



(TSXV: CBM.H)

PRESS RELEASE

Mahalo Announces Second Quarter 2009 Results

CALGARY, ALBERTA – August 31, 2009 - Mahalo Energy Ltd. (“Mahalo” or the “Company”) announces its results for the three and six months ended June 30, 2009.

SUMMARY OF RESULTS	Three Months Ended		Six Months Ended	
	Jun 30 2009	Jun 30 2008	Jun 30 2009	Jun 30 2008
		<i>(Restated) (2)</i>		<i>(Restated) (2)</i>
Financial (\$000's except per share) (1)				
Continuing operations:				
Petroleum and natural gas revenue	7,276	9,213	16,890	16,993
Operating netback	3,282	4,836	7,750	9,281
Loss from continuing operations	(6,689)	(888)	(6,803)	(1,278)
Per share - basic & diluted	(0.11)	(0.01)	(0.11)	(0.02)
Loss from discontinued operations	(1,514)	(30,616)	(2,376)	(30,720)
Per share - basic & diluted	(0.03)	(0.52)	(0.05)	(0.52)
Net loss	(8,203)	(31,504)	(9,179)	(31,998)
Per share - basic & diluted	(0.14)	(0.53)	(0.16)	(0.54)
Funds from (used in) continuing operations	(236)	2,798	2,165	5,916
Per share - basic	0.00	0.05	0.04	0.10
Funds from (used in) discontinued operations	(316)	3,571	(1,133)	5,824
Per share - basic	(0.01)	0.06	(0.02)	0.10
Funds from (used in) operations	(552)	6,369	1,032	11,740
Per share - basic	(0.01)	0.11	0.02	0.20
Operational (1)				
Average daily sales volumes (boe):				
Continuing operations	1,802	2,029	2,007	2,039
Discontinued operations	64	1,254	70	1,304
Continuing operations:				
Average selling price (\$/boe)	44.37	48.26	46.50	45.80
Operating netback (\$/boe)	20.02	22.42	21.34	25.01

(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.

(2) Restated to reflect "discontinued operations" accounting in respect of Canadian resource assets.

Financial

During second quarter 2009, the Company had petroleum and natural gas revenues from continuing operations of \$7.3 million, a net loss from continuing operations of \$6.7 million and a net use of funds from continuing operations of \$0.2 million. Lower operating netback and significantly higher interest and financing costs were contributing factors when comparing current quarter results from continuing operations with the same period in 2008.

In second quarter 2008, the Company recorded a \$32.3 million write-down of Canadian resource assets, which in turn, was primarily responsible for the loss from discontinued operations during that period.

Operational

In 2008, Mahalo committed to dispose of its Canadian resource assets; the process was effectively complete by quarter's end. The first and second quarters of 2009 saw virtually 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 1,802 boe per day, down 412 boe per day from the immediately preceding quarter due to natural decline and suspension of certain routine maintenance procedures. The Company has not drilled a well since October 2008.

Creditor Protection and Going Concern Issues

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. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Under Chapter 11, the Company 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. The creditor protection will end as a result of dismissal of the Chapter 11 Case, which would in turn reflect 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.

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 October 30, 2009. There is no guarantee that Mahalo 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's property and the conduct of its business.

The Court Orders providing creditor protection permit Mahalo to remain in possession and control of its property, carry on its business, retain employees and other service providers and continue with the process of evaluating strategic alternatives available to the Company, including a sale of Mahalo or its assets. Although the Company 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 and therefore was not realized.

Mahalo has engaged Alvarez & Marsal North America, LLC, a United States firm, to act as advisors to the Company to assist with the business and financial restructuring, a process which may involve the sale of all or substantially all of the Company's assets.

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.

Management and Board Changes

During June 2009, Mr. James Burns, President and CEO and Director of Mahalo and Mr. Willie Dawidowski, Chief Financial Officer of Mahalo resigned their positions. Mr. David Burton has been appointed President and CEO and Director to replace Mr. Burns. Mr. Stuart King has assumed the duties of Chief Financial Officer. In July 2009, Mr. Kevin Wolfe and Mr. David Butler ceased to be directors of the Company. Mahalo wishes to thank James, Willie, Kevin and David for their valued contributions to the Company.

Additional Information

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.

Mahalo's has filed its unaudited consolidated financial statements and related managements' discussion and analysis ("MD&A") for the three and six months ended June 30, 2009 on SEDAR. The reports can be accessed electronically from the SEDAR system at 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

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 Regarding 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.

For more information, please contact:

Mahalo Energy Ltd.
600, 703 – 6th Avenue SW
Calgary, Alberta T2P 0T9
(403) 451-3500 / Fax: (403) 451-3501

David Burton, President and CEO
Direct: (403) 716-3119 / Fax: (403) 451-3501

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