



(TSX: CBM)

PRESS RELEASE

Mahalo USA Files for Chapter 11 Bankruptcy Protection

CALGARY, ALBERTA – May 21, 2009 - Mahalo Energy Ltd. ("Mahalo" or the "Company") announced that its wholly owned subsidiary Mahalo Energy (USA) Inc., a corporation organized under the laws of the State of Delaware ("Mahalo USA") is filing for Chapter 11 bankruptcy protection under the United States Bankruptcy Code.

As previously announced, management of the Company has been exploring strategic alternatives since the fall of 2008 and has had discussions with a number of interested parties. To date, no satisfactory offers or proposals have been made and management has concluded that no transaction is likely to take place in the immediate future.

The order permits Mahalo to remain in possession and control of its property, carry on its business, retain employees and other service providers and continue with its previously announced process to evaluate strategic alternatives available to the Company, including a sale of Mahalo or its assets.

The Company also announces that it has entered into a financing commitment with Ableco Finance, LLC for debtor-in-possession ("DIP") financing totaling approximately \$2 million for its U.S. subsidiary. These arrangements are subject to customary approval of the Courts in the United States and will allow the Company to meet current operating needs, including wages, benefits and other operating expenses.

Mahalo is a junior, unconventional natural gas company, focusing on the development and production of coal bed methane and shale gas prospects in the United States.

ADVISORY

This news release contains forward-looking information, including estimates, projections, interpretations, prognoses and other information that may relate to future production, resource potential and/or reserves, project start-ups and future capital spending, as well as the outcome of proceedings under the Chapter 11 filing. Forward-looking information contained in this news release is as of the date of this news release. The Company assumes no obligation to update and/or revise this forward-looking information "except as required by law". Actual results, estimates, projections, resource potential and/or reserves, interpretations, prognoses and/or estimated results could differ materially due to changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors or revisions.

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