011	2012	Total
<i>(\$000s)</i>						
Office lease	172	542	568	426	-	1,708
Office lease (US\$)	23	79	82	84	87	355
Equipment usage	-	1,341	2,376	-	-	3,717

The equipment usage obligation results from a drilling rig lease contract with a drilling company entered into on January 27, 2006. The terms of the contract include a commitment to utilize a specific drilling rig for a minimum of 250 days per year for three years, with the contract taking effect upon release of the rig to Mahalo. The rig was released to Mahalo in 2007. The terms of the agreement specify that the Company is obligated to pay a minimum standby rate of \$9,504 per day.

The Company minimizes the impact of commodity price volatility by entering into physical and financial fixed price sales contracts for at least 80 percent of expected daily gas sales volumes, as required by the Company's loan agreement.

The following is a summary of the commodity physical fixed price sale commitments entered into by the Company and outstanding as of the date of this MD&A.

Transaction Type	Daily Volume	Contract Price	Term
Sell	1,500 MMbtu	US \$7.185/MMbtu	February 2008 - January 2009
Sell	3,000 MMbtu	US \$10.22/MMbtu	November 2008 - June 2009
Sell	2,750 MMbtu	US \$10.35/MMbtu	November 2008 - June 2009
Sell	1,000 MMbtu	US \$10.26/MMbtu	November 2008 - July 2009
Sell	1,500 MMbtu	US \$4.10/MMbtu	November 2008
Sell	1,500 MMbtu	US \$4.25/MMbtu	November 2008
Sell	3000 MMbtu	Pan Index minus US \$0.08/MMbtu	December 2008
Sell	3,000 MMbtu	US \$5.40/MMbtu	December 2008
Sell	2,000 Mmbtu	Pan Index plus US \$0.01/MMbtu	January 2009 - June 2009
Sell	5,000 MMbtu	Pan Index plus US \$0.05/MMbtu	July 2009 - May 2010

During the three months ended September 30, 2008, the Company entered into a contract to purchase 2,000 GJ of natural gas per day at Cdn \$7.80 per GJ to offset an existing physical fixed price contract to sell 2,000 GJ per day at Cdn \$7.43 per GJ. The term of the offsetting arrangement is September 1, 2008 to December 31, 2008. The offsetting arrangement results in a net loss of approximately \$90,000.

Prior to September 30, 2008, Mahalo entered into a participating natural gas swap contract whereby the Company will receive a floor price of US \$10 per Mmbtu for 5,000 MMbtu per day and 31 per cent of the price in excess of US \$10 per MMbtu. The term of this arrangement is July 1, 2009 to May 31, 2010. At September 30, 2008, the mark-to-market on this contract was an asset of \$2.9 million.

Subsequent to September 30, 2008, the Company entered into the following financial fixed price sales contracts.

Transaction Type	Daily Volume	Contract Price	Term
Sell	5,000 MMbtu	HH less US \$1.12 Pan/MMbtu	July 2009 - May 2010
Sell	2,500 MMbtu	US \$5.43/MMbtu	December 2008
Sell	5,000 MMbtu	US \$7.83/MMbtu	January 2009 - December 2009
Sell	2,500 MMbtu	US \$8.10/MMbtu	January 2010 - December 2010

The Company indemnifies its directors and officers against all claims and losses reasonably incurred in the performance of their duties to the extent permitted by law. The Company maintains Directors and Officers insurance in amounts deemed adequate.

## Liquidity

The following table illustrates working capital (deficiency), net debt and shareholders' equity at September 30, 2008 and December 31, 2007.

<b>As at</b>	<b>Sept 30 2008</b>	<b>Dec 31 2007</b>
<i>(\$ 000s) (1)</i>		<i>(Restated)</i>
Current assets	<b>17,372</b>	18,945
Current liabilities	<b>86,632</b>	20,924
Working capital (deficiency)	<b>(69,260)</b>	(1,979)
Long term debt	-	51,334
Net debt	<b>69,260</b>	53,313
Shareholders' equity	<b>66,584</b>	115,249

*(1) Refer to special advisories regarding use of non-GAAP financial measures.*

Working capital is an aggregation of current assets and current liabilities. At September 30, 2008 and December 31, 2007, the Company had a working capital deficiency of \$69.3 million and \$2.0 million, respectively.

At September 30, 2008, the Company was in non-compliance with respect to certain covenants under its credit agreement. The Company has not received a waiver with respect to the covenant defaults; consequently, the Company has reflected its bank debt as a current liability as at September 30, 2008. The Company is negotiating with the lender to remedy to this situation.

The reduction in shareholder's equity during the nine months ended September 30, 2008 was primarily attributable to non-cash, Canadian resource property write-downs. As previously discussed, the Company is in the process of disposing of its remaining Canadian resource assets and has adopted "discontinued operations accounting" at September 30, 2008. Proceeds from the sale of resource assets will be used to reduce net debt.

At September 30, 2008, the Company had 59,298,035 common shares, 1,440,000 common share purchase warrants and 292,800 performance warrants issued and outstanding. Contributed surplus amounted to \$9.8 million at September 30, 2008, reflective of aggregate stock-based compensation incurred since inception of the Company in April 2004.

The current worldwide economic and financial crisis is of significant concern; the Company recognizes that at the present time, credit and equity markets offer limited flexibility. This situation is unprecedented and may persist for some time. During this same time, Mahalo has been re-negotiating its long-term credit agreement with its lender, Ableco Finance LLC. The agreement, as originally structured, anticipated the sale of Canadian resource assets; consequently, certain of the terms and conditions need to be amended to reflect the Company's revised resource asset base and projected operations.

As at September 30, 2008, the Company is in breach of certain covenants under its bank credit agreement. The Company is currently working with its lenders to rectify this issue. If an acceptable solution is not achieved and the debt is called, the Company will require additional capital to continue its activities and discharge its obligations.

## Dividends

The Company has not declared or paid any dividends on its outstanding common shares. Any decision to pay dividends will be made by the Board of Directors on the basis of the Company's earnings, financial requirements and other conditions existing at the time. At present, the Company does not anticipate declaring and paying dividends in the near future.

## SUMMARY OF QUARTERLY FINANCIAL RESULTS (Unaudited)

The following table presents a summary of consolidated operating results for the quarters ended December 31, 2006 through September 30, 2008. Information for the seven quarterly periods ended December 31, 2006 through June 30, 2008 have been restated to reflect the application of "Discontinued Operations Accounting" as previously discussed herein.

Selected quarterly information	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
		(2)	(2)	(2)	(2)	(2)	(2)	(2)
<b>Financial</b> (\$000s, except per share) (1)								
Continuing operations:								
Petroleum and natural gas revenue	9,477	9,213	7,780	6,689	7,410	7,474	6,996	6,822
Operating netback	4,527	4,836	4,445	3,343	3,870	3,874	4,280	3,801
General and administrative	1,390	1,242	791	1,031	975	1,523	1,030	1,180
Stock-based compensation	445	510	468	577	514	324	445	458
Foreign exchange loss (gain)	3,284	319	169	(612)	(450)	(1,877)	(476)	2,048
Interest and financing expense	1,011	697	543	677	603	439	575	621
Depletion, depreciation, accretion	3,219	2,661	2,453	2,476	2,879	3,088	2,571	1,354
Future income taxes (recovery)	617	290	408	(1,293)	271	(31)	293	276
Net income (loss) from:								
Continuing operations	(2,501)	(887)	(392)	485	(929)	402	(165)	(2,162)
Per share: basic and diluted	(0.04)	(0.01)	(0.01)	0.01	(0.02)	0.01	0.00	(0.04)
Discontinued operations	(15,802)	(30,616)	(102)	(1,182)	(884)	(573)	(871)	(45,349)
Per share: basic and diluted	(0.27)	(0.52)	0.00	(0.02)	(0.01)	(0.01)	(0.01)	(0.78)
Net income (loss)	(18,303)	(31,503)	(494)	(697)	(1,813)	(171)	(1,036)	(47,511)
Per share: basic and diluted	(0.31)	(0.53)	(0.01)	(0.01)	(0.03)	0.00	(0.02)	(0.81)
Funds from continuing operations	2,539	2,798	3,115	1,850	2,332	3,112	2,668	1,129
Per share: basic	0.04	0.05	0.05	0.03	0.04	0.05	0.05	0.02
Funds from discontinued operations	881	3,570	2,256	1,316	1,001	433	826	359
Per share: basic	0.01	0.06	0.04	0.02	0.02	0.01	0.01	0.01
Funds from operations	3,420	6,368	5,371	3,166	3,333	3,545	3,494	1,488
Per share: basic	0.06	0.11	0.09	0.05	0.06	0.06	0.06	0.03
Reconciliation:								
Funds from operations	3,420	6,368	5,371	3,166	3,333	3,545	3,494	1,488
Changes in non-cash working capital related to operating activities	(550)	50	(2,833)	3,923	482	(3,314)	(531)	(4,557)
Cash provided by (used in)								
operating activities	2,870	6,418	2,538	7,089	3,815	231	2,963	(3,069)
<b>Operational</b> (1)								
Average daily sales volume (boe/day)								
Continuing operations	2,191	2,029	2,048	2,152	2,107	1,952	1,755	1,971
Discontinued operations	870	1,254	1,354	1,390	1,300	853	869	1,001
	3,061	3,283	3,402	3,542	3,407	2,805	2,624	2,972
Continuing operations:								
Average realized selling prices								
Natural gas (\$/Mcf)	7.83	8.32	6.96	5.63	6.37	7.01	7.38	6.27
Barrel of oil equivalent (\$/boe)	47.01	49.90	41.74	33.78	38.23	42.07	44.30	37.62
Average operating netback (\$/boe)	22.46	26.19	23.85	16.89	19.97	21.80	27.11	20.96
<b>Cdn\$/US\$ exchange rate</b>								
Average for period	0.960	0.990	0.998	1.019	0.957	0.911	0.854	0.878
End of period	0.944	0.981	0.974	1.009	0.995	0.940	0.867	0.858

(1) Refer to special advisories regarding use of non-GAAP financial measures and barrel of oil equivalent ("boe") measures.

(2) Comparative periods have been restated to reflect "discontinued operations" accounting.

Further details in respect of historical quarterly results can be found in the Company's quarterly and annual reports filed on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's web-site at [www.mahaloenergy.com](http://www.mahaloenergy.com).

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any material off-balance sheet arrangements outstanding, except for certain office leases and equipment usage contracts as discussed under "contractual obligations".

## **RELATED PARTY TRANSACTIONS**

The Company is related to Avenir Capital Corporation and Avenir Operating Corp. by virtue of certain directors in common. The Company conducts joint operating activities with these companies in the normal course of business.

During the three and nine months ended September 30, 2008, the Company sold certain non-core properties to Avenir Operating Corp. for \$4.0 million. The sale was consummated through a public process and the transaction value was compared with current market sales metrics from an independent public source. The asset sale transaction was a cash transaction and did not include any ongoing contractual or other commitments.

During the nine months ended September 30, 2007, the Company sold certain non-core properties to Avenir Operating Corp. for \$7.2 million. The measurement basis used for the transaction was an independent reserves valuation as at December 31, 2006. The transaction value was also compared with current market sales metrics from an independent public source. The asset sale transaction was a cash transaction and did not include any ongoing contractual or other commitments.

## **OUTLOOK**

Mahalo has seen dramatic changes in the operating environment with the steep drop in North American natural gas prices, the effects of the midcontinent pipeline rupture and its further negative impact on natural gas prices, and uncertainty created by the current global financial crisis. In response to these changes, Mahalo will, for the foreseeable future, restrict its activity to the Hartshorne CBM assets that provide the Company with strong economic results in the current environment and will restrict capital spending to less than available cash flow. Full cycle economics for Hartshorne CBM drilling based on results to date indicate a break even natural gas price still well below current prices. The Company is also protected in this current environment by hedges put in place earlier in the year.

The Company expects to exit fiscal 2008 with sales volume from continuing (United States) operations of approximately 2,600 boe per day. The sales volume from Canadian resource assets remaining to be sold is currently about 225 boe per day; the Company expects to complete the sale of all or substantially all of these remaining properties in the fourth quarter. Total funds from operations for 2008 is expected to be lower than the \$21 million previously anticipated, principally as a result of operational and pricing uncertainties discussed above. During the nine months to September 30, 2008, the Company generated funds from continuing and discontinued operations combined of \$15.2 million.

As at September 30, 2008, the Company had a working capital deficiency of \$69.3 million, an accumulated deficit of \$104.1 million and is in breach of certain covenants under its bank credit agreement. The Company is currently working with its lenders to rectify this issue. However, if an acceptable solution is not achieved and the debt is called, the Company will require additional capital to continue its activities and discharge its obligations.

The Company will focus diligently on selective CBM drilling, production optimization, cost containment and debt reduction. It is unlikely that Mahalo will add a new, operated CBM core area in Oklahoma during first half 2009 as previously anticipated. Mahalo will also seek to monetize the value of its shale gas resource through alternate means such as a farm out or sale.

## **CONTROLS AND PROCEDURES**

### **Disclosure controls and procedures**

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities, particularly during the period in which the interim filings of the Company are being prepared. The CEO and CFO do not expect that the disclosure controls and procedures will prevent or detect all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

### **Internal controls over financial reporting**

The CEO and CFO have designed internal controls over financial reporting or caused them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management is aware that given the Company’s smaller size, adequate segregation of duties may not always be achievable in which case the Company relies on compensating controls. Management is also aware that in-house expertise to deal with complex accounting, taxation and reporting matters may not be sufficient, which is common with companies of a similar size. The Company must periodically rely upon outside assistance and advice to effectively deal with such matters. The Company’s internal controls over financial reporting may not prevent or detect all errors, misstatements and fraud. The design of internal controls must also take into account resource constraints. A control system, including the Company’s internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## **RISKS AND UNCERTAINTIES**

The business of exploring for, developing and producing oil and gas reserves is inherently risky. There is a risk that the sale of the Company’s reserves may be delayed indefinitely due to process constraints, lack of pipeline capacity or lack of markets. The price the Company receives for its crude oil and natural gas fluctuates continuously and for the most part is beyond its control. The Company is also subject to the risks associated with oil and gas properties, including exploration, development and production risks, and environmental risks such as the pollution of air, land and water. In all areas of the Company’s business, it competes against entities that have greater technical and financial resources. The Company’s growth is dependent upon external sources of financing which may not be available on acceptable terms. Additional information regarding business risks and uncertainties can be found under the heading "Risk Factors" in the Company’s Annual Information Form dated March 27, 2008 at [www.sedar.com](http://www.sedar.com). The risks discussed should not be construed as exhaustive. Information regarding risks associated with financial instruments is set forth in note 12 to the Company’s Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2008.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make assumptions, judgments and estimates that may have a significant impact on the financial statements. Estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known. A summary of the Company’s significant accounting policies can be found in Note 2 of the Audited Consolidated Financial Statements for the year ended December 31, 2007.

## **CHANGES IN ACCOUNTING POLICIES AND CANADIAN ACCOUNTING PRONOUNCEMENTS**

### **New Accounting Policies and Pronouncements**

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400 - General Standards of Financial Statement Presentation, 1535 - Capital Disclosures, 3031- Inventories, 3862 - Financial Instruments - Disclosures and 3863 - Financial Instruments - Presentation. The new standards were adopted prospectively.

Section 1400 requires management to assess an entity's ability to continue as a going concern and to provide disclosure of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. The adoption of this standard did not have an impact on the Company's Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2008.

Section 1535 establishes standards for disclosing information regarding an entity's capital and how it is managed. The section specifies the disclosure of i) objectives, policies, and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance. The adoption of this standard did not impact the Company's financial results but did require additional disclosure as set forth in note 9 to the Company's Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2008.

Sections 3862 and 3863 replace section 3861 - Financial Instruments – Disclosure and Presentation. Under section 3862, the Company is required to disclose the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments and how those risks are managed. Section 3863 provides further guidance on the classification of financial liabilities vs. equity, and when netting of financial assets and financial liabilities is appropriate. The adoption of these standards did not impact the Company's financial results but did result in additional disclosures as set forth in note 12 to the Company's Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2008.

### **Recent Accounting Pronouncements Not Yet Adopted**

On January 1, 2009, the Company will be required to adopt CICA Handbook Section 3064 - Goodwill and Intangible Assets which establishes guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including guidance on pre-production and start-up costs, requiring that these costs be expensed as incurred. The current goodwill standards are carried forward unchanged from that included in the previous section 3062. The effects on the Company's financial statements are currently being reviewed but are not expected to be significant.

On February 13, 2008, the Canadian Accounting Standards Board confirmed the use of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The changeover date for Canadian publicly accountable enterprises is January 1, 2011 and will require restatement of comparative figures. IFRS will replace the current CICA Handbook as Canadian GAAP. Significantly increased disclosure will be required under IFRS, especially for interim reporting. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. The effects on the Company's financial statements are currently being reviewed.

## ***SPECIAL CAUTIONARY ADVISORIES***

### ***Forward-looking statements***

***Except for historical financial information contained herein, the matters discussed in this document may be considered forward-looking statements. Such statements include declarations regarding management's intent, belief or current expectations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties; actual results could differ***

*materially from those indicated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is of a preliminary nature and may be subject to further adjustment, (ii) the possible unavailability of financing, (iii) risks related to the exploration and development of oil and gas properties, (iv) the impact of price fluctuations and the demand and pricing for oil and natural gas, (v) the seasonal nature of the business, (vi) start-up risks, (vii) general operating risks, (viii) dependence on third parties, (ix) changes in government regulation, (x) the effects of competition, (xi) dependence on senior management, (xii) impact of economic conditions, and (xiii) fluctuations in currency exchange rates and interest rates. The forward-looking statements contained in this document are made as of the date hereof and are expressly qualified by this cautionary statement. Mahalo undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by law.*

#### *Non-GAAP financial measures*

*The Company uses and makes reference to "funds from operations", "funds from operations per share", "operating netback" and "net debt" in this MD&A. These terms do not have any standardized meaning, are not defined under Canadian Generally Accepted Accounting Principles ("GAAP") and are therefore referred to as non-GAAP financial measures. These non-GAAP measures should not be considered as an alternative to, or more meaningful than net earnings, cash provided by operating, financing and investing activities or other measures of financial performance or liquidity calculated in accordance with Canadian GAAP. The non-GAAP financial measures, as calculated and used by the Company, may not be comparable to similarly titled measures reported by other companies.*

*Funds from operations represent cash from operating activities before change in related non-cash working capital. Funds from operations per share are calculated using the weighted average shares outstanding, consistent with the calculation of earnings per share. These measures are used by Mahalo to assess its operating results and its ability to generate funds to finance future capital investments and service debt.*

*Operating netback presents a measure of net oil and gas revenue relative to realized commodity prices by deducting royalties and operating and transportation costs from oil and gas sales revenues. This non-GAAP measure is also used by the Company to assess comparability of petroleum sales and directly related costs between periods. There is no GAAP measure that is reasonably comparable to operating netback as calculated by the Company.*

*Net debt as calculated by the Company represents long-term debt, less working capital (excluding unrealized gain or loss on financial instruments) and is used by the Company to assess financial strength. There is no GAAP measure that is reasonable comparable to net debt as calculated by the Company.*

*Management considers these non-GAAP financial measures as useful supplemental measures to analyze operations, compare performance between periods and provide shareholders and potential investors with additional information. These non-GAAP measures are also used by certain research analysts to value and compare oil and gas exploration and production companies, and are frequently included in published research when providing investment recommendations.*

#### *Barrel of oil equivalent ("boe") volumetric measures*

*The oil and gas industry commonly expresses production, sales and reserves volumes on a barrel of oil equivalent ("boe") basis whereby natural gas volumes are converted at a ratio of six thousand cubic feet ("Mcf") to one barrel ("bbl") of crude oil. The boe measure is used by the Company to aggregate oil and gas volumes. The measure is also considered to be useful for comparisons with other industry participants. The conversion ratio is based on an approximate energy equivalency of these commodities at the burner tip and does not represent a value equivalency at the well head. This conversion may therefore be misleading, particularly if used in isolation.*

## **ADDITIONAL INFORMATION**

Additional information relating to the Company and its business and operations is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) or at the Company's web-site at [www.mahaloenergy.com](http://www.mahaloenergy.com).