



Interim Consolidated Financial Statements

Three and Nine Months ended September 30, 2009 and 2008

Unaudited – Prepared by Management

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the interim consolidated financial statements for the three and nine months ended September 30, 2009 and 2008.

MAHALO ENERGY LTD.
CONSOLIDATED BALANCE SHEETS

(Under Creditor Protection Proceedings as of May 21 and 22, 2009 - Note 1)

(Unaudited, in thousands of dollars)

As at	September 30 2009	December 31 2008
Assets (note 6)		
Current		
Cash	8,351	2,073
Accounts receivable	8,660	11,644
Prepaid and deposits	1,279	999
Current portion of unrealized gain on derivative natural gas contracts (note 11)	6,723	6,593
	25,013	21,309
Deferred financing costs (note 6)	3,345	15,607
Unrealized gain on derivative natural gas contracts (note 11)	196	4,151
Property and equipment (notes 4 and 5)	113,491	139,321
Assets held for sale (note 4)	-	3,469
	142,045	183,857
Liabilities		
Current		
Accounts payable and accrued liabilities	19,676	38,118
Bank debt (note 6)	80,930	75,097
	100,606	113,215
Asset retirement obligations (note 7)	1,290	1,385
Asset retirement obligations related to assets held for sale (note 4)	-	1,848
Future income taxes	-	6,015
	101,896	122,463
Shareholders' equity		
Share capital (note 8)	158,979	158,979
Warrants (note 8)	1,990	1,990
Contributed surplus (note 8)	10,282	9,848
Deficit	(136,540)	(121,198)
Accumulated other comprehensive income	5,438	11,775
	40,149	61,394
	142,045	183,857

Commitments (note 10)
Subsequent event (note 12)

See accompanying notes to the unaudited consolidated financial statements

MAHALO ENERGY LTD.
CONSOLIDATED STATEMENTS OF LOSS

(Under Creditor Protection Proceedings as of May 21 and 22, 2009 - Note 1)

(Unaudited, in thousands of dollars except per share amounts)

For the Periods ended September 30	Three Months		Nine Months	
	2009	2008	2009	2008
Revenues				
Petroleum and natural gas revenue	3,037	9,477	19,927	26,470
Royalty expense	(659)	(2,327)	(5,046)	(6,660)
	2,378	7,150	14,881	19,810
Gain (loss) on derivative natural gas contracts	(200)	2,943	5,881	2,943
Other income	(13)	-	436	-
	2,165	10,093	21,198	22,753
Expenses				
Operating	1,231	1,982	4,559	4,378
Transportation	501	641	1,926	1,623
General and administrative	1,283	1,390	4,774	3,423
Stock-based compensation	(166)	445	374	1,423
Foreign exchange loss	-	3,284	-	3,773
Interest and financing costs (note 6)	5,909	1,011	19,763	2,249
Depletion, depreciation and accretion	1,720	3,219	8,194	8,333
	10,478	11,972	39,590	25,202
Loss from continuing operations, before income taxes	(8,313)	(1,879)	(18,392)	(2,449)
Current income tax expense	6	5	18	15
Future income tax expense (recovery)	(2,460)	617	(5,748)	1,315
Loss from continuing operations	(5,859)	(2,501)	(12,662)	(3,779)
Loss from discontinued operations (note 4)	(304)	(15,802)	(2,680)	(46,522)
Net loss	(6,163)	(18,303)	(15,342)	(50,301)
Loss per share from continuing operations (note 8)				
Basic and diluted	(0.10)	(0.04)	(0.21)	(0.06)
Loss per share from discontinued operations (note 8)				
Basic and diluted	(0.01)	(0.27)	(0.05)	(0.79)
Net loss per share (note 8)				
Basic and diluted	(0.11)	(0.31)	(0.26)	(0.85)

See accompanying notes to the unaudited consolidated financial statements

MAHALO ENERGY LTD.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Under Creditor Protection Proceedings as of May 21 and 22, 2009 - Note 1)

(Unaudited, in thousands of dollars)

For the Periods ended September 30	Three Months		Nine Months	
	2009	2008	2009	2008
Net loss	(6,162)	(18,303)	(15,342)	(50,301)
Translation of US dollar results to Canadian dollar reporting currency	(3,561)	-	(6,337)	-
Other comprehensive income	(3,561)	-	(6,337)	-
Comprehensive income (loss)	(9,723)	(18,303)	(21,679)	(50,301)

*See accompanying notes to the unaudited consolidated financial statements***MAHALO ENERGY LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Under Creditor Protection Proceedings as of May 21 and 22, 2009 - Note 1)

(Unaudited, in thousands of dollars)

For the Periods ended September 30	Three Months		Nine Months	
	2009	2008	2009	2008
Share Capital				
Balance, beginning and end of period	158,979	158,979	158,979	158,979
Warrants				
Balance, beginning and end of period	1,990	1,990	1,990	1,990
Contributed Surplus				
Balance, beginning of period	10,448	9,204	9,848	8,117
Stock-based compensation costs	(166)	549	434	1,636
Balance, end of period	10,282	9,753	10,282	9,753
Deficit				
Balance, beginning of period	(130,377)	(85,835)	(121,198)	(53,837)
Net loss	(6,163)	(18,303)	(15,342)	(50,301)
Balance, end of period	(136,540)	(104,138)	(136,540)	(104,138)
Accumulated Other Comprehensive Income				
Balance, beginning of period	8,999	-	11,775	-
Foreign exchange	(3,561)	-	(6,337)	-
Balance, end of period	5,438	-	5,438	-

See accompanying notes to the unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Under Creditor Protection Proceedings as of May 21 and 22, 2009 - Note 1)

(Unaudited, in thousands of dollars)

For the Periods ended September 30	Three Months		Nine Months	
	2009	2008	2009	2008
Operating activities				
Net loss from continuing operations	(5,859)	(2,501)	(12,662)	(3,779)
Non-cash items:				
Stock-based compensation	(166)	446	374	1,423
Depletion, depreciation and accretion	1,720	3,219	8,194	8,333
Unrealized financial derivative loss (gain)	5,267	(2,943)	2,716	(2,943)
Foreign exchange loss (gain)	(173)	3,482	(173)	3,885
Amortization of deferred financing costs	3,467	219	11,260	219
Future income tax expense (recovery)	(2,460)	617	(5,748)	1,315
Cash flow from continuing operations	1,796	2,539	3,961	8,453
Change in non-cash working capital	499	(550)	(13,656)	(3,333)
Cash flow from (used in) discontinued operations	(211)	881	(1,344)	6,707
	2,084	2,870	(11,039)	11,827
Financing activities				
Bank debt	1,512	(3,433)	17,781	10,016
Deferred financing costs	-	-	-	(3,402)
	1,512	(3,433)	17,781	6,614
Investing activities				
Expenditure on property and equipment	(124)	(18,739)	(1,042)	(34,506)
Proceeds on sale of oil and gas properties	-	-	2,293	-
(Increase) decrease in assets held for sale	-	16,882	455	10,506
Change in non-cash working capital	1,238	2,229	(2,170)	1,344
	1,114	372	(464)	(22,656)
Increase (decrease) in cash	4,710	(191)	6,278	(4,215)
Cash (bank indebtedness), beginning of period	3,641	(51)	2,073	3,973
Cash (bank indebtedness), end of period	8,351	(242)	8,351	(242)

See accompanying notes to the unaudited consolidated financial statements

MAHALO ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2009 and 2008

(Unaudited, amounts in Canadian dollars unless otherwise stated)

1. CREDITOR PROTECTION AND GOING CONCERN ISSUES

(a) Nature of the Business

Mahalo Energy Ltd. (“Mahalo” or the “Company”) was incorporated under the *Business Corporations Act (Alberta)* on April 21, 2004. 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.

Mahalo completed its initial public offering and was listed on the Toronto Stock Exchange (“TSX”) on July 29, 2005. On May 1, 2009, the Company agreed to a voluntary delisting from the TSX as a result of its inability to meet continuing listing requirements. On August 19, 2009, the Company obtained a listing of its common shares on the NEX Board of the TSX Venture Exchange under the symbol CBM.H.

(b) Background

The Company has been exploring strategic alternatives since the fall of 2008 and during this period, has had discussions with a number of interested parties. Unfortunately, no satisfactory offers or proposals were received; management concluded that no transaction was likely to take place in the immediate future. In March 2009, the Company breached certain conditions of its credit facility agreement when it failed to achieve certain restructuring and/or refinancing initiatives and was unable to pay amounts aggregating US \$15 million which were payable under the credit facility agreement on March 31, 2009. As a result, the Company, with the unanimous authorization of its Board of Directors, determined that a business and financial restructuring could best be achieved within the framework of creditor protection.

(c) Chapter 11 and CCAA Proceedings

On May 21, 2009, Mahalo Energy (USA) Inc. (“Mahalo USA”) filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Under Chapter 11, Mahalo USA may seek an adjustment of debts, either by reducing the debt or by extending the time for repayment, or may seek a more comprehensive reorganization. There is no guarantee that Mahalo USA will be able to obtain court orders or approvals with respect to motions which it may file from time to time with the United States Court. The creditor protection will end as a result of dismissal of the Chapter 11 Case, reflecting a successful restructuring, or alternatively, the conversion of the Chapter 11 Case into a Chapter 7 Case under the United States Bankruptcy Code. A Chapter 7 Case provides for liquidation of the debtor’s assets and subsequent distribution of proceeds to creditors.

Mahalo USA has engaged Alvarez & Marsal North America, LLC, a United States firm, to act as advisors to assist with the business and financial restructuring of its United States assets and operations.

On May 22, 2009, Mahalo Energy Ltd. obtained an order from the Court of Queen’s Bench of Alberta for protection under the Companies’ Creditors Arrangement Act (Canada) (“CCAA”). The Initial Order granted a stay period of 30 day, which has subsequently been extended and currently expires on January 15, 2010. There is no guarantee that Mahalo Energy Ltd. will be able to obtain court orders or approvals with respect to motions, including motions to further extend the stay period, which it may file from time to time with the Canadian Court.

Alger & Associates Inc. (“Monitor”) was appointed by the Canadian Court to monitor Mahalo Energy Ltd’s property and the conduct of its business. The Monitor has the prescribed rights and obligations as set out in the CCAA and is also empowered to, among other things, monitor the receipts and disbursements, report to the Court with respect to matters relating to property and business activity and assist in the development of any plan of compromise or arrangement with creditors.

The Court Orders providing creditor protection permit Mahalo Energy Ltd. and Mahalo USA to remain in possession and control of their property, carry on their business, retain employees and other service providers and continue with the process of evaluating strategic alternatives, including a corporate or asset sale. Although Mahalo USA did enter into a financing commitment for approximately \$2 million of debtor in possession (“DIP”) financing with its lender, Ableco Finance, LLC, such financing was not approved by the US Court.

While under creditor protection, if Mahalo Energy Ltd. and Mahalo USA are not able to develop and present plans of compromise or arrangement with creditors, or if the plans are not accepted by affected creditors and confirmed by the Courts, then the respective companies would lose the protection of the stay of proceedings and substantially all debt obligations would be due and payable, which, in turn, would in all likelihood lead to the liquidation or forfeiture of assets.

Under the priority scheme established by Chapter 11 and CCAA, unless creditors agree otherwise, liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they will receive. A plan of reorganization could result in holders of Mahalo’s liabilities and/or securities, including Mahalo’s common stock, receiving no distribution on account of their interests and cancellation of their holdings. A plan of reorganization could also result in holders of Mahalo’s common stock being materially diluted. Because of such possibilities, the value of Mahalo’s liabilities and securities, including its common stock, is highly speculative. Appropriate caution should be exercised with respect to existing and future investments in any of Mahalo’s liabilities and/or securities. At this time, there can be no assurance that the Company will be able to restructure as a going concern or successfully implement a plan of reorganization.

On October 16, 2009, Mahalo Energy (USA) Inc. (“Mahalo USA”) proposed a *Debtor’s Plan of Reorganization* (the “Plan”) under Chapter 11 in the United States (see Note 12). The Plan must receive approval from affected creditors. It must also receive confirmation by the United States Court as a plan of reorganization that satisfies the requirements of Chapter 11 in order for it to become effective.

Virtually all of the Company’s assets and liabilities are held by Mahalo USA. Under the priority scheme established by Chapter 11 and CCAA, unless creditors agree otherwise, liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization.

The Company expects that under the *Debtor’s Plan of Reorganization* as proposed, Mahalo Energy Ltd. would receive no financial distribution in respect of its 100 percent ownership of Mahalo USA; this, in turn, would likely result in holders of common shares of Mahalo Energy Ltd. receiving minimal or no value for their holdings.

(d) Basis of Presentation and Going Concern Issues

These unaudited interim consolidated financial statements have been prepared using the same Canadian generally accepted accounting principles (GAAP) as applied prior to filing for and being granted creditor protection under the Chapter 11 and CCAA proceedings. The financial statements continue to be prepared using the going concern concept that, in turn, assumes 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 for the foreseeable future.

The Chapter 11 and CCAA proceedings provide for a period of time for the Company to stabilize its operations and financial condition and develop a restructuring plan that is acceptable to the Courts and to creditors. The

outcome of these proceedings including realization of assets and successful discharge of liabilities is impossible to predict. These conditions raise substantial doubt about the Company's ability to continue as a going concern. If the going concern basis of preparation is not appropriate, adjustments to the carrying amounts of the assets, liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

The accompanying financial statements do not purport to reflect or provide for the consequences of the Insolvency Proceedings. In particular, such financial statements do not purport to show: (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (c) as to shareholders accounts, the effect of any changes that may be made in the capitalization of the Company; or (d) as to operations, the effect of any changes that may be made in the business.

Claims allowed arising under the Insolvency Proceedings may be recorded as liabilities and presented separately on the consolidated balance sheets. If a restructuring occurs and there is substantial realignment of the equity and non-equity interests in the Company, the Company will be required under Canadian GAAP, to adopt "fresh start" reporting. Under fresh start reporting, the Company would undertake a comprehensive re-evaluation of its assets and liabilities based on the reorganization value as established and confirmed in the Plan. The financial statements do not present any adjustments that may be required during the period that the Company remains under creditor protection, or that may be required under fresh start reporting.

In accordance with Canadian GAAP appropriate for a going concern, property, plant and equipment is carried at cost less accumulated amortization, depletion, and any impairment losses and they are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The series of events that led the Company to the Insolvency Proceedings and the events since then triggered impairment tests for its property, plant and equipment. The Company made assumptions, such as growth, commodity prices, production volumes and achieving cost reductions, about the future cash flows expected from the use of its assets. There can be no assurance that expected future cash flows will be realized or will be sufficient to recover the carrying amount of property, plant and equipment.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Insolvency Proceedings materially affect the degree of uncertainty associated with the measurement of many amounts in the financial statements. More specifically, it could impact the recoverability tests and the fair value assumptions used in the impairment test of property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles, except that certain information and disclosures normally required in the notes to the financial statements have been condensed or omitted. The 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, 2008, after giving effect to the adoption of new accounting standards discussed in Note 3.

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2008.

Due to the Chapter 11 and CCAA proceedings and the significant uncertainties associated therewith, the results for the interim period ended September 30, 2009 are not likely to be indicative of our future operating results and financial condition.

3. NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS

Adoption of New Accounting Standards

(a) Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued CICA Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062 of the same name and resulting in the withdrawal of Section 3450, *Research and Development Costs* and Emerging Issues Committee (“EIC”) Abstract 27, *Revenues and Expenditures during the Pre-Operating Period*. It also resulted in the amendment of Accounting Guideline (“AcG”) 11, *Enterprises in the Development Stage*. This new standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, whether those assets are separately acquired or internally developed, as well as clarifying the application of the concept of matching revenues and expenses. The adoption of Section 3064 eliminated the deferral of start-up costs, which are now recognized as an expense when incurred. The adoption of this standard on January 1, 2009 did not have an impact on the Company’s consolidated financial statements.

(b) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. Under this EIC, an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Company adopted the requirements of EIC-173 effective January 1, 2009. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

Recent Accounting Pronouncements

The Company monitors new accounting pronouncements to assess the impact, if any, on its consolidated financial statements. The CICA has issued the following accounting pronouncements that will be applicable to the Company.

(a) International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards (“IFRS”), which in turn will replace Canadian GAAP, for years beginning on or after January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. In addition, significantly increased disclosure will be required under IFRS, especially for interim reporting, and comparative IFRS information will be required for the 2010 year. The Company has undertaken a preliminary review of its current accounting policies in an effort to identify key differences and options with respect to acceptable accounting standards under IFRS. At this time, the Company is unable, due to the significant financial uncertainties it is facing, to reasonably quantify the impact of adopting IFRS on its consolidated financial statements.

(b) Financial Instruments

In June 2009, the CICA amended Section 3862 *Financial Instruments – Disclosures*. The amendments were made to enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and disclosures about the liquidity risk of financial instruments. Financial instruments will have to be classified into three classes based on the type of inputs used to determine their fair value. Fair value of assets and liabilities included in Level 1 will be determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations will be based on inputs that are unobservable and significant to the overall fair value measurement. The amendments will be effective for the Company’s annual financial statements as at December 31, 2009. The Company is currently evaluating the impact of these new requirements.

(c) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

CICA Section 1582, *Business Combinations* replaces Section 1581 of the same name, and establishes new guidance on the recognition and measurement of all assets and all liabilities of the acquired business at fair value. Non-controlling interests are measured at either their fair value or at their proportionate share of the fair value of identifiable assets and liabilities. The measurement of consideration given now includes the fair value of any contingent consideration as of the acquisition date, and subsequent changes in fair value of the contingent consideration classified as a liability are recognized in earnings. Acquisition-related costs are excluded from the purchase price and are expensed as incurred. In addition, restructuring costs related to a business combination are no longer part of the purchase price equation and are expensed as incurred. Section 1582 applies prospectively to business combinations realized in or subsequent to the first annual reporting period beginning on or after January 1, 2011.

Upon adopting Section 1582, entities will also be required to adopt CICA Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interest*, which together replace Section 1600, *Consolidated Financial Statements*. These new sections will require that the non-controlling interest be presented as a separate component of shareholders' equity on the balance sheet. In addition, the income statement will include 100 per cent of the subsidiary's net income and then allocate same to controlling interest and non-controlling interests. These new sections apply to interim and annual consolidated financial statements for years beginning on or after January 1, 2011. Although earlier adoption of Section 1582 is permitted, the Company has not early adopted the new standard as of September 30, 2009. The effect of applying this new standard is being reviewed.

On January 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("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 adoption of this standard did not have an impact on the Company's consolidated financial statements.

On January 20, 2009, the CICA issued EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Under this EIC, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Company adopted the requirements of EIC-173 effective January 1, 2009. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2008, Mahalo committed to dispose of its Canadian resource assets with an agent being engaged to facilitate the process. Since the assets held for sale encompassed the entire Canadian business segment or cost centre under full cost accounting, the cost center was accounted for as a "discontinued operation" as required under Canadian GAAP. The assets were reclassified from "property and equipment" to "assets held for sale" on the consolidated balance sheets. A liability representing the asset retirement obligations associated with the assets held for sale was set out separately on the consolidated balance sheets. The sales process was effectively complete at June 30, 2009.

The results of operations related to the Canadian cost center were as follows:

For the Periods ended September 30	Three Months		Nine Months	
	2009	2008	2009	2008
(\$000's)				
Revenues				
Petroleum and natural gas revenue	11	4,298	536	16,956
Royalty expense	10	(593)	55	(3,163)
Other	-	7	14	25
	21	3,712	605	13,818
Expenses				
Operating and transportation	31	1,643	632	4,126
General & administrative	49	423	810	1,288
Interest	152	762	507	1,697
Depletion, depreciation and accretion	-	386	103	4,629
Writedown of property and equipment	93	16,300	1,233	48,600
	325	19,514	3,285	60,340
Loss from discontinued operations	(304)	(15,802)	(2,680)	(46,522)

Interest expense was allocated to discontinued operations based on asset values.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value
(\$000's)			
September 30, 2009:			
Petroleum and natural gas properties and equipment	154,830	41,598	113,232
Other	1,311	1,052	259
	156,141	42,650	113,491
December 31, 2008:			
Petroleum and natural gas properties and equipment	174,198	34,930	139,268
Other	1,138	1,085	53
	175,336	36,014	139,321

Costs associated with unproven properties excluded from costs subject to depletion amounted to \$22,018,287 at September 30, 2009 (December 31, 2008 - \$21,633,089). Future development costs of \$33,049,200 have been included in the costs subject to depletion at September 30, 2009 (December 31, 2008 - \$33,049,200).

6. BANK DEBT

The Company has a US \$105 million credit facility (the "Facility") with Ableco Finance LLC (the "Lender"). All borrowings under the Facility are denominated in US dollars. As at September 30, 2009, US \$75.5 million (equivalent of Cdn \$80.9 million) was outstanding under the facility (December 31, 2008 - US \$62.7 million; equivalent of Cdn \$75.1 million). Irrevocable standby letters of credit for a total of Cdn \$20,000 and US \$10,000 were issued and outstanding at September 30, 2009 (December 31, 2008 - Cdn \$145,000 and US \$20,000). The letters of credit reduce the amount available under the facility. The weighted average effective interest rate on outstanding borrowings at September 30, 2009 was 14.5 percent (December 31, 2008 - 9.53 percent).

The Company is in breach of certain covenants under the credit facility. On March 5, 2009, Mahalo announced that it had received a reservation of rights letter from the Lender notifying the Company that it was in default for failure to comply with certain covenants relating to obtaining a letter of intent ("LOI") for the sale or recapitalization of the Company by March 1, 2009. As a result of the default, the Lenders advised Mahalo that until resolved, future loans would be made in the sole discretion of the Lenders.

As of March 31, 2009, the Company committed a further breach of certain covenants as a result of non-repayment of a short-term US \$5 million revolver advance which was provided as a part of a November 28, 2008 credit facility amendment, and non-payment of a US \$10 million loan fee levied under the terms of that same amendment. The loan fee resulted from failure by the Company to achieve certain restructuring and/or refinancing initiatives by March 1, 2009. The amounts remain unpaid as at September 30, 2009. The loan fee was reflected in accounts payable and accrued liabilities at December 31, 2008 and in bank debt at September 30, 2009.

The Lenders have not exercised their default-related rights or demanded repayment of amounts outstanding under the Facility. Under the terms of the Facility, if any Event of Default occurs and is continuing, the administrative agent shall, at the request of, or may, with the consent of, the Lender, take any or all of the following actions:

- a) Terminate any commitment to make loans and any other credit extensions.
- b) Declare the unpaid principal amount of all outstanding loans, all interest accrued and unpaid thereon, and all other amounts owing or payable to be immediately due and payable.
- c) Require that the borrower cash collateralize any letters of credit.
- d) Exercise all rights and remedies available to the Lender under the loan documents.

The commencement of creditor protection proceedings constituted a further event of default under the bank credit agreement. Any action to enforce default-related rights under the credit agreement was stayed as a result of the Chapter 11 filing in the United States.

As a result of the default situation, Management considers the credit facility to have the same characteristics as a demand loan; therefore, it has been classified as a current liability. Additionally, should the loan be called earlier than December 31, 2009, any unamortized balance of deferred financing costs would be expensed in its entirety at that time.

7. ASSET RETIREMENT OBLIGATIONS

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, 2009, the estimated total undiscounted amount required to settle the asset retirement obligations related to continuing operations, adjusted for inflation of 2 percent, is approximately \$4.5 million (December 31, 2008 - \$4.5 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.

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

Nine months ended September 30	2009	2008
<i>(\$000's)</i>		
Balance, beginning of period	1,385	871
Liabilities incurred	-	213
Revision to assumptions	(170)	-
Accretion expense	75	60
Balance, end of period	1,290	1,144

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

Common shares	Number of Shares	Amount (\$000's)
September 30, 2009 and December 31, 2008	59,298,035	158,979

(c) Stock Options

The Company has a stock option plan whereby options may be granted to the Company's directors, officers, employees and consultants for up to 10 percent of the Company's outstanding common shares. The exercise price of the options is determined by the five day weighted average price of the stock on the five trading days immediately preceding the relevant date. Each stock option granted permits the holder to purchase one common share of the Company at the stated exercise price. Options currently outstanding have a term of five years and vest equally over three years commencing one year after the date of grant of the option.

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, 2008	3,999,731	3.51
Granted	280,000	0.22
Forfeited	(2,135,465)	3.58
Outstanding, September 30, 2009	2,144,266	3.02
Exercisable, September 30, 2009	1,520,924	3.64

The following table summarizes information about stock options outstanding at September 30, 2009.

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)
\$0.22 to \$3.95	1,413,866	2.24	3.0	790,524	2.82	2.5
\$4.19 to \$4.77	730,400	4.54	0.8	730,400	4.54	0.8
	2,144,266	3.02	2.3	1,520,924	3.64	1.7

(d) Stock-Based Compensation

The Company accounts for its stock-based compensation using the fair value method. Under this method, the fair value of stock options granted is recognized as a charge to earnings with a corresponding increase to contributed surplus over the vesting period.

The fair value of stock options granted during the year was estimated using the Black-Scholes option-pricing model, using the following weighted average assumptions:

Nine months ended September 30	2009	2008
Risk free interest rate (%)	0.8	3.1
Expected life (years)	5.0	5.0
Expected volatility (%)	201	94
Weighted average fair value per share (\$)	0.07	1.68

During the three and nine months ended September 30, 2009, stock-based compensation amounted to \$(166,000) and \$434,000 (2008 - \$550,328 and \$1,637,623), of which \$(166,000) and \$374,000 (2008 - \$445,583 and \$1,423,147) was recognized as an expense and \$nil and \$60,000 (2008 - \$104,745 and \$214,476) was capitalized to property and equipment.

(e) Contributed Surplus

The following table reconciles Mahalo's contributed surplus:

<i>(\$000's)</i>	
Balance, December 31, 2008	9,848
Stock-based compensation costs	434
Balance, September 30, 2009	10,282

(f) Per Share Amounts

The weighted average number of shares outstanding is as follows:

For the Periods ended September 30	Three Months		Nine Months	
	2009	2008	2009	2008
Weighted average basic and diluted	59,298,035	59,298,035	59,298,035	59,298,035

For the periods ended September 30, 2009 and 2008, share purchase warrants and stock options were anti-dilutive.

9. Management of Capital Structure

Prior to the commencement of creditor protection proceedings, the Company's primary sources of liquidity and capital were cash on hand, cash from operations, borrowings under its bank credit facility and other potential debt and equity financing. The Company would from time to time make adjustments to its capital expenditure program and sell assets or issue new debt or equity; however, there was never any assurance that debt or equity financing would be available on terms acceptable to the Company.

In May 2009, the Company initiated and obtained creditor protection through Chapter 11 proceedings in the United States and CCAA proceedings in Canada (see Note 1). The Company was in breach of certain covenants under its bank credit agreement (see Note 6), including non-payment of amounts that had become due and payable on March 31, 2009. The commencement of creditor protection proceedings constituted a further event

of default under the bank credit agreement. Any action to enforce default-related rights under the credit agreement was stayed as a result of the Chapter 11 filing.

Although the Company did enter into a commitment for approximately \$2 million of debtor in possession (“DIP”) financing with its lender, Ableco Finance, LLC, , such financing was not approved by the US Court and therefore was not realized. Increases in bank debt since the commencement of creditor protection proceedings relate solely to the incurrence of interest on amounts outstanding.

The Chapter 11 and CCAA proceedings have had a significantly restrictive impact on the Company’s ability to manage its financial affairs. Without the benefit of DIP financing, the Company’s only sources of liquidity have been cash on hand and cash provided by operations. All other previous external sources of liquidity are no longer available. During these proceedings, the Company is also required to obtain cash collateral orders passed by the US courts prior to utilizing its cash resources. The short-term objective and focus during these proceedings is to maintain a level of liquidity necessary to fund the ongoing business cycle and to ultimately attain a successful business and financial restructuring of the Company.

Mahalo’s capital structure is set forth in the following table.

As at September 30	2009
<i>(\$000's)</i>	
Current assets	25,013
Accounts payable and accrued liabilities	19,676
Bank debt (note 6)	80,930
Working capital (deficiency)	(75,593)
Shareholders' equity	40,149

Notwithstanding the current situation, the Company’s longer term capital management objectives remain unchanged from that previously stated and are as follows. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its 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.

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 any capital requirements imposed by any regulators; the approved borrowing base under the 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’s bank credit facility includes various financial and operational covenants.

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. COMMITMENTS

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

	2009	2010	2011	2012	2013	Total
<i>(\$000's)</i>						
Office lease	23	95	98	100	42	358
Equipment usage	76	2,376	-	-	-	2,452
	99	2,471	98	100	42	2,810

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 (or 750 days in total), with the contract taking effect upon release of the rig 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.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Carrying Values and Estimated Fair Values of Financial Assets and Liabilities

The Company's financial instruments as at September 30, 2009 consist of cash, accounts receivable, unrealized gain on derivative natural gas contracts, accounts payable and accrued liabilities, and bank debt. The Company classifies its cash and unrealized gain on derivative natural gas contracts as held-for-trading, its accounts receivable as loans and receivables, and its accounts payable and bank debt as other financial liabilities. The carrying value of the Company's cash, accounts receivable and accounts payable and accrued liabilities approximates fair value due to their immediate or short-terms to maturity. The fair value of the derivative contracts is recognized on the balance sheet. The carrying value of bank debt approximates fair value as it bears interest at market rate.

Credit Risk

Credit risk is the risk of loss if customers or counterparties do not fulfill their contractual obligations. Cash is maintained at major financial institutions. Credit risk arises principally from the Company's accounts receivable. A substantial portion of the Company's accounts receivable are with petroleum and natural gas marketers and joint venture partners and are subject to normal energy industry credit risk. It is the Company's policy to establish marketing relationships with large customers to help mitigate credit risk. Mahalo generally grants unsecured credit but routinely assesses the financial strength of such parties.

The Company enters into physical fixed price forward sales contracts with its gas marketers and financial derivative contracts with large banking institutions.

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 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. Joint venture receivables are typically collected within one to three months of the joint venture bills being issued to the partner.

The Company considers its accounts receivable to be aged as follow:

As at September 30	2009
<i>(\$000's)</i>	
Not past due (90 days or less)	5,512
Past due (greater than 90 days)	3,148
	<u>8,660</u>

The carrying amount of accounts receivable generally represents 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. The Company does not believe that any of its accounts receivable are impaired and believes that the counterparties are of high credit quality.

Mahalo has not experienced collection issues with either petroleum and natural gas marketers or joint venture partners; however, given the size of balances outstanding from its petroleum and natural gas marketers and in light of current market conditions, the Company has obtained collateral of US \$3.0 million in the form of a letter of credit. The Company's derivative contracts are with Wells Fargo who is also a participant in the Company's credit facility.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. The market price movements that the Company is exposed to include petroleum and natural gas prices (commodity price risk), foreign currency exchange rates and interest rates, all of which could adversely affect the value of the Company's financial assets, liabilities and its financial results.

(a) Commodity Price Risk

The Company's operational results and financial condition are impacted by the price it receives for its petroleum and natural gas production. Commodity prices have fluctuated significantly. The Company takes steps to minimize the impact of commodity price volatility by entering into physical fixed price sales contracts and financial derivative contracts as considered prudent. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

The Company has sales contracts outstanding with respect to the physical delivery and sale of natural gas at a fixed price. The estimated fair value of the fixed price physical sales contracts was \$0.1 million at September 30, 2009. The following is a summary of the physical fixed forward sales commitments.

Daily Volume (Mmbtu)	Contract Price	Term
5000	Pan Index + US \$0.05/MMbtu	July 2009 - May 2010
3000	Pan Index + US \$0.01/MMbtu	January 2009 - December 2009
2000	Pan Index Flat	July 2009 - December 2009

Taking into account the physical fixed forward sales contracts in 2009, the impact of a Cdn \$1 change per MMBtu on remaining volumes results in an estimated \$0.8 million impact on pre-tax income for the nine months ended September 30, 2009.

At September 30, 2009, the Company also had derivative natural gas contracts outstanding as follows:

Transaction Type	Daily Volume (Mmbtu)	Contract Price	Term	Mark to Market (\$000's)
NYMEX Financial Fixed	5000	US \$7.44/MMbtu	Jan 2009 - Dec 2009	1,332
NYMEX Financial Fixed	2500	US \$8.10/MMbtu	Jan 2010 - Dec 2010	1,858
Financial Panhandle Basis	5000	HH minus US \$1.12/MMbtu	July 2009 - May 2010	(581)
Financial Panhandle Basis	5000	HH minus US \$1.27/MMbtu	Jan 2009 - Dec 2009	(505)
Financial Panhandle Basis	2500	HH minus US \$0.98/MMbtu	Jan 2010 - Dec 2010	(478)
Financial Panhandle Basis	2500	HH minus US \$1.00/MMbtu	Jan 2010 - Dec 2010	(600)

In addition to the above, the Company has entered into a participating natural gas financial derivative swap contract whereby the Company will receive a floor price of US \$10/MMbtu for 5,000 MMbtu/day and will participate for 31 percent of the price in excess of US\$10/MMbtu. The term is for the period July 2009 to May 2010. The September 30, 2009 mark-to-market of this derivative is an asset of \$5.9 million.

The aggregate mark-to-market of all derivative natural gas contracts was an asset of \$6.9 million at September 30, 2009. The fair value for these contracts was provided by the financial intermediary with whom the

transactions were completed; they were tested by the Company for reasonableness based on comparing current market price and the fixed price of the contracts.

Taking into account the derivative natural gas contracts listed above, the impact of a Cdn \$1 change per MMBtu results in an estimated \$0.1 million impact on pre-tax income for the nine months ended September 30, 2009.

(b) Interest Rate Risk

The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. The Company is sensitive to fluctuations in interest rate risk such that if interest rates on its bank debt changed by 1.0 percent, with all other variables held constant, net earnings for the nine months ended September 30, 2009 would change by an estimated \$0.8 million. The Company has not deemed it necessary to enter into interest rate swaps or derivative financial instruments to reduce exposure to interest rate risk.

(c) Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's foreign exchange translation exposure principally reflects the impact of fluctuations in the Canadian/United States exchange rate on monetary and non-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.

In 2008, the Company discontinued its resource operations in Canada; all continuing resource operations are located in the United States. As a result, a majority the Company's revenues and directly related expenses are now denominated in United States dollars. The Company's most significant liability, being amounts outstanding under its credit facility, are repayable in United States dollars. This results in a natural hedge which significantly reduces the Company's foreign currency risk. Certain cash expenses, primarily general and administrative costs incurred at head office, will continue to be incurred in Canadian dollars.

Since the Company reports in Canadian dollars, foreign exchange gains and losses will occur as Canadian/US dollar exchange rates shift. If foreign exchange rates had changed by \$0.01, with all other variables held constant, loss from continuing operations for the nine months ended September 30, 2009 would change by an estimated \$0.1 million. The Company does not deem it necessary to utilize financial instruments to mitigate the risks arising from changes in foreign currency rates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity is a reflection of a company's ability to access cash. Companies in the upstream oil and gas industry require sufficient cash in order to fund capital programs necessary to maintain and increase production and proved reserves, to acquire strategic oil and gas assets and to repay debt.

The financial obligations on the balance sheet are as follows:

September 30, 2009	Less than one year	Total
<i>(\$000's)</i>		
Accounts payable and accrued liabilities	19,676	19,676
Bank debt	80,930	80,930
	100,606	100,606

The Company has obtained and is currently under creditor protection through Chapter 11 proceedings in the United States and CCAA proceedings in Canada (see Note 1) as it continues to evaluate strategic alternatives, including a sale of Mahalo or its assets. The Company is in breach of certain covenants under its bank credit agreement (see Note 6), including non-payment of amounts that became due and payable on March 31, 2009.

The commencement of creditor protection proceedings constituted a further event of default under the bank credit agreement. Any action to enforce default-related rights under the credit agreement was stayed as a result of the Chapter 11 filing.

The Chapter 11 and CCAA proceedings have had a significantly restrictive impact on the Company's ability to manage its financial affairs. The Company's only sources of liquidity have been cash on hand and cash provided by operations. All other previous external sources of liquidity are no longer available. During these proceedings, the Company is also required to obtain cash collateral orders passed by the US courts prior to utilizing its cash resources. The short-term objective and focus during these proceedings is to maintain a level of liquidity necessary to fund the ongoing business cycle and to ultimately attain a successful business and financial restructuring of the Company.

Subsequent to the quarter end, Mahalo Energy (USA) Inc. proposed a *Debtor's Plan of Reorganization* (the "Plan") under Chapter 11 in the United States (see Note 12). The outcome of these matters on liquidity and other aspects of financial risk is dependant on factors outside of the Company's control and cannot be predicted at this time.

12. SUBSEQUENT EVENT

On October 16, 2009, Mahalo Energy (USA) Inc. ("Mahalo USA") proposed a *Debtor's Plan of Reorganization* (the "Plan") under Chapter 11 in the United States. Virtually all of the Company's assets and liabilities are held by Mahalo USA. Under the priority scheme established by Chapter 11 and CCAA, unless creditors agree otherwise, liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they will receive.

A plan of reorganization could result in holders of Mahalo's liabilities and/or securities, including Mahalo's common stock, receiving no distribution on account of their interests and cancellation of their holdings. A plan of reorganization could also result in holders of Mahalo's common stock being materially diluted. Because of such possibilities, the value of Mahalo's liabilities and securities, including its common stock, is highly speculative. Appropriate caution should be exercised with respect to existing and future investments in any of Mahalo's liabilities and/or securities.

The Company expects that under the *Debtor's Plan of Reorganization* as proposed, Mahalo Energy Ltd. would receive no financial distribution in respect of its 100 percent ownership of Mahalo USA; this, in turn, would likely result in holders of common shares of Mahalo Energy Ltd. receiving minimal or no value for their holdings.

The Plan must receive approval from affected creditors. It must also receive confirmation by the United States Court as a plan of reorganization that satisfies the requirements of Chapter 11 in order for it to become effective. At this time, there can be no assurance that the Company will be able to restructure as a going concern or successfully implement a plan of reorganization.



Quarterly Report

Three and Nine Months ended September 30, 2009
(Unaudited)

Message to Shareholders

Mahalo Energy Ltd. ("Mahalo" or the "Company") announces its results for the three and nine months ended September 30, 2009.

SUMMARY OF RESULTS	Three Months Ended		Nine Months Ended	
	Sept 30 2009	Sept 30 2008	Sept 30 2009	Sept 30 2008
Financial (\$000's except per share) (1)				
Continuing operations:				
Petroleum and natural gas revenue	3,037	9,477	19,927	26,470
Operating netback	646	4,527	8,396	13,809
Loss from continuing operations	(5,859)	(2,501)	(12,662)	(3,779)
Per share - basic & diluted	(0.10)	(0.04)	(0.21)	(0.06)
Loss from discontinued operations	(304)	(15,802)	(2,680)	(46,522)
Per share - basic & diluted	(0.01)	(0.27)	(0.05)	(0.79)
Net loss	(6,163)	(18,303)	(15,342)	(50,301)
Per share - basic & diluted	(0.11)	(0.31)	(0.26)	(0.85)
Funds from (used in) continuing operations	1,796	2,539	3,961	8,453
Per share - basic	0.03	0.05	0.07	0.14
Funds from (used in) discontinued operations	(211)	881	(1,344)	6,707
Per share - basic	(0.00)	0.01	(0.02)	0.12
Funds from (used in) operations	1,585	3,420	2,617	15,160
Per share - basic	0.03	0.06	0.04	0.26
Operational (1)				
Average daily sales volumes (boe):				
Continuing operations	1,765	2,191	1,926	2,090
Discontinued operations	19	870	53	1,158
Continuing operations:				
Average selling price (\$/boe)	18.68	47.01	37.91	46.23
Operating netback (\$/boe)	3.99	22.46	15.98	24.12

(1) Refer to special advisories set forth in the Company's MD&A regarding use of Non-GAAP financial measures and barrel of oil ("boe") equivalent volumetric measures.

Financial

The Company is under creditor protection in Canada and the United States.

During third quarter 2009, the Company had petroleum and natural gas revenues from continuing operations of \$3.0 million, a net loss from continuing operations of \$5.9 million and funds from continuing operations of \$1.8 million. Lower operating netback, primarily due to lower realized natural gas prices, lower gains on derivative natural gas contracts and significantly higher interest and financing costs were contributing factors when comparing current quarter results from continuing operations with third quarter 2008.

Operational

In 2008, Mahalo committed to dispose of its Canadian resource assets; the process was effectively complete by mid-2009. The first nine months of 2009 saw virtually no activity on Mahalo's oil and gas properties. Expenditures were kept to an absolute minimum to conserve cash; such expenditures were further restricted by the Courts after the Company voluntarily placed itself under creditor protection in both Canada and the United States.

Sales of natural gas from Mahalo's US properties averaged 1,765 boe per day in third quarter 2009 compared with 2,191 boe per day in the same quarter of 2008. The Company has not drilled a well in the United States since

October 2008. The sales volume reduction is also attributed to suspension of certain routine maintenance procedures for a period of time post entry into creditor protection and to natural field decline. The Company was once again able to resume routine well maintenance procedures in August 2009.

Creditor Protection and Going Concern Issues

The Company has been exploring strategic alternatives since the fall of 2008 and during this period, had discussions with a number of interested parties. Unfortunately, no satisfactory offers or proposals were received; management concluded that no transaction was likely to take place in the immediate future. In March 2009, the Company breached certain conditions of its credit facility agreement when it failed to achieve certain restructuring and/or refinancing initiatives and was unable to pay amounts aggregating US \$15 million on March 31, 2009. As a result, the Company, with the unanimous authorization of its Board of Directors, determined that a business and financial restructuring could best be achieved within the framework of creditor protection.

On May 21, 2009, Mahalo Energy (USA) Inc. ("Mahalo USA") filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Related pleadings and court orders are available for review on the Company's website at www.mahaloenergy.com. The commencement of creditor protection proceedings constituted a further event of default under its credit facility agreement. Any action by the lender to enforce default-related rights was stayed as a result of the Chapter 11 filing. Mahalo USA has engaged Alvarez & Marsal North America, LLC, a United States firm, to act as advisors to assist with the business and financial restructuring.

On May 22, 2009, Mahalo Energy Ltd. obtained an order from the Court of Queen's Bench of Alberta for protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA"). The Initial Order granted a stay period of 30 days, which has subsequently been extended and currently expires on January 15, 2010. Alger & Associates Inc. (the "Monitor") was appointed by the Canadian Court to monitor Mahalo Energy Ltd's property and the conduct of its business. The Initial Order and related CCAA court filings are available for review on the Monitor's website at www.alger.ca.

The Court Orders providing creditor protection permit Mahalo Energy Ltd. and Mahalo Energy (USA) Inc. to remain in possession and control of their property, carry on their business, retain employees and other service providers and continue with the process of evaluating strategic alternatives including a corporate or asset sale.

On October 16, 2009, Mahalo USA proposed a *Debtor's Plan of Reorganization* (the "Plan") under Chapter 11 in the United States. The Plan must receive approval from affected creditors. It must also receive confirmation by the United States Court as a plan of reorganization that satisfies the requirements of Chapter 11 in order for it to become effective. The Plan is available for review at www.mahaloenergy.com.

Virtually all of the Company's assets and liabilities are held by Mahalo USA. Under the priority scheme established by Chapter 11 and CCAA, unless creditors agree otherwise, liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization. The Company expects that under the *Debtor's Plan of Reorganization* as proposed, Mahalo Energy Ltd. would receive no financial distribution in respect of its 100 percent ownership of Mahalo Energy (USA) Inc.; this, in turn, would likely result in holders of common shares of Mahalo Energy Ltd. receiving minimal or no value for their holdings.

The outcome of these matters is dependent on factors outside of the Company's control, cannot be predicted at this time and raise substantial doubt about the Company's ability to continue as a going concern.

Additional information is set forth in the Company's MD&A for the three and nine months ended September 30, 2009.

On behalf of the Board of Directors,
"Signed"

David Burton
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the results of operations and changes in financial condition of Mahalo Energy Ltd. ("Mahalo" or the "Company") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2009 (which were not reviewed by the Company's auditors) and the audited annual consolidated financial statements and accompanying notes and the MD&A for the year ended December 31, 2008. This MD&A has been prepared taking into consideration information available up to and including November 30, 2009.

READER GUIDANCE

The reader is advised that 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" concerning "Forward-looking statements", "Non-GAAP financial measures" and "Barrel of oil equivalent volumetric measures" at the end of this MD&A.

The financial data presented in this MD&A has been prepared in accordance with Canadian GAAP, unless otherwise indicated. Production, sales and reserves volumes referred to in this MD&A reflect the Company's working interest before deduction of royalties paid to others, unless otherwise noted. The reporting and measurement currency is the Canadian dollar, unless otherwise specified. References to "US\$" are to United States dollars. 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 is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

CREDITOR PROTECTION

The Company has been exploring strategic alternatives since the fall of 2008 and during this period, has had discussions with a number of interested parties. Unfortunately, no satisfactory offers or proposals were received; management concluded that no transaction was likely to take place in the immediate future. In March 2009, the Company breached certain conditions of its credit facility agreement when it failed to achieve certain restructuring and/or refinancing initiatives and was unable to pay amounts aggregating US \$15 million which were payable under the credit facility agreement on March 31, 2009. As a result, the Company, with the unanimous authorization of its Board of Directors, determined that a business and financial restructuring could best be achieved within the framework of creditor protection.

On May 21, 2009, Mahalo Energy (USA) Inc. ("Mahalo USA") filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Related pleadings and court orders are available for review on the Company's website, at www.mahaloenergy.com. Information contained on the Company's website does not constitute a part of this quarterly report.

Under Chapter 11, Mahalo USA may seek an adjustment of debts, either by reducing the debt or by extending the time for repayment, or may seek a more comprehensive reorganization. There is no guarantee that Mahalo USA will be able to obtain court orders or approvals with respect to motions which it may file from time to time with the United States Court. The creditor protection will end as a result of dismissal of the Chapter 11 Case, reflecting a successful restructuring, or alternatively, the conversion of the Chapter 11 Case into a Chapter 7 Case under the United States Bankruptcy Code. A Chapter 7 Case provides for liquidation of the debtor's assets and subsequent distribution of proceeds to creditors. Mahalo USA has engaged Alvarez & Marsal North America, LLC, a United States firm, to act as advisors to assist with the business and financial restructuring of its assets and operations.

On May 22, 2009, Mahalo Energy Ltd. obtained an order from the Court of Queen's Bench of Alberta for protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA"). The Initial Order granted a stay period of 30 days, which has subsequently been extended and currently expires on January 15, 2010. There is no guarantee that

Mahalo Energy Ltd. will be able to obtain court orders or approvals with respect to motions, including motions to further extend the stay period, which it may file from time to time with the Canadian Court.

Alger & Associates Inc. (“Monitor”) was appointed by the Canadian Court to monitor Mahalo Energy Ltd’s property and the conduct of its business. The Monitor has the prescribed rights and obligations as set out in the CCAA and is also empowered to, among other things, monitor receipts and disbursements, report to the Court with respect to matters relating to property and business activity and assist Mahalo Energy Ltd. in the development of any plan of compromise or arrangement with creditors. The Initial Order and related CCAA court filings are available for review on the Monitor’s website, at www.alger.ca . Information contained on the Monitor’s website does not constitute a part of this quarterly report.

The Court Orders providing creditor protection permit Mahalo Energy Ltd. and Mahalo USA to remain in possession and control of their property, carry on their business, retain employees and other service providers and continue with the process of evaluating strategic alternatives including a corporate or asset sale.

While the commencement of creditor protection proceedings constituted a further default under the bank credit agreement, any action by the lender, Ableco Finance, LLC, to enforce default related rights was stayed as a result of the Chapter 11 filing. Although Mahalo USA did enter into a commitment for approximately \$2 million of debtor in possession (“DIP”) financing with its lender, such financing was not approved by the US Court.

While under creditor protection, if Mahalo Energy Ltd. and Mahalo USA are not able to develop and present plans of compromise or arrangement with creditors, or if the plans are not accepted by affected creditors and confirmed by the Courts, then the respective companies would lose the protection of the stay of proceedings and substantially all of their debt obligations would be due and payable, which, in turn, would in all likelihood lead to the liquidation or forfeiture of their assets.

On October 16, 2009, Mahalo USA (the “Debtor”) proposed a *Debtor’s Plan of Reorganization* (the “Plan”) under Chapter 11 in the United States. The Plan is available for review on the Company’s website at www.mahaloenergy.com .

Virtually all of the Company’s assets and liabilities are held by Mahalo USA. Under the priority scheme established by Chapter 11 and CCAA, unless creditors agree otherwise, liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they will receive. A plan of reorganization could result in holders of Mahalo’s liabilities and/or common shares receiving no distribution on account of their interests and cancellation of their holdings. A plan of reorganization could also result in holders of Mahalo’s common shares being materially diluted. Because of such possibilities, the value of Mahalo’s liabilities and common shares is highly speculative. Appropriate caution should be exercised with respect to existing and future investments in any of Mahalo’s liabilities and common shares.

The Company expects that under the *Debtor’s Plan of Reorganization* as proposed, Mahalo Energy Ltd. would receive no financial distribution in respect of its 100 percent ownership of Mahalo (USA); this, in turn, would likely result in holders of common shares of Mahalo Energy Ltd. receiving minimal or no value for their holdings.

The Plan must receive approval from affected creditors. It must also receive confirmation by the United States Court as a plan of reorganization that satisfies the requirements of Chapter 11 in order for it to become effective. At this time, there can be no assurance that the Company will be able to restructure as a going concern or successfully implement a plan of reorganization.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION AND GOING CONCERN ISSUES

The unaudited interim consolidated financial statements have been prepared using the same Canadian generally accepted accounting principles (GAAP) as applied prior to filing for and being granted creditor protection under Chapter 11 and CCAA proceedings. The financial statements continue to be prepared using the going concern

concept that, in turn, assumes 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 for the foreseeable future.

The Chapter 11 and CCAA proceedings provide for a period of time for the Company to stabilize its operations and financial condition and develop a restructuring plan that is acceptable to the Courts and to creditors. The outcome of these proceedings, including realization of assets and successful discharge of liabilities, is impossible to predict. These conditions raise substantial doubt about the Company's ability to continue as a going concern. If the going concern basis of preparation is not appropriate, adjustments to the carrying amounts of the assets, liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

The unaudited interim consolidated financial statements do not purport to reflect or provide for the consequences of the Insolvency Proceedings. In particular, such financial statements do not purport to show: (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (c) as to shareholders accounts, the effect of any changes that may be made in the capitalization of the Company; or (d) as to operations, the effect of any changes that may be made in the business.

Claims allowed arising under the Insolvency Proceedings may be recorded as liabilities and presented separately on the consolidated balance sheets. If a restructuring occurs and there is substantial realignment of the equity and non-equity interests in the Company, the Company will be required under Canadian GAAP, to adopt "fresh start" reporting. Under fresh start reporting, the Company would undertake a comprehensive re-evaluation of its assets and liabilities based on the reorganization value as established and confirmed in the Plan. The unaudited interim consolidated financial statements do not present any adjustments that may be required during the period that the Company remains under creditor protection, or that may be required under fresh start reporting.

In accordance with Canadian GAAP appropriate for a going concern, property, plant and equipment is carried at cost less accumulated amortization, depletion, and any impairment losses and they are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The series of events that led the Company to the Insolvency Proceedings and the events since then triggered impairment tests for its property, plant and equipment. The Company made assumptions, such as growth, commodity prices, production volumes and achieving cost reductions, about the future cash flows expected from the use of its assets. There can be no assurance that expected future cash flows will be realized or will be sufficient to recover the carrying amount of property, plant and equipment.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Insolvency Proceedings materially affect the degree of uncertainty associated with the measurement of many amounts in the financial statements. More specifically, it could impact the recoverability tests and the fair value assumptions used in the impairment test of property, plant and equipment.

Due to the Chapter 11 and CCAA proceedings and the significant uncertainties associated therewith, the results for the interim period ended September 30, 2009 are not likely to be indicative of our future operating results and financial condition.

LISTING AND TRADING OF COMMON SHARES

Mahalo completed its initial public offering and was listed on the Toronto Stock Exchange ("TSX") on July 29, 2005. On May 1, 2009, the Company agreed to a voluntary delisting from the TSX as a result of its inability to meet continuing listing requirements. On August 19, 2009, the Company obtained a listing of its common shares on the NEX Board of the TSX Venture Exchange under the symbol CBM.H.

The Company is under creditor protection in Canada and the United States. Consequently, investment in our common shares is highly speculative. Our common shares may have little or no value and there can be no assurance that they will not be cancelled pursuant to a comprehensive restructuring plan.

PRIMARY BUSINESS

Mahalo Energy Ltd. ("Mahalo" or the "Company") was incorporated under the Business Corporations Act (Alberta) on April 21, 2004. Unless the context otherwise requires, references herein to "Mahalo" or the "Company" include Mahalo Energy Ltd. and its wholly-owned subsidiary, Mahalo Energy (USA) Inc. The Company is 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.

In 2008, Mahalo committed to dispose of its Canadian resource assets; the process was effectively complete by mid-year 2009. Since the Canadian resource assets encompassed the entire Canadian business segment or cost centre under full cost accounting, the Company began to account for these assets as "discontinued operations" effective third quarter 2008. Results for prior periods were "restated"; any reference within this MD&A to amounts being "restated" refers to "discontinued operations" accounting in respect of the Canadian resource assets.

SUMMARY OF RESULTS

	Three Months Ended			Nine Months Ended	
	Sept 30 2009	Jun 30 2009	Sept 30 2008	Sept 30 2009	Sept 30 2008
Financial (\$000's except per share) (1)					
Net loss from continuing operations	(5,859)	(6,689)	(2,501)	(12,662)	(3,779)
Per share - basic & diluted	(0.10)	(0.11)	(0.04)	(0.21)	(0.06)
Net loss from discontinued operations	(304)	(1,514)	(15,802)	(2,680)	(46,522)
Per share - basic & diluted	(0.01)	(0.03)	(0.27)	(0.05)	(0.79)
Net loss	(6,163)	(8,203)	(18,303)	(15,342)	(50,301)
Per share - basic & diluted	(0.11)	(0.14)	(0.31)	(0.26)	(0.85)
Funds from (used in) continuing operations	1,796	(236)	2,539	3,961	8,453
Per share - basic	0.03	0.00	0.05	0.07	0.14
Funds from (used in) discontinued operations	(211)	(316)	881	(1,344)	6,707
Per share - basic	(0.00)	(0.01)	0.01	(0.02)	0.11
Funds from (used in) operations	1,585	(552)	3,420	2,617	15,160
Per share - basic	0.03	(0.01)	0.06	0.04	0.26

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

Petroleum and natural gas revenue

The following table provides financial and operational information contributing to the Company's petroleum and natural gas revenue during the periods under comparison.

	Three Months Ended			Nine Months Ended	
	Sept 30 2009	Jun 30 2009	Sept 30 2008	Sept 30 2009	Sept 30 2008
Average daily sales volumes (boe)					
Continuing operations	1,765	1,802	2,191	1,926	2,090
Discontinued operations	19	64	870	53	1,158
	1,784	1,866	3,061	1,979	3,248
Continuing operations:					
Petroleum and natural gas revenue (\$000s)	3,037	7,276	9,477	19,927	26,470
Average realized selling price (\$/Mcf)	3.11	7.40	7.83	6.32	7.70
Average realized selling price (\$/boe)	18.70	44.37	47.01	37.91	46.23

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

The Company's petroleum and natural gas sales volumes and revenues from continuing operations consist solely of natural gas produced and sold from properties in Oklahoma; the gas is delivered for sale into the Oklahoma Gas Transmission and Centre Point East pipeline system.

Sales of natural gas from Mahalo's US properties averaged 1,765 boe per day in third quarter 2009 compared with 2,191 boe per day in the same quarter of 2008. The Company has not drilled a well in the United States since October 2008. The sales volume reduction is also attributed to suspension of certain routine maintenance procedures for a period of time post entry into creditor protection proceedings and to natural field decline. The Company was once again able to resume routine well maintenance procedures in August 2009.

Natural gas prices have continued to remain depressed, 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 financial derivative natural gas contracts when considered prudent.

In compliance with its credit facility and prior to the start of creditor protection proceedings, Mahalo did sell a substantial portion of its natural gas under fixed price physical forward contracts; this helped to reduce the impact of market volatility. A number of these sales contracts were at prices substantially above that ultimately offered by reference to the Henry Hub spot price; the higher priced contracts, however, expired on June 30, 2009. The Company has not entered into any fixed price forward sales contracts while under creditor protection.

The Company's average realized sales price during third quarter 2009 was \$3.11 per Mcf compared with \$7.40 per Mcf in second quarter 2009. The average Henry Hub spot price in the third and second quarters of 2009 was \$3.39 per Mcf and \$4.20 per Mcf (Canadian funds), respectively.

Although the Company also utilizes financial derivative natural gas contracts to protect its cash flow, related gains or losses do not impact the reported average realized sales price; gains and losses from such derivative instruments are reflected separately on the consolidated statement of operations. The Company has not purchased any financial derivative natural gas contracts while under creditor protection.

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 2009	Jun 30 2009	Sept 30 2008	Sept 30 2009	Sept 30 2008
Continuing operations:					
Royalty expense (\$000s)	659	1,965	2,327	5,046	6,660
Royalty expense (\$/boe)	4.05	11.98	11.54	9.60	11.63
Royalty expense (% of revenue)	22%	27%	25%	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 2009	Jun 30 2009	Sept 30 2008	Sept 30 2009	Sept 30 2008
Continuing operations:					
Operating expense (\$000s)	1,231	1,420	1,982	4,559	4,378
Operating expense (\$/boe)	7.60	8.66	9.83	8.67	7.65

Operating netback for the nine months ended September 30, 2009 declined by \$5.4 million or \$8.14 per boe, principally due to the reduction in the average realized selling price of natural gas, a majority of which occurred in third quarter 2009 as previously explained.

Although the Company also utilizes financial derivative instruments from time to time to protect its cash flow, related gains or losses do not impact the reported average sales price; gains and losses from financial instruments are reflected separately on the consolidated statement of operations.

Gain (loss) on derivative natural gas contracts

In 2008, Mahalo entered into a participating natural gas swap contract covering the period July 1, 2009 to May 31, 2010. Under this swap arrangement, the Company receives a floor price of US \$10 per MMBtu for 5,000 MMBtu of natural gas per day and 31 per cent of the price in excess of US \$10 per MMBtu. The mark-to-market value of this arrangement at September 30, 2009 was an asset of \$5.9 million compared an asset of \$6.8 million at December 31, 2008.

During the nine months ended September 30, 2009, the Company recorded a gain on derivative natural gas contracts of \$5.9 million. The gain reflects a combination of \$8.6 million of cash realized on settlement of derivative natural gas contracts and a \$2.7 million reduction in the mark-to-market value of derivative natural gas contracts since January 1, 2009. The Company has not purchased any financial derivative instruments since entering creditor protection proceedings in May 2009.

General and administrative expense

General and administrative expense from continuing operations amounted to \$1.3 million in third quarter 2009, \$1.8 million in second quarter 2009, and \$1.4 million in third quarter 2008. Costs in the 2009 quarterly periods include legal and other professional costs associated with creditor protection proceedings. General and administrative expense in the current quarter benefitted from reductions in staff and rent expense.

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. Such expense in the current quarter included a recapture of expense previously booked in 2009; a significant number of unvested options were cancelled as a result of staff reductions in third quarter 2009.

Foreign exchange gains and losses

On December 1, 2008 the Company evaluated its changed economic circumstances, in particular the disposal of substantially all of its Canadian assets and operations and its use of exclusively US dollar debt financing. The Company concluded that the US dollar is the most appropriate functional currency for all of its operations. Prior to December 1, 2008, the Company's functional currency was the Canadian dollar. The Company has retained the Canadian dollar as its reporting currency.

At December 1, 2008, the Company's non-monetary assets and liabilities were re-measured at the spot US dollar to Canadian dollar exchange rate. The change in functional currency resulted in comprehensive income of \$12.4 million; the amount was one-time in nature and resulted mainly from translation of property and equipment balances at December 1, 2008.

Interest and financing expense

Interest and financing expense related to continuing operations amounted to \$5.9 million in third quarter 2009, \$7.4 million in second quarter 2009 and \$1.0 million in third quarter 2008, respectively. Such expense included

amortization of deferred financing fees of \$3.5 million, \$3.7 million and \$0.2 million during the three respective quarters.

Under the terms of a renegotiated credit facility agreement dated November 28, 2008 and as a result of the Company's failure to achieve certain specific restructuring and/or refinancing initiatives by March 1, 2009, a loan facility fee of US \$10 million was levied by the Lender. The loan fee liability was included in accounts payable and accrued liabilities at December 31, 2008 and subsequently reclassified as bank debt effective April 1, 2009.

Costs associated with loan fees are recorded as deferred financing costs on the balance sheet and amortized to expense over the remaining term of the credit facility. The Company has elected to more rapidly amortize such costs in light of reclassifying its bank debt as a current liability effective December 31, 2008. At September 30, 2009, deferred loan fees remaining to be amortized amounted to \$3.3 million.

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	Jun 30	Sept 30	Sept 30	Sept 30
	2009	2009	2008	2009	2008
<i>(\$000's, except per boe)</i>					
Continuing operations:					
Depletion and depreciation expense	1,703	3,043	3,197	8,119	8,273
Accretion expense	17	29	22	75	60
Depletion, depreciation and accretion expense	1,720	3,072	3,219	8,194	8,333
Depletion and depreciation <i>(\$/boe)</i>	10.48	18.56	15.86	15.44	14.45

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 related to continuing operations amounted to \$1.3 million and \$1.4 million at September 30, 2009 and December 31, 2008, respectively.

Future income taxes

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 2009, the Company incurred a pre-tax loss of \$8.3 million from continuing operations. Although the amount of the loss could have resulted in a larger future income tax expense recovery for accounting purposes, the Company only recorded \$2.5 million, thereby reducing the related United States future income tax liability to nil on its balance sheet. The income tax asset which would have resulted from recognition of the entire loss would, in turn, have been offset by a valuation allowance because of the uncertainty of realizing same. In Canada, the Company also had an income tax asset at September 30, 2009; it was also fully offset by a valuation allowance for the same reason.

LIQUIDITY AND CAPITAL RESOURCES

The Company is currently under creditor protection through Chapter 11 proceedings in the United States and CCAA proceedings in Canada. The Company is also in breach of certain covenants under its bank credit agreement, including non-payment of amounts that became due and payable on March 31, 2009. The commencement of creditor protection proceedings constituted a further event of default under the bank credit agreement. Any action to enforce default-related rights under the credit agreement was stayed as a result of the Chapter 11 filing. Because of this, management considers the credit facility to have the same characteristics as a demand loan; therefore, amounts outstanding thereunder have been classified as a current liability.

The Chapter 11 and CCAA proceedings have had a significantly restrictive impact on the Company's ability to manage its financial affairs. The Company's only sources of liquidity have been cash on hand and cash provided by operations. All other previous external sources of liquidity are no longer available. During these proceedings, the Company is also required to obtain cash collateral orders passed by the US courts prior to utilizing its cash resources. The short-term objective and focus during these proceedings is to maintain a level of liquidity necessary to fund the ongoing business cycle and to ultimately attain a successful business and financial restructuring of the Company.

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 2009	Jun 30 2009	Sept 30 2008	Sept 30 2009	Sept 30 2008
<i>(\$000s) (1)</i>					
Net loss from continuing operations	(5,859)	(6,689)	(2,501)	(12,662)	(3,779)
Net loss from discontinued operations	(304)	(1,514)	(15,802)	(2,680)	(46,522)
Net loss	(6,163)	(8,203)	(18,303)	(15,342)	(50,301)
Non-cash items	7,748	7,651	21,723	17,959	65,461
Funds from (used in) operations	1,585	(552)	3,420	2,617	15,160
Change in non-cash working capital related to operating activities	499	(14,133)	(550)	(13,656)	(3,333)
Cash provided by (used in) operating activities	2,084	(14,685)	2,870	(11,039)	11,827
Cash provided by (used in) financing activities	1,512	16,251	(3,433)	17,781	6,614
Cash provided by (used in) investing activities	1,114	787	372	(464)	(22,656)
Increase (decrease) in cash	4,710	2,353	(191)	6,278	(4,215)

(1) Referto specialadvisories regarding use of non-GAAP financialmeasures.

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.

Operating activities

The major factors that accounted for the change in funds from continuing operations during third quarter 2009, when compared with the immediately preceding quarter, were as follows:

(\$000s) (1)

Funds from (used in) continuing operations in second quarter 2009		(236)
Increase (decrease) as a result of:		
Lower operating netback		
Lower sales volumes	(31)	
Lower realized sales prices	(4,177)	
Lower per unit royalties expense	1,299	
Lower per unit operating and transportation expense	272	(2,637)
Higher realized gain on derivative natural gas contracts		3,091
Lower general and administrative expense		476
Lower cash interest and financing costs		1,272
Other		(170)
Funds from (used in) continuing operations in third quarter 2009		1,796

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

Financing activities

The Company has a bank credit facility with Ableco Finance LLC (the “Lender”). All borrowings are denominated in US dollars. As at September 30, 2009, US \$75.5 million; equivalent of Cdn \$80.9 million (December 31, 2008 – US \$62.7 million; equivalent of Cdn \$75.1 million) was outstanding under the facility. Increases in bank debt since the commencement of creditor protection proceedings in May 2009 resulted solely from the addition of interest on amounts outstanding.

At September 30, 2009 and as at the date of this MD&A, the Company had 59,298,035 common shares and 1,440,000 warrants to purchase common shares issued and outstanding. Contributed surplus at September 30, 2009 amounted to \$10.3 million, reflective of aggregate stock-based compensation costs incurred since inception of the Company in 2004.

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.

Investing activities

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 2009	Jun 30 2009	Sept 30 2008	Sept 30 2009	Sept 30 2008
Discontinued operations	-	(448)	(16,882)	(455)	(10,506)
Land and seismic	-	-	3,079	-	6,366
Drilling and completions	124	691	13,850	1,042	25,299
Facilities and equipment	-	-	1,810	-	2,841
Divestures	-	-	-	(2,293)	-
Continuing operations	124	691	18,739	(1,251)	34,506
Cash expenditures, net	124	243	1,857	(1,706)	24,000

The first nine months of 2009 saw virtually no capital spending by Mahalo. During first quarter 2009, a salt water disposal facility was sold in the United States for net proceeds of \$2.3 million. As discussed earlier herein, the Company is in default under its bank credit facility and is under creditor protection in both Canada and the United States.

Contractual obligations

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

Year ended December 31,	2009	2010	2011	2012	2013	Total
<i>(\$000s)</i>						
Office lease	23	95	98	100	42	358
Equipment usage	76	2,376	-	-	-	2,452
	99	2,471	98	100	42	2,810

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 (or 750 days in total), with the contract taking effect upon release of the rig 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 attempts to minimize the impact of natural gas price volatility by entering into fixed price physical sales contracts and derivative financial instruments. Although the Company's credit facility agreement requires for at least 80 per cent of expected daily sales volume to be hedged in some manner, the Company has not undertaken any hedging activity while under creditor protection.

The following is a summary of the commodity physical fixed price sale commitments outstanding at September 30, 2009.

Transaction	Daily Volume	Contract Price	Contract Term
	<i>(MMBtu)</i>		
Physical sales contract	5,000	Pan Index + US \$0.05/MMbtu	July 2009 - May 2010
Physical sales contract	3,000	Pan Index + US \$0.01/MMbtu	January 2009 - December 2009
Physical sales contract	2,000	Pan Index Flat	July 2009 - December 2009

The physical fixed price sales contracts had an estimated fair value of \$0.1 million at September 30, 2009. The fair value for these contracts was provided by the financial intermediary with whom the transactions were completed; they were tested by the Company for reasonableness based on comparing current market price and the fixed price of the contracts. Because of the nature of the sales contracts, the related fair value is not reflected in the accounts of the Company at September 30, 2009 in accordance with GAAP.

Taking into account the physical fixed forward sales contracts in 2009, the impact of a Cdn \$1 change per MMBtu on remaining volumes results in an estimated \$0.8 million impact on pre-tax income for the nine months ended September 30, 2009.

The Company had the following derivative natural gas contracts outstanding at September 30, 2009.

Transaction	Daily Volume <i>(MMBtu)</i>	Contract Price	Contract Term	Mark to Market <i>(\$000's)</i>
NYMEX Financial Fixed	5,000	US \$7.44/MMBtu	January 2009 - December 2009	1,332
NYMEX Financial Fixed	2,500	US \$8.10/MMBtu	January 2010 - December 2010	1,858
Financial Panhandle Basis	5,000	HH minus US \$1.12/MMBtu	July 2009 - May 2010	(581)
Financial Panhandle Basis	5,000	HH minus US \$1.27/MMBtu	January 2009 - December 2009	(505)
Financial Panhandle Basis	2,500	HH minus US \$0.98/MMBtu	January 2010 - December 2010	(478)
Financial Panhandle Basis	2,500	HH minus US \$1.00/MMBtu	January 2010 - December 2010	(600)

In addition to the contracts reflected above, the Company has entered into a participating natural gas derivative natural gas swap contract whereby the Company receives a floor price of US \$10 per MMBtu for 5,000 MMBtu per day and will participate for 31 per cent of the price in excess of US \$10 per MMBtu. The term is July 2009 to May 2010. The September 30, 2009 mark-to-market of this derivative was \$5.9 million.

The aggregate mark-to-market of all derivative natural gas contracts was an asset of \$6.9 million at September 30, 2009. The fair value for these contracts was provided by the financial intermediary with whom the transactions were completed; they were tested by the Company for reasonableness based on comparing current market price and the fixed price of the contracts.

Taking into account the derivative natural gas contracts listed above, the impact of a Cdn \$1 change per MMBtu results in an estimated \$0.1 million impact on pre-tax income for the nine months ended September 30, 2009.

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 creditor protection proceedings have had a significantly restrictive impact on the Company's ability to manage its financial affairs as previously explained. The following table illustrates the Company's working capital deficiency, net debt and shareholders' equity balances as at September 30, 2009 and December 31, 2008.

As at	Sept 30 2009	Dec 31 2008
<i>(\$ 000s)</i>		
Current assets	25,013	21,309
Accounts payable and accrued liabilities	(19,676)	(38,118)
Bank debt	(80,930)	(75,097)
Working capital (deficiency)	(75,593)	(91,906)
Adjust for unrealized financial derivative (gains) losses included above	(6,723)	(6,593)
Net debt	(82,316)	(98,499)
Shareholders' equity	40,149	61,394

Although the Company did enter into a commitment for approximately \$2 million of debtor in possession ("DIP") financing with its lender, Ableco Finance, LLC, such financing was not approved by the US Court and therefore was not realized. Increases in bank debt since the commencement of creditor protection proceedings relate solely to the incurrence of interest on amounts outstanding.

At the date of this MD&A, the Company had approximately US \$10.6 million of mechanics liens filed against several of its properties.

Mahalo's ability to continue as a going concern is dependent upon its ability to successfully emerge from creditor protection proceedings with an adequately restructured business and financial position, achieve profitable operations, obtain waivers or amendments relative to defaults under its credit facility, obtain the necessary financing to meet its obligations, repay its liabilities arising from normal business operations when they become due, successfully raise capital and receive the continued financial support from its Lenders.

COMPARATIVE AMOUNTS

In 2008, Mahalo committed to dispose of its Canadian resource assets; the process was effectively complete by mid-year 2009. Since the Canadian resource assets encompassed the entire Canadian business segment or cost centre under full cost accounting, the Company began to account for these assets as "discontinued operations" effective third quarter 2008. Results for prior periods were "restated"; any reference within this MD&A to amounts being "restated" refers to "discontinued operations" accounting in respect of the Canadian resource assets.

Certain other prior period amounts have been reclassified to conform to the presentation adopted in the current period.

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 did not have any material transactions with related parties during the nine months ended September 30, 2009.

FINANCIAL INSTRUMENT RISK

Information regarding risks associated with financial instruments is set forth in Note 11 to the Company's Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2009.

CRITICAL ACCOUNTING ESTIMATES

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, 2008.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The current Insolvency Proceedings materially affect the degree of uncertainty associated with the measurement of many amounts in the financial statements. More specifically, it could impact the recoverability tests and the fair value assumptions used in the impairment test of property, plant and equipment.

CHANGES IN ACCOUNTING POLICIES AND CANADIAN ACCOUNTING PRONOUNCEMENTS

Information regarding changes in accounting policies and Canadian accounting pronouncements is set forth in Note 3 to the Company's Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2009.

SUMMARY OF QUARTERLY FINANCIAL RESULTS (unaudited)

The following table presents a summary of consolidated quarterly operating results for the quarters ended December 31, 2007 through September 30, 2009.

Selected quarterly information	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2009	2009	2009	2008	2008	2008	2008	2007
						(1)	(1)	(1)
Financial (\$000s, except per share)								
Continuing operations:								
Petroleum and natural gas revenue	3,037	7,276	9,614	11,081	9,477	9,213	7,780	6,689
Operating netback	646	3,282	4,468	5,590	4,527	4,836	4,445	3,343
Gain (loss) on derivative contracts	(200)	(1,045)	7,126	7,913	2,943	-	-	-
General and administrative	1,283	1,759	1,732	1,771	1,390	1,242	791	1,031
Stock-based compensation	(166)	270	270	73	445	510	468	577
Foreign exchange loss (gain)	-	-	-	13,172	3,284	319	169	(612)
Interest and financing expense	5,909	7,421	6,433	2,491	1,011	697	543	677
Depletion, depreciation, accretion	1,720	3,072	3,402	3,892	3,219	2,661	2,453	2,476
Future income taxes (recovery)	(2,460)	(3,617)	329	1,922	617	290	408	(1,293)
Net income (loss):								
Continuing operations	(5,859)	(6,689)	(114)	(9,671)	(2,501)	(887)	(392)	485
Per share: basic and diluted	(0.10)	(0.11)	0.00	(0.16)	(0.04)	(0.01)	(0.01)	0.01
Discontinued operations	(304)	(1,514)	(862)	(7,390)	(15,802)	(30,616)	(102)	(1,182)
Per share: basic and diluted	(0.01)	(0.03)	(0.02)	(0.13)	(0.27)	(0.52)	0.00	(0.02)
Net income (loss)	(6,163)	(8,203)	(976)	(17,061)	(18,303)	(31,503)	(494)	(697)
Per share: basic and diluted	(0.11)	(0.14)	(0.02)	(0.29)	(0.31)	(0.53)	(0.01)	(0.01)
Funds from (used in) continuing operations	1,796	(236)	2,401	2,644	2,539	2,798	3,115	1,850
Per share: basic	0.03	0.00	0.04	0.04	0.04	0.05	0.05	0.03
Funds from (used in) discontinued operations	(211)	(316)	(817)	(1,262)	881	3,570	2,256	1,316
Per share: basic	(0.00)	(0.01)	(0.01)	(0.02)	0.01	0.06	0.04	0.02
Funds from (used in) operations	1,585	(552)	1,584	1,382	3,420	6,368	5,371	3,166
Per share: basic	0.03	(0.01)	0.03	0.02	0.06	0.11	0.09	0.05
Reconciliation:								
Funds from operations	1,585	(552)	1,584	1,382	3,420	6,368	5,371	3,166
Changes in non-cash working capital related to operating activities	499	(14,133)	(22)	6,881	(550)	50	(2,833)	3,923
Cash provided by (used in) operating activities	2,084	(14,685)	1,562	8,263	2,870	6,418	2,538	7,089
Operational								
Average daily sales volume (boe/day)								
Continuing operations	1,765	1,802	2,214	2,320	2,191	2,029	2,048	2,152
Discontinued operations	19	64	76	200	870	1,254	1,354	1,390
	1,784	1,866	2,290	2,520	3,061	3,283	3,402	3,542
Continuing operations:								
Average realized selling prices								
Natural gas (\$/Mcf)	3.11	7.40	8.04	8.65	7.83	8.32	6.96	5.63
Barrel of oil equivalent (\$/boe)	18.68	44.37	48.26	51.92	47.01	49.90	41.74	33.78
Average operating netback (\$/boe)	3.99	20.02	22.42	26.20	22.46	26.19	23.85	16.89
Cdn\$/US\$ exchange rate								
Average for period	0.911	0.859	0.803	0.820	0.960	0.990	0.998	1.019
End of period	0.934	0.860	0.794	0.817	0.944	0.981	0.974	1.009

(1) 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.

OUTLOOK

The first nine months of 2009 saw virtual no activity on Mahalo's oil and gas properties. Expenditures were kept to an absolute minimum to conserve cash, and subsequent to May 21 and 22, 2009, were further restricted by the Courts after the Company voluntarily placed itself under creditor protection in both the United States and Canada. The Company has not drilled a well since October 2008.

On October 16, 2009, Mahalo (USA) proposed a *Debtor's Plan of Reorganization* (the "Plan") under Chapter 11 in the United States. The Plan must receive approval from affected creditors. It must also receive confirmation by the United States Court as a plan of reorganization that satisfies the requirements of Chapter 11 in order for it to become effective. The Plan is available for review at www.mahaloenergy.com.

Virtually all of the Company's assets and liabilities are held by Mahalo USA. Under the priority scheme established by Chapter 11 and CCAA, unless creditors agree otherwise, liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they will receive.

The Company expects that under the *Debtor's Plan of Reorganization* as proposed, Mahalo Energy Ltd. would receive no financial distribution in respect of its 100 per cent ownership of Mahalo (USA); this, in turn, would likely result in holders of common shares of Mahalo Energy Ltd. receiving minimal or no value for their holdings.

At this time, there can be no assurance that the Company will be able to restructure, successfully implement a plan of reorganization or continue as a going concern.

BUSINESS RISKS AND UNCERTAINTIES

The reader is referred to information regarding business risks and uncertainties under the heading "Risk Factors" in the Company's Annual Information Form dated March 31, 2009, which can be found at www.sedar.com. Since that filing, the Company has,

- Obtained creditor protection through Chapter 11 proceedings in the United States and CCAA proceedings in Canada.
- Agreed to a voluntary delisting of its common shares from the TSX as a result of its inability to meet continuing listing requirements. (The common shares were subsequently listed on the NEX Board of the TSX Venture Exchange under the symbol CBM.H.)
- Proposed a *Debtor's Plan of Reorganization* (the "Plan") under Chapter 11 in the United States. Under the priority scheme established by Chapter 11 and CCAA, unless creditors agree otherwise, liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization. Virtually all of the Company's assets and liabilities are held by Mahalo Energy (USA) Inc. ("Mahalo USA"). The Company expects that under the *Debtor's Plan of Reorganization* as proposed, Mahalo Energy Ltd. would receive no financial distribution in respect of its 100 percent ownership of Mahalo (USA); this, in turn, would likely result in holders of common shares of Mahalo Energy Ltd. receiving minimal or no value for their holdings.

Management believes that these events result in increased risk and uncertainty and should be considered as additional "Risk Factors" in an assessment of the Company.

DISCLOSURE AND INTERNAL CONTROLS

There have been no changes in disclosure controls and procedures and internal control over financial reporting during the nine months ended September 30, 2009 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

CORPORATE GOVERNANCE

This MD&A has been prepared by the management of Mahalo Energy Ltd. It has been reviewed and approved by the Audit Committee and the Board of Directors of the Company. Additional information related to the Company's Corporate Governance can be found in the Company's Annual Information Form ("AIF") and Information Circular, both of which are filed on SEDAR at www.sedar.com.

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 inability to meet minimum listing requirements on an alternate exchange, (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, (xiii) fluctuations in currency exchange rates and interest rates, (xiv) the possible unavailability of financing, and (xv) the outcome of proceedings under the Chapter 11 filing and the Companies' Creditors Arrangement Act (Canada) filing.

The forward-looking statements contained in this document are made as of the date hereof and 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 certain performance measures throughout this MD&A that do not have any standardized meaning and are not defined under Canadian Generally Accepted Accounting Principles ("GAAP"); they are therefore referred to as non-GAAP financial measures. These performance measures include "funds from operations", "funds from operations per share", "operating netback" and "net debt". The non-GAAP financial measures, as calculated and used by the Company, may not be comparable to similarly titled measures reported by other companies.

Management considers these non-GAAP 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 research analysts to value and compare oil and gas exploration and production companies, and are frequently included in published research when providing investment recommendations.

Funds from operations and funds from operations per share 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. 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 to service debt.

Operating netback should not be considered an alternative to, or more meaningful than, net earnings or other measures of performance or liquidity calculated in accordance with Canadian GAAP. 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.

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.

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 .