



(TSX: CBM)

PRESS RELEASE

## Mahalo Announces First Quarter 2009 Results

CALGARY, ALBERTA – May 14, 2009 - Mahalo Energy Ltd. (“Mahalo” or the “Company”) announces its results for the three months ended March 31, 2009.

Three months ended	Mar 31 2009	Mar 31 2008
		<i>(Restated)</i>
<b>Financial</b> (\$000's except per share)		
Continuing operations:		
Petroleum and natural gas revenue	9,614	7,780
Operating netback	4,468	4,445
Loss from continuing operations	(114)	(392)
Per share - basic & diluted	0.00	(0.01)
Loss from discontinued operations	(862)	(102)
Per share - basic & diluted	(0.02)	0.00
Net loss	(976)	(494)
Per share - basic & diluted	(0.02)	(0.01)
Funds from continuing operations	2,401	3,115
Per share - basic	0.04	0.05
Funds from discontinued operations	(817)	2,256
Per share - basic	(0.01)	0.04
Funds from operations	1,584	5,371
Per share - basic	0.03	0.09
<b>Operational</b>		
Average daily sales volumes (boe):		
Continuing operations	2,214	2,048
Discontinued operations	76	1,355
Continuing operations:		
Average selling price (\$/boe)	48.26	41.74
Operating netback (\$/boe)	22.42	23.85

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

(2) Restated to reflect "discontinued operations" accounting.

### Financial

In 2008, Mahalo committed to dispose of its Canadian resource assets; only a small number of minor properties remain to be disposed of. Since the assets encompassed Mahalo's entire Canadian business segment or cost centre under full cost accounting, the Company has accounted for these assets as "discontinued operations". Comparative information has been restated to reflect this change.

Mahalo generated funds from continuing operations of \$2.4 million on related sales of \$9.6 million and recorded a net loss from continuing operations of \$0.1 million during the three months ended March 31, 2009. This compares with funds from continuing operations of \$3.1 million, related sales of \$7.8 million and a net loss from continuing operations of \$0.4 million in first quarter 2008.

## **Operational**

The first quarter of 2009 saw no activity on Mahalo's oil and gas properties. Expenditures were kept to an absolute minimum to conserve cash. Production from Mahalo's US operations averaged 2,214 boe per day representing a decrease of about 106 boe per day from fourth quarter 2008 due to a combination of natural decline and suspension of certain routine maintenance procedures. The Company has not drilled a well since October 2008 and production is now stabilizing after relatively higher initial declines in the period following first production. The Company's Canadian production is lower than the prior quarter due to a combination of property sales in fourth quarter 2008 and natural declines.

## **Default status with lenders, strategic alternatives process and going concern issues**

The Company continues to be in breach of certain covenants under its bank credit facility, including failure to pay certain amounts when due. The Lenders have advised Mahalo that until resolved, future loans would be made in the sole discretion of the Lenders. To date, the Lenders have not exercised their default-related rights or demanded repayment of the loan.

The Company is continuing to work with GMP Securities L.P. in seeking strategic alternatives. Although several proposals have resulted from the process, no proposal has been satisfactory to Mahalo or its lenders and there is no reasonable expectation that an acceptable proposal will be received. In the opinion of management, 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.

At March 31, 2009, the Company had a working capital deficiency of \$84.4 million, an accumulated deficit of \$122.2 million. As anticipated in the Company's MD&A for the year ended December 31, 2008, the Company incurred further defaults as a result of being unable to repay a US \$5 million short-term advance which was due and payable on March 31, 2009 and pay a US \$10 million loan facility fee. The loan facility fee was levied under the terms of a November 28, 2008 credit facility amendment and resulted from the Company's failure to achieve certain restructuring and/or refinancing initiatives by March 31, 2009.

If the Lenders were to call the debt, the Company would require an alternate credit facility and/or additional capital to discharge its obligations and continue its activities. Under current conditions, there can be no assurance that the Company has sufficient assets or will be able to raise sufficient capital to make a full repayment to its Lenders if such an event were to occur. In addition, any financial restructuring plan ultimately agreed on by Mahalo and its Lenders may involve bankruptcy or similar filings by Mahalo and/or its subsidiary, Mahalo Energy (USA) Inc. The outcome of these matters is dependent on factors outside of the Company's control and cannot be predicted at this time. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

## **Additional Information**

Mahalo's has filed its unaudited consolidated financial statements and related managements' discussion and analysis ("MD&A") for the three months ended March 31, 2009 on SEDAR. The reports can be accessed electronically from the SEDAR system at [www.sedar.com](http://www.sedar.com). 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)

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.

## **ADVISORIES**

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

***Except for historical financial information contained herein, the matters discussed in this document may be considered forward-looking statements. Such statements include declarations regarding management's intent, belief or current expectations. Prospective investors are cautioned that any such forward-looking statements are***

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

#### *Non-GAAP financial measures*

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

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

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

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

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

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

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

**For more information, please contact:**

Mahalo Energy Ltd.  
540, 734 – 7<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 3P8  
(403) 451-3500 / Fax: (403) 451-3501

James Burns, President & CEO  
Direct: (403) 716-3110  
Fax: (403) 451-3501

*The Toronto Stock Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this press release.*

*(Not for distribution to U.S. newswire services or dissemination in the United States. Any failure to comply with this restriction may constitute a violation of U.S. securities law.)*