



(TSX: CBM)

PRESS RELEASE

## **Mahalo Announces Amendment to Credit Facility and Receipt of Waiver, Engages Financial Advisor to Seek Strategic Alternatives**

**CALGARY, ALBERTA – December 1, 2008** - Mahalo Energy Ltd. ("Mahalo" or the "Company") announced that it has reached an agreement with Abelco Finance LLC ("Ableco") to amend its existing credit facility (the "Amendment"). As reported in its November 14, 2008 press release, as at September 30, 2008, the Company was in breach of certain covenants under its bank credit agreement ("Credit Agreement"). The covenant breaches as at September 30, 2008 constituted "Events of Default" under the terms of the credit facility. The Amendment provides a waiver of these covenant breaches and "Events of Default".

The Company has engaged GMP Securities L.P. to assist in seeking a sale of the assets of the Company, a sale or merger of the Company or a financial restructuring of the Company including raising new equity. No decision on any particular alternative has been reached at this time and there can be no assurance that the process will result in any change in the Company's current operations, that the Company will pursue any particular transaction or that any transaction will be concluded. The Company does not intend to make any further announcement regarding the process unless and until its board of directors has approved a specific transaction or other course of action or otherwise deems disclosure of developments is appropriate.

The Amendment provides for an additional \$5 million revolving loan advance to the Company to meet ongoing cash requirements, which funds have been advanced to the Company. Under the terms of the Amendment, Mahalo has agreed to pay Abelco a loan fee (the "Loan Fee") of \$10 million on March 31, 2009, subject to reduction in certain events. If, on or before March 31, 2009, the Company: (i) is able to sell its US assets, the Loan Fee will be reduced to \$5 million; (ii) is able to raise a minimum of \$11 million through an equity or subordinated debt offering, the Loan Fee will be reduced to \$6 million; or (iii) is able to raise a minimum of \$15 million, through an equity or subordinated debt offering, the Loan Fee will be reduced to \$5 million. In addition the Company must dispose of its remaining Canadian assets on or before March 31, 2009, otherwise the amounts required to be raised in the financings referred to in (ii) and (iii) above increase to \$14.2 million and \$18.2 million, respectively. (All amounts US Dollars).

The Amendment provides for specific new production, hedging and current ratio covenants for the periods of October 31, 2008 through to December 31, 2009. The Amendment also requires the Company to engage an advisor to assist with other financial and accounting matters. Current production of approximately 2,500 boepd (post the recent sale of the Company's Corbett Creek properties) is well within the requirements of the production covenants contained in the Amendment.

The text of the Amendment will be filed on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

Mahalo is a junior, unconventional natural gas producer, focusing on the development and production of coal bed methane and shale gas prospects in the United States and coal bed methane in Canada. For additional information on the Company, please go to the Company's profile on SEDAR or the Company's website at [www.mahaloenergy.com](http://www.mahaloenergy.com).

## **ADVISORIES**

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

*Except for historical financial information contained herein, the matters discussed in this document may be considered forward-looking statements. Such statements include declarations regarding management's intent, belief or current expectations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties; actual results could differ materially from those indicated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is of a preliminary nature and may be subject to further adjustment, (ii) the possible unavailability of financing, (iii) risks related to the exploration and development of oil and gas properties, (iv) the impact of price fluctuations and the demand and pricing for oil and natural gas, (v) the seasonal nature of the business, (vi) start-up risks, (vii) general operating risks, (viii) dependence on third parties, (ix) changes in government regulation, (x) the effects of competition, (xi) dependence on senior management, (xii) impact of economic conditions, and (xiii) fluctuations in currency exchange rates and interest rates. The forward-looking statements contained in this document are made as of the date hereof and are expressly qualified by this cautionary statement. Mahalo undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by law.*

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