



(TSX: CBM)

PRESS RELEASE

Mahalo Announces Full Year 2008 Results, Updates Strategic Alternatives Process and Addresses Default Status with Lenders

CALGARY, ALBERTA – March 31, 2009 - Mahalo Energy Ltd. (“Mahalo” or the “Company”) announces its results for the twelve months ended December 31, 2008.

SUMMARY OF RESULTS	2008	2007 <i>(Restated)</i>
Financial (\$000's except per share)		
Continuing operations:		
Petroleum and natural gas revenue	37,551	28,569
Operating netback	19,399	15,370
Loss from continuing operations	(13,451)	(204)
Per share - basic & diluted	(0.23)	0.00
Loss from discontinued operations	(53,910)	(3,513)
Per share - basic & diluted	(0.91)	(0.06)
Net loss	(67,361)	(3,717)
Per share - basic & diluted	(1.14)	(0.06)
Funds from continuing operations	11,096	9,960
Per share - basic	0.19	0.17
Funds from discontinued operations	5,445	3,577
Per share - basic	0.09	0.06
Funds from operations	16,541	13,537
Per share - basic	0.28	0.23
Net debt	98,499	53,313
Operational		
Average daily sales volumes (boe)		
Continuing operations	2,147	1,993
Discontinued operations	917	1,105
Total	3,064	3,098
Continuing operations:		
Average selling price (\$/boe)	47.78	39.27
Operating netback (\$/boe)	24.69	21.12

(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 all of its Canadian resource assets. Since the assets encompass Mahalo's entire Canadian business segment or cost centre under full cost accounting, the Company has accounted for these assets as "discontinued operations". Financial information for the prior year has been restated to reflect this change.

The Company generated funds from continuing operations of \$11.1 million on related sales of \$37.6 million in 2008. During this same period, the Company recorded a loss from continuing operations of \$13.5 million. Results of discontinued operations for 2008 include a loss of \$54.6 million on the disposition of Canadian resource assets. The loss was non-cash and did not affect funds from discontinued operations.

Operations

Mahalo has seen dramatic changes in its operating environment with the steep drop in North American natural gas prices and significant business and economic uncertainty created by the current global financial crisis.

In looking back, 2008 was a year of dramatic events which would, in turn, have a profound impact on the Company. The early part of 2008 saw Mahalo tighten its focus on its core United States coal bed methane (“CBM”) and shale gas assets, all of which are located in eastern Oklahoma. Mahalo decided to sell its remaining Canadian oil and gas assets and operations, aggressively exploit its US CBM assets and staff a team to pursue development of its potentially significant US shale gas resource.

These decisions were made in an environment of rapidly increasing commodity prices with many oil and gas companies ramping up activity to record or near record levels. At this same time, interest in shale gas was becoming unparalleled with record prices being paid for shale gas mineral rights.

To fund this aggressive plan, Mahalo initiated a formal process to expedite the sale of its Canadian assets; it also entered into a new credit facility at the end of June which provided increased borrowing, albeit with stricter covenants. One such covenant involved the attainment of certain minimum production levels.

While the Company’s aggressive capital spending plan targeting increased CBM production was very successful and achieved expected results on a well by well basis, overall oil and gas production levels did not meet the Company’s targets or that required under the credit facility covenant. As a result, the Company found itself in default of the production and certain other covenants under its credit facility agreement at September 30, 2008.

The inability to achieve the targeted production levels was mainly due to two factors; the rapid decline of certain high volume conventional gas wells in Canada and operational issues with CBM production in the United States. While the individual CBM wells drilled in 2008 performed according to plan, very high ambient temperatures affected gathering and compression performance and the new wells, in some cases, temporarily backed out production from older wells.

The impact on Mahalo’s cash flow was further exacerbated by operational issues with a major interstate gas transmission line that transports gas out of the area of the Company’s US CBM operations. This caused price differentials to increase dramatically, reducing Mahalo’s realized prices and cash flows from affected production for a number of months. Production from the Company’s US CBM assets has, in the interim, stabilized and continues to remain stable.

The second half of 2008 saw a major and rapid collapse in commodity prices and a significant deterioration in global financial markets. These events have taken a significant toll on our industry. The impact to Mahalo of lower commodity prices was mitigated by an aggressive hedging program implemented in July 2008 when commodity prices were close to the highest point of the year. The weakened global economic situation has, however, resulted in restricted access to capital markets and virtually no flexibility as to alternate sources of credit for the Company.

Although the Company did complete the sale of most of its Canadian assets by the latter part of 2008, the prices received were disappointing in comparison to what was expected when commodity prices were at higher levels earlier in the year. In fourth quarter 2008, the company suspended its capital spending program in an effort to improve its financial situation.

Strategic alternatives process

In conjunction with an amendment to its bank credit facility agreement completed in November 2008, the Company 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.

Under the amended credit agreement, the Company was required to have reached the “letter of intent” stage with respect to an asset sale or other corporate/financial restructuring initiative by March 1, 2009; this was not achieved. Consequently, the Company is in default under its bank credit facility as discussed in more detail below. Although

several proposals have resulted from the GMP Securities L.P. led asset sale/merger/restructuring process, no proposal was satisfactory to Mahalo or its lenders and there is no reasonable expectation that an acceptable proposal will be received.

Default status with lenders and going concern issues

The audited consolidated financial statements at December 31, 2008 were prepared using generally accepted accounting principles (GAAP) on the basis 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. If this assumption is not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

In accordance with Canadian GAAP appropriate for a going concern, property and equipment is carried at cost less accumulated amortization 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. There can be no assurance that expected future cash flows will be realized or will be sufficient to recover the carrying amount of property and equipment.

At December 31, 2008, the Company had a working capital deficiency of \$91.9 million and an accumulated deficit of \$121.2 million. The Company's ability to continue as a going concern is dependent upon its ability to achieve profitable operations, obtain waivers or amendments relative to defaults, 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. However, significant conditions and events exist that cast doubt on the validity of this assumption.

At September 30, 2008, the Company was in breach of certain covenants under its bank credit facility agreement with Ableco Finance LLC ("Ableco" or the "Lender"); the breaches constituted "Events of Default". In November 2008, the Company signed an amended credit facility agreement that included a waiver of the previous Events of Default and provided for an additional advance of US \$5 million that is repayable on March 31, 2009. The amendment also requires the Company to pay a loan fee of between US \$5 million and US \$10 million on March 31, 2009, dependent upon achieving certain restructuring and/or refinancing initiatives.

In conjunction therewith, the Company 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. Although several proposals have resulted from the GMP Securities L.P. led asset sale/merger/restructuring process, no proposal has been accepted by Mahalo and there is no reasonable expectation that an acceptable proposal will be received.

The Company is in default under its bank credit facility. As announced on March 5, 2008, Mahalo received a reservation of rights letter from its Lender notifying the Company that it is in default under its loan agreement for failure to comply with certain covenants. As a result of the default, the Lender has advised Mahalo that until resolved, future loans would be made in the sole discretion of the lender. To date, the Lender has not exercised its default-related rights or demanded repayment of the loan.

If the Lender 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. The outcome of these matters is dependent on factors outside of the Company's control. 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 Company does not expect to be in a position to repay the additional advance of US \$5 million and pay the loan fee, currently estimated at US \$10 million, both of which are due on March 31, 2009. The Company is currently

working with its lenders to rectify this issue. If an acceptable solution is not achieved and the debt is called, the Company will require additional capital to continue its activities and discharge its obligations. The outcome of these matters is dependant 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 has filed its Audited Consolidated Financial Statements, Managements' Discussion and Analysis and Annual Information Form (which contains National Instrument 51-101 F1, F2 and F3 information) for the year ended December 31, 2008 on SEDAR. The reports can be accessed electronically from the SEDAR system at www.sedar.com or from the Company's website at www.mahaloenergy.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.

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.

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