



Quarterly Report

For the Three and Six Months ended June 30, 2007
(Unaudited)

Message to Shareholders

Mahalo Energy Ltd. ("Mahalo" or the "Company") is pleased to announce its results for the three and six months ended June 30, 2007.

Summary of Results

	Three Months Ended		Six Months Ended	
	Jun 30 2007	Jun 30 2006	Jun 30 2007	Jun 30 2006
Financial				
<i>(\$000's except per share)</i>				
Petroleum and natural gas revenue	10,871	8,714	21,303	17,106
Operating netback (1)	5,378	4,533	11,458	9,371
Net income (loss)	(171)	(802)	(1,207)	(257)
Per share - basic & diluted	0.00	(0.02)	(0.02)	(0.01)
Funds from operations (1)	3,545	3,955	7,038	7,970
Per share - basic (1)	0.06	0.08	0.12	0.18
Capital expenditures (2)	13,364	94,401	22,183	126,357
Proceeds from sale of oil and gas assets	91	-	14,274	-
Net debt, end of period (1)	52,038	52,528	52,038	52,528
Operational				
Average daily sales volumes (boe) (1)	2,805	2,294	2,715	1,992
Average selling price (\$/boe)	42.58	41.74	43.35	47.43
Operating netback (\$/boe)	21.06	21.71	23.32	25.99

(1) Refer to advisories regarding non-GAAP financial measures.

(2) Corporate and property acquisitions include deemed value of non-cash consideration.

Q2 2007 Highlights

- Realized average daily oil and gas sales of 2,805 boe in second quarter 2007 with June's average being 3,190 boe per day and June exit at 3,200 boe per day.
- Completed expansion of Kayla West pipeline system allowing tie in of additional Hartshorne CBM volumes previously held behind pipe.
- Spudded first operated horizontal Woodford shale in Hughes County, Oklahoma.
- Re-entered the second well of a multi-lateral Mannville CBM program in Corbett Creek, Alberta.

Financial

Mahalo generated funds from operations of \$3.5 million on sales of \$10.9 million and recorded a net loss of \$0.2 million in an environment of continued softness in natural gas prices during the three months ended June 30, 2007.

Operational

The Company averaged 2,805 boe per day of oil and gas sales during second quarter 2007, primarily CBM natural gas. In early June, the Company completed the previously announced expansion of the Kayla West pipeline transportation system, freeing up constrained production from a number of Hartshorne CBM wells in the United States. This allowed the Company to exit the second quarter with record oil and gas sales volumes of approximately 3,200 boe per day.

Mahalo is now actively operating prospects in both Canada and the United States and continues to benefit from a strong relationship with partners who operate a certain number of our prospects. This brings a better balance to our overall resource management.

The Company was very active in the second quarter with the selective drilling of 16.0 (10.4 net) wells. We drilled Canadian Mannville CBM horizontals, US Hartshorne CBM horizontals and Woodford Shale wells and also participated in some seismically determined conventional prospects.

The on-going development of the Hartshorne coal was a primary objective in the second quarter. Mahalo drilled 5 Hartshorne coal wells in the Lakeview area during this period. Two of the wells were operated by Mahalo. Four of the 5 wells were completed as producers. Two of the four wells were placed on production with initial gross production rates of 575 Mcf per day and 1.4 Mmcf per day. The other 2 horizontals are currently being tied in.

During second quarter 2007, Mahalo drilled and cased a 100 per cent owned Hartshorne tight sand horizontal well in Poteau, Oklahoma. Although drilling results differed from expectations, the project returned valuable information regarding Hartshorne tight sand horizontal drilling. The well is currently being equipped with a plunger lift and is expected to produce in a range of 100 to 150 Mcf of CBM per day.

The Company stimulated two standing Caney shale wells in our Lakeview, Oklahoma property in the second quarter. The results are still premature from a dewatering perspective; production peaked at over 1.5 Mmcf per day during initial clean up and current rates are in the 200 to 300 Mcf per day range.

The Company has spudded a follow up well to its first horizontal Woodford shale well in Hughes County, Oklahoma. This second Woodford well, operated by Mahalo, was cased in August; the well will be stimulated utilizing a multi-stage high-volume stimulation program.

In Canada, Mahalo is focusing its CBM efforts at its Corbett Creek, Alberta property. Our primary focus is to expedite the dewatering phase of exploiting this massive resource. During first quarter 2007, the Company re-entered an existing well producing from the Mannville through a single horizontal lateral and subsequently completed the well as a multi-lateral, three legged producer. Productivity has since improved from 200 Mcf per day to over 1.0 Mmcf per day. The dewatering time improved noticeably; the original dewatering time was estimated at 3 to 6 months. The multi-lateral well delivered CBM production within 6 weeks.

During second quarter 2007, Mahalo re-entered a second well at Corbett, drilled an additional two lateral legs and brought the well back on production in mid-July. This second multi-lateral well is demonstrating the same production trend as seen in the first well; a noticeable improvement in accelerated dewatering and CBM production capability. The Company is encouraged by the recent results at Corbett Creek and with existing infrastructure already in place to support related reserves and expedited production, Corbett may become a very favorable project.

Outlook

Mahalo continues to strategically plan its 2007 activity around a Cdn \$38 million capital expenditure program. In light of the current low gas price environment and continued gas pricing uncertainty, Mahalo will continue to focus its drilling primarily on lower risk CBM prospects and selective conventional prospects. The Company expects to drill 10 additional Hartshorne CBM wells in the Lakeview area in the latter half of 2007. Five of the wells will be operated by Mahalo.

The Company will also continue to selectively advance its higher risk/higher reward shale drilling prospects. The drilling activity surrounding Mahalo's shale lands is providing the Company with good insight into third party technical successes and adding value in the Company's on-going work-up of grass roots shale prospects.

Further information about our second quarter results is set out in our Management's Discussion and Analysis for the three and six months ended June 30, 2007.

On behalf of the Board of Directors
"Signed"

Duncan Chisholm
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the results of operations and changes in financial condition of Mahalo Energy Ltd. ("Mahalo" or the "Company") is dated August 10, 2007 and should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes for the three and six months ended June 30, 2007, and the audited consolidated financial statements and accompanying notes and the MD&A for the year ended December 31, 2006.

The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and measurement currency is the Canadian dollar, unless otherwise specified. References to "US\$" are to United States dollars.

The following MD&A contains forward-looking information and statements, refers to and discusses certain non-GAAP financial measures and aggregates certain oil and gas information in terms of barrels of oil equivalent. The reader is specifically referred to and encouraged to read the section entitled "Special Cautionary Advisories" at the end of this MD&A.

	Three Months Ended		Six Months Ended	
	Jun 30	Jun 30	Jun 30	Jun 30
	2007	2006	2007	2006
Financial highlights				
<i>(\$000s, except per share)</i>				
Petroleum and natural gas revenue	10,871	8,714	21,303	17,106
Operating netback (1)	5,378	4,533	11,458	9,371
Net income (loss)	(171)	(802)	(1,207)	(257)
Per share - basic & diluted	0.00	(0.02)	(0.02)	(0.01)
Funds from operations (1)	3,545	3,955	7,038	7,970
Per share - basic (1)	0.06	0.08	0.12	0.18
Capital expenditures (2)	13,364	94,401	22,183	126,357
Proceeds from sale of oil and gas assets	91	-	14,274	-
Total assets, end of period	196,592	259,757	196,592	259,757
Net debt, end of period (1)	52,038	52,528	52,038	52,528
Shareholders' equity, end of period	116,567	164,155	116,567	164,155
Common shares, end of period (000s)	59,298	58,286	59,298	58,286
Weighted average - basic and diluted (000s)	59,287	48,128	59,187	43,865
Operational highlights				
Average daily sales volumes (boe) (1) (3)	2,805	2,294	2,715	1,992
Average selling price (\$/boe)	42.58	41.74	43.35	47.43
Royalties (\$/boe)	10.85	12.02	9.65	13.06
Operating (\$/boe)	8.52	6.94	8.72	7.24
Transportation (\$/boe)	2.15	1.07	1.67	1.14
Operating netback (\$/boe)	21.06	21.71	23.32	25.99

(1) Please refer to special advisories regarding use of non-GAAP financial measures and barrel of oil equivalent measures.

(2) Includes capital expenditures paid with non-cash consideration of \$76.2 million and \$78.9 million in the three and six month periods of 2006, respectively.

(3) Sales volumes are before deduction of royalties.

PRIMARY BUSINESS

Mahalo Energy Ltd. is an independent, public company whose primary focus is the acquisition, exploration, development and production of natural gas, principally coalbed methane ("CBM") in Western Canada and coalbed methane and shale gas in the Arkoma Basin in the state of Oklahoma, U.S.A. The Company also has conventional oil and gas operations in Canada.

At June 30, 2007, Mahalo Energy Ltd. had one wholly-owned subsidiary, Mahalo Energy (USA) Inc., a company incorporated under the laws of Delaware. Unless the context otherwise requires, references herein to "Mahalo" or the "Company" include Mahalo Energy Ltd. and Mahalo Energy (USA) Inc.

RESULTS OF OPERATIONS

During the three months ended June 30, 2007, the Company generated funds from operations of \$3.5 million on sales revenues of \$10.9 million and recorded a net loss of \$0.2 million. The following table provides a comparison of current quarter results with the immediately preceding quarter and the corresponding quarter ended June 30, 2006. Selected financial data is also provided for the six month periods ended June 30, 2007 and 2006.

	Three Months Ended			Six Months Ended	
	Jun 30 2007	Mar 31 2007	Jun 30 2006	Jun 30 2007	Jun 30 2006
<i>(\$000s, except per share)</i>					
Petroleum and natural gas revenue	\$ 10,871	\$ 10,432	\$ 8,714	\$ 21,303	\$ 17,106
Net income (loss)	(171)	(1,037)	(802)	(1,207)	(257)
Per share: basic and diluted	0.00	(0.02)	(0.02)	(0.02)	(0.01)
Funds from operations	3,545	3,494	3,955	7,038	7,970
Per share: basic	0.06	0.06	0.08	0.12	0.18

The following table illustrates the major factors that accounted for the change in funds from operations realized during second quarter 2007 from that generated in the immediately preceding quarter of 2007.

<i>(\$000s)</i>	
Funds from operations generated in first quarter 2007	\$ 3,494
Increase (decrease) in funds during second quarter 2007 as a result of:	
Higher sales volumes	493
Lower realized sales prices	(408)
Higher per unit royalties expense	(639)
Higher per unit operating and transportation expense	(149)
Lower operating netback	(703)
Higher general and administrative expense	(707)
Lower interest and financing costs	237
Higher gain on foreign exchange	1,209
Other	15
Funds from operations generated in second quarter 2007	\$ 3,545

Funds from operations and funds from operations per share are non-GAAP financial measures which management believes are useful to assess its operating results and its ability to generate funds to finance operations and service debt. These measures should not be considered as an alternative to or more meaningful than net earnings, cash provided by operating activities or other measures of financial performance or liquidity calculated in accordance with Canadian GAAP. Management refers the reader to a special advisory which discusses the calculation and use of non-GAAP financial measures in more detail. This and other important advisories are set out at the end of this MD&A.

Petroleum and natural gas sales

In May 2006, the Company added conventional crude oil and natural gas sales in Canada through a corporate acquisition; initial sales amounted to approximately 1,000 boe per day. Some of the acquired properties were subsequently sold in 2006, reducing conventional oil and gas sales by about one third. In first quarter 2007, two additional properties with aggregate production of approximately 285 boe per day were sold. The asset sales reflect the Company's strategic plan of divesting non-core assets and focusing on unconventional coal bed methane and shale gas development, as well as selective conventional natural gas prospects.

The following table illustrates selected operational and financial information contributing to the Company's petroleum and natural gas sales revenues on a country by country basis and in total during the periods under comparison.

	Three Months Ended			Six Months Ended	
	Jun 30 2007	Mar 31 2007	Jun 30 2006	Jun 30 2007	Jun 30 2006
Average daily sales volume (1)					
Natural gas (Mcf/day)					
Canada	4,839	4,125	1,682	4,484	1,134
United States	11,714	10,528	11,117	11,124	10,336
Total natural gas	16,553	14,653	12,799	15,608	11,469
Crude oil and NGL's (bbls/day)					
Canada	47	182	161	114	81
Barrels of oil equivalent (boe/day) (2)					
Canada	853	869	441	861	270
United States	1,952	1,755	1,853	1,854	1,723
Average daily sales volume (boe/day) (1) (2)	2,805	2,624	2,294	2,715	1,993
Total sales volume (boe) (1) (2)	255,286	236,128	208,751	491,414	360,626
Average realized selling price					
Natural gas (\$/Mcf)					
Canada	\$ 7.11	\$ 6.95	\$ 6.01	\$ 7.04	\$ 6.14
United States	\$ 7.01	\$ 7.38	\$ 6.72	\$ 7.19	\$ 7.94
Weighted average	\$ 7.04	\$ 7.26	\$ 6.63	\$ 7.14	\$ 7.76
Crude oil and NGL's (\$/bbl)					
Canada	\$ 63.12	\$ 52.36	\$ 67.68	\$ 54.57	\$ 67.68
Average realized selling price (\$/boe) (2)	\$ 42.58	\$ 44.15	\$ 41.74	\$ 43.35	\$ 47.43
Petroleum and natural gas revenue (\$000s)					
Natural gas					
Canada	\$ 3,130	\$ 2,581	\$ 920	\$ 5,710	\$ 1,261
United States	7,473	6,996	6,804	14,470	14,855
Total natural gas	\$ 10,603	\$ 9,577	\$ 7,724	\$ 20,180	\$ 16,116
Crude oil and NGL's					
Canada	\$ 268	\$ 855	\$ 990	\$ 1,123	\$ 990
Natural gas, crude oil & NGL's					
Canada	\$ 3,398	\$ 3,436	\$ 1,910	\$ 6,833	\$ 2,251
United States	7,473	6,996	6,804	14,470	14,855
Total petroleum and natural gas revenue	\$ 10,871	\$ 10,432	\$ 8,714	\$ 21,303	\$ 17,106

(1) Sales volumes are before deduction of royalties.

(2) Natural gas volumes are converted to a barrel of oil equivalent at six mcf = one bbl of oil.

Sales of oil and gas averaged 2,805 boe per day in second quarter 2007, 2,624 boe per day in the immediately preceding quarter of 2007 and 2,294 boe per day in the corresponding second quarter of 2006. Oil and gas sales in the month of June 2007 averaged approximately 3,180 boe per day while the June 2007 exit rate was approximately 3,200 boe per day.

In June 2007, installation of gas gathering facilities in the Lakeview area of Oklahoma was completed allowing for tie in of several Hartshorne CBM wells. Production from these wells was being held back for a number of months due to pipeline capacity constraints. These facilities will benefit the third quarter and future periods and support continued development of numerous other Lakeview Hartshorne CBM drilling prospects.

At the end of first quarter 2007, the Company sold non-core Canadian conventional oil and gas properties with aggregate production of approximately 285 boe per day. The resultant reduction in sales volumes in second quarter 2007 was virtually offset by higher sales of both Canadian conventional and unconventional natural gas stemming from successful exploration and development activities.

During early 2007, natural gas prices showed some strength as a result of colder temperatures and a reduction in natural gas storage levels in the United States; however, the improvement in pricing did not hold. North American natural gas prices are expected to remain volatile and highly unpredictable as markets react rapidly to news events, weather forecasts and natural gas inventory reports. Mahalo attempts to minimize the impact of commodity price volatility, principally by entering into fixed price physical sales contracts and hedging arrangements when considered prudent.

A majority of the Company's sales continue to be natural gas from properties in the United States. Such production is delivered for sale into the Oklahoma Gas Transmission and Centre Point East pipeline.

Royalty expense

Oil and gas royalties are paid to various government entities and other land and mineral rights owners. A majority of royalties paid during all periods under comparison relate to natural gas production from properties in the United States.

In Oklahoma, government royalty assessments are generally based on the price realized for the underlying petroleum product. In Canada, the rate of royalties payable to government entities depends on many factors such as prescribed reference prices, well productivity, geographical location and field discovery date, method of recovery and the type and quality of petroleum product produced.

The increase in royalty expense per boe in Canada in second quarter 2007 when compared with first quarter 2007 resulted mainly from a combination of lower royalty rate asset dispositions late in the first quarter and the addition of higher royalty rate natural gas production in the second quarter.

	Three Months Ended			Six Months Ended	
	Jun 30 2007	Mar 31 2007	Jun 30 2006	Jun 30 2007	Jun 30 2006
Royalty expense (\$000s)					
Canada	\$ 809	\$ 454	\$ 279	\$ 1,263	\$ 402
United States	1,961	1,517	2,231	3,478	4,309
	\$ 2,770	\$ 1,971	\$ 2,510	\$ 4,741	\$ 4,711
Royalty expense (\$/boe)					
Canada	\$ 10.42	\$ 5.80	\$ 6.94	\$ 8.10	\$ 8.23
United States	11.04	9.61	13.23	10.36	13.82
	\$ 10.85	\$ 8.35	\$ 12.02	\$ 9.65	\$ 13.06

Operating expense

Operating expense includes various costs, the most significant of which are contractor labour, compression, chemicals and treating supplies, water disposal, equipment rental, minor well workovers and operator overhead.

	Three Months Ended			Six Months Ended	
	Jun 30 2007	Mar 31 2007	Jun 30 2006	Jun 30 2007	Jun 30 2006
Operating expense (\$000s)					
Canada	\$ 1,014	\$ 1,071	\$ 742	\$ 2,085	\$ 814
United States	1,160	1,041	707	2,201	1,798
	\$ 2,175	\$ 2,112	\$ 1,449	\$ 4,286	\$ 2,612
Operating expense (\$/boe)					
Canada	\$ 13.07	\$ 13.69	\$ 18.48	\$ 13.38	\$ 16.65
United States	6.53	6.59	4.19	6.56	5.77
	\$ 8.52	\$ 8.94	\$ 6.94	\$ 8.72	\$ 7.24

The level of operating costs in Canada in the second and first quarters of 2007 remained relatively unchanged on an absolute and per boe basis. The Company continues to experience a general increase in North American oil and gas operating costs relative to the same periods a year ago as companies compete for scarce resources.

Transportation expense

Transportation expense includes costs to move saleable oil and gas from the crude oil wellhead or natural gas plant outlet to its ultimate point of sale. Total transportation costs, which are not significant relative to operating costs, fluctuated between two and five percent of sales revenues during the periods under comparison.

Operating netback

Operating netback is a measure of net oil and gas revenue commonly used in the oil and gas industry. The Company uses this non-GAAP measure, in conjunction with a barrel of oil equivalent volumetric measure, to aggregate oil and gas volumes and assess comparability of petroleum sales and directly related costs between geographic business segments and periods. The Company cautions that operating netback should not be considered as an alternative to, or more meaningful than net earnings or cash from operating activities as determined in accordance with Canadian GAAP, as an indicator of the Company's performance or liquidity. This and other important advisories are set out at the end of this MD&A.

The following tables reflect operating netback by geographic area for the respective quarterly periods under comparison.

Three months ended June 30	Canada		United States		Total	
	2007	\$/boe	2007	\$/boe	2007	\$/boe
<i>(\$000s, except per boe)</i>						
Petroleum and natural gas revenue	\$ 3,398	\$ 43.77	\$ 7,473	\$ 42.06	\$ 10,871	\$ 42.58
Royalties	809	10.42	1,961	11.04	2,770	10.85
Operating and transportation	1,084	13.97	1,639	9.23	2,723	10.67
Operating netback	\$ 1,505	\$ 19.38	\$ 3,873	\$ 21.80	\$ 5,378	\$ 21.06

Three months ended March 31	Canada		United States		Total	
	2007	\$/boe	2007	\$/boe	2007	\$/boe
<i>(\$000s, except per boe)</i>						
Petroleum and natural gas revenue	\$ 3,436	\$ 43.94	\$ 6,996	\$ 44.30	\$ 10,432	\$ 44.18
Royalties	454	5.81	1,517	9.61	1,971	8.35
Operating and transportation	1,183	15.12	1,198	7.59	2,381	10.08
Operating netback	\$ 1,799	\$ 23.01	\$ 4,281	\$ 27.11	\$ 6,080	\$ 25.75

Total sales volumes increased by approximately 8 per cent during second quarter 2007 when compared with first quarter 2007. Total realized netback and average operating netback per boe during the current quarter declined however due to a lower average realized price per boe and higher royalties, operating and transportation expense. During second quarter 2007, the Company realized an average operating netback of \$21.06 per boe as compared with \$25.75 per boe in first quarter 2007.

Three months ended June 30	2006		2006		2006	
		\$/boe		\$/boe		\$/boe
<i>(\$000s, except per boe)</i>						
Petroleum and natural gas revenue	\$ 1,910	\$ 47.60	\$ 6,804	\$ 40.36	\$ 8,714	\$ 41.74
Royalties	279	6.94	2,231	13.23	2,510	12.02
Operating and transportation	786	19.58	885	5.25	1,671	8.01
Operating netback	\$ 845	\$ 21.07	\$ 3,688	\$ 21.87	\$ 4,533	\$ 21.71

In the three month period ended June 30, 2006, the average operating netback was \$21.71 per boe.

The following tables reflect operating netback by geographic area for the respective six month periods under comparison.

Six months ended June 30	Canada		United States		Total	
	2007	\$/boe	2007	\$/boe	2007	\$/boe
<i>(\$000s, except per boe)</i>						
Petroleum and natural gas revenue	\$ 6,833	\$ 43.85	\$ 14,470	\$ 43.12	\$ 21,303	\$ 43.35
Royalties	1,263	8.10	3,478	10.36	4,741	9.65
Operating and transportation	2,266	14.54	2,838	8.46	5,104	10.39
Operating netback	\$ 3,304	\$ 21.20	\$ 8,154	\$ 24.30	\$ 11,458	\$ 23.32

Six months ended June 30	Canada		United States		Total	
	2006	\$/boe	2006	\$/boe	2006	\$/boe
<i>(\$000s, except per boe)</i>						
Petroleum and natural gas revenue	\$ 2,251	\$ 46.10	\$ 14,855	\$ 47.64	\$ 17,106	\$ 47.43
Royalties	402	8.23	4,309	13.82	4,711	13.06
Operating and transportation	858	17.56	2,166	6.94	3,024	8.38
Operating netback	\$ 991	\$ 20.31	\$ 8,380	\$ 26.88	\$ 9,371	\$ 25.99

General and administrative expense

General and administrative expense amounted to \$2.2 million in second quarter 2007, \$1.5 million in first quarter 2007 and \$1.0 million in second quarter 2006. The increase in general and administrative costs in second quarter 2007 when compared with first quarter 2007 was primarily due to the cost of various initiatives associated with assuming active operatorship of a growing percentage of its United States oil and gas operations.

For the six months ended June 30, 2007, general and administrative expense was \$3.7 million compared with \$1.6 million in the first six months of 2006. General and administrative expense in the 2007 period was higher mainly due to administrative costs associated Canadian conventional oil and gas operations acquired May 31, 2006 and the various costs associated with the growing operational emphasis in the United States. The 2006 period only included one month of Canadian conventional oil and gas operations.

Stock-based compensation expense

Stock-based compensation expense remained relatively unchanged at approximately \$0.4 million in each of the three quarterly periods under comparison.

Foreign exchange gains and losses

A portion of the Company's monetary assets and liabilities are denominated in United States dollars. Shifts in Canadian/United States currency rates result in foreign exchange gains and losses when account balances in a currency other than the reporting currency are settled or translated at the period end.

During second quarter 2007, foreign exchange gains amounted to \$1.9 million of which \$0.7 million was unrealized. A majority of the realized gain resulted from a decision by the Company to convert \$37.8 million of U.S. dollar bank debt to a Canadian dollar obligation.

In first quarter 2007 and second quarter 2006, the Company recorded foreign exchange gains of \$0.5 million and \$0.9 million, respectively, of which a gain of \$0.5 million and a loss of \$0.2 million were unrealized at the respective quarter-ends.

Interest and financing expense

Interest and financing expense amounted to \$0.8 million in second quarter 2007, \$1.0 million in first quarter 2007 and \$0.6 million in second quarter 2006, respectively. The expense during each of these periods resulted from borrowings under a three year revolving credit facility established in December 2005 with the Union Bank of California. A majority of the change in interest and financing expense resulted from the level of borrowings during

the respective periods. Changes in the effective cost of borrowing did not have a significant impact on interest expense during the periods under comparison.

Depletion, depreciation and accretion expense

Depletion and depreciation expense on a boe basis was relatively unchanged during the periods under comparison.

	Three Months Ended			Six Months Ended	
	Jun 30	Mar 31	Jun 30	Jun 30	Jun 30
	2007	2007	2006	2007	2006
<i>(\$000s, except per boe)</i>					
Depletion and depreciation expense	\$ 4,227	\$ 4,157	\$ 3,683	\$ 8,385	\$ 5,950
Accretion expense	89	101	51	189	67
Depletion, depreciation and accretion expense	\$ 4,316	\$ 4,258	\$ 3,734	\$ 8,574	\$ 6,017
Depletion and depreciation expense (\$/boe)	\$ 16.55	\$ 17.61	\$ 17.64	\$ 17.06	\$ 16.49

The Company records an asset retirement obligation which reflects the present value of the estimated clean-up and restoration costs of wells, well sites, gathering lines and processing facilities at the time they are acquired or constructed and put into use. The liability is also adjusted when properties and related asset retirement obligations are disposed of. The asset retirement liability is increased each reporting period due to the passage of time and the related amount, referred to as "accretion", is charged to earnings in the period.

At June 30, 2007, the Company's asset retirement obligation amounted to \$4.8 million compared with \$5.8 million at December 31, 2006. The sale of certain conventional oil and gas properties in 2007 contributed to the decrease.

Income tax expense

Future income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes (book value) and the amounts used for income tax purposes (tax basis). Future income tax assets, which result when the tax basis of assets exceed the book basis, are only recognized to the extent that their realization is considered more likely than not based upon projections of operating results and tax planning strategies available to the Company.

In fourth quarter 2006, the Company recorded a write-down of Canadian property and equipment. The effect of the write-down was to extinguish a previously recorded Canadian future income tax liability and create a Canadian income tax asset of \$2.4 million. A valuation allowance was applied to fully offset this income tax asset at December 31, 2006.

During second quarter 2007, the Company recorded a small future income tax recovery compared with a future income tax expense of \$0.3 million in the immediately preceding quarter. At June 30, 2007, the Company had a future income tax liability of \$3.6 million which related solely to the Company's United States operations. The income tax asset related to Canadian operations increased from \$2.8 million to \$3.2 million during second quarter 2007 and continued to be fully offset by a valuation allowance at the quarter end.

LIQUIDITY AND CAPITAL RESOURCES

The following table provides a comparison of sources and uses of cash during the periods under comparison. The amounts reflected in the table include changes in non-cash working capital related to the respective activities.

	Three Months Ended			Six Months Ended	
	Jun 30	Mar 31	Jun 30	Jun 30	Jun 30
	2007	2007	2006	2007	2006
<i>(\$000s)</i>					
Cash provided by (used in)					
Operating activities	\$ 231	\$ 2,963	\$ 8,929	\$ 3,193	\$ 10,779
Financing activities	7,302	(6,050)	15,193	1,252	32,607
Investing activities	(16,410)	10,143	(27,134)	(6,267)	(46,025)
Increase (decrease) in cash	\$ (8,877)	\$ 7,056	\$ (3,011)	\$ (1,822)	\$ (2,640)

Operating activities

The Company generated funds from operations of \$3.5 million in the first and second quarters of 2007 and \$4.0 million in second quarter 2006. Funds from operations represent cash from operating activities before change in related non-cash working capital. This non-GAAP measure is used by Mahalo to assess its operating results and its ability to generate funds to finance future capital investments and service debt.

The following table illustrates the relationship of funds from operations, as calculated by Mahalo, to cash provided by operating activities for the periods under comparison.

	Three Months Ended			Six Months Ended	
	Jun 30	Mar 31	Jun 30	Jun 30	Jun 30
	2007	2007	2006	2007	2006
<i>(\$000s)</i>					
Funds from operations	\$ 3,545	\$ 3,494	\$ 3,955	\$ 7,038	\$ 7,970
Changes in non-cash working capital related to operating activities	(3,314)	(531)	4,974	(3,845)	2,809
Cash provided by (used in) operating activities	\$ 231	\$ 2,963	\$ 8,929	\$ 3,193	\$ 10,779

Financing activities

The Company has a three year revolving credit facility with the Union Bank of California that was established in December 2005. In 2006, the facility was increased to Cdn \$75.0 million (subject to specific borrowing base approvals), underlying security was revised to include a floating charge on certain Canadian oil and gas assets acquired through a corporate acquisition and the borrowing base was set at Cdn \$53.0 million. In March 2007, the Union Bank approved a further increase in the borrowing base to Cdn \$60.0 million.

Net borrowings under the facility amounted to \$7.3 million in second quarter 2007 compared with net repayments of \$6.5 million during the immediately preceding quarter. At June 30, 2007, outstanding amounts under the facility were equivalent to Cdn \$51.1 million.

Contributed surplus at June 30, 2007 amounted to \$6.9 million, reflective of aggregate stock-based compensation costs incurred from inception of the Company in 2004. At June 30, 2007 and August 10, 2007, the Company had 59,298,035 common shares, 1,440,000 common share purchase warrants and 912,000 (August 10, 2007 – 535,200) performance warrants issued and outstanding.

Investing activities

The Company has since its inception expanded its oil and gas asset and production base through farm-ins, corporate and property acquisitions and exploration and development activity. The following table reflects property and equipment expenditures for which cash was utilized and the amount of cash realized from asset divestures during the periods under comparison.

	Three Months Ended			Six Months Ended	
	Jun 30	Mar 31	Jun 30	Jun 30	Jun 30
	2007	2007	2006	2007	2006
<i>(\$000s)</i>					
Land and seismic	\$ 682	\$ 675	\$ 358	\$ 1,357	\$ 1,023
Drilling and completions	11,841	7,613	8,772	19,454	23,914
Facilities and equipment	840	532	4,475	1,372	9,465
Other	-	-	40	-	138
	13,363	8,819	13,645	22,183	34,540
Property and other acquisitions	-	-	4,530	-	12,918
Property divestures	(91)	(14,183)	-	(14,274)	-
Cash expenditures on property and equipment, net	\$ 13,272	\$ (5,363)	\$ 18,176	\$ 7,909	\$ 47,458
<i>(000s)</i>					
Canada	\$ 3,369	\$ (11,237)	\$ 13,093	\$ (7,868)	\$ 27,043
United States	9,903	5,873	5,083	15,777	20,415
Cash expenditures on property and equipment, net	\$ 13,272	\$ (5,363)	\$ 18,176	\$ 7,909	\$ 47,458

During second quarter 2007, the Company participated in 16 (10.4 net) wells. Of the wells drilled, 4 (4.0 net) were in Canada and 12 (6.4) were in the United States. In the immediately preceding quarter of 2007, 18 (9.9 net) wells were drilled. Of these wells, 4 (3.8 net) were in Canada and 14 (6.1) were in the United States.

In February 2006, the Company acquired an additional working interest in land and producing assets at Poteau, Oklahoma for cash consideration of \$8.3 million and common shares valued at \$2.7 million.

In May 2006, the Company acquired a Calgary-based conventional oil and gas company in a share-for-share exchange arrangement. The cost of the acquisition was 15,153,630 common shares with a deemed value of \$4.79 per share and an aggregate value of \$72.6 million. In addition, all outstanding convertible securities of the acquired company were exchanged for comparable convertible securities of Mahalo on the same exchange ratio. Estimated cash transaction costs and assumption of a bank overdraft amounted to \$4.5 million.

Property divestures during the first six months of 2007 involved conventional resource assets located in southern Alberta and north-eastern British Columbia. The sales reflect the Company's strategic plan of divesting of non-core assets and focusing on unconventional coal bed methane and shale gas development opportunities.

Contractual obligations

As at the date of this MD&A, the Company has committed to certain payments as follows:

Years ended December 31	2007	2008	2009	2010	2011	Total
<i>(\$000s)</i>						
Office lease	\$ 328	\$ 506	\$ 542	\$ 568	\$ 426	\$ 2,370
Office lease (US\$)	20	31	10	-	-	61
Equipment usage	1,074	2,376	2,376	874	-	6,700

The Company has contracts outstanding with respect to natural gas. The following is a summary of the commodity fixed forward commitments entered into by the Company as of the date of this MD&A.

	Volume	Frequency	Contract Price	Term
Sell	2,000 GJs	Daily	Cdn \$7.35 per GJ	January 2007 - December 2007
Sell	1,000 GJs	Daily	US \$7.23 per MMBtu	November 2006 - October 2007
Sell	450 GJs	Daily	Cdn \$6.55 per GJ	November 2006 - October 2007
Buy	2,000 GJs	Daily	Cdn \$7.07 per GJ	April 2007 - October 2007

The Company indemnifies its directors and officers against all claims and losses reasonably incurred in the performance of duties to the extent permitted by law. The Company maintains Directors and Officers insurance in amounts deemed adequate.

Liquidity

At June 30, 2007, the Company had a working capital deficit of \$1.1 million compared with a working capital deficit of \$0.8 million at December 31, 2006. Working capital is an aggregation of current assets and current liabilities. The Company's operations generate and consume components of working capital of both a cash and non-cash nature.

During the six months ended June 30, 2007, working capital and long term debt remained relatively unchanged from amounts at December 31, 2006.

As at	Jun 30 2007	Dec 31 2007
<i>(\$000s)</i>		
Working capital (deficiency)	\$ (1,078)	\$ (805)
Unrealized loss on financial instruments	139	350
Long term debt	51,099	52,349
Net debt	\$ 52,038	\$ 52,804
Shareholders' equity	\$ 116,567	\$ 116,763
Funds from operations (twelve months trailing) <i>(\$000s)</i>	\$ 11,961	\$ 12,893
Net debt to trailing funds from operations ratio	4.35	4.10
Net debt as a % of shareholders' equity	45%	45%
Net debt as a % of net debt plus shareholders' equity	31%	31%

Net debt is a non-GAAP financial measure and is calculated by the Company as long-term debt less working capital (excluding unrealized gain or loss on financial instruments). This and other important advisories are set out at the end of this MD&A.

Management anticipates that the Company will have adequate financial resources to fund operations, capital expenditures and contractual obligations during 2007 through a combination of funds from operations, proceeds from the disposition of non-core conventional resource properties and debt and/or equity financing. There is no assurance that debt or equity financing will be available on terms acceptable to the Company to meet its funding requirements.

Dividends

The Company has not declared or paid any dividends on its outstanding common shares. Any decision to pay dividends will be made by the Board of Directors on the basis of the Company's earnings, financial requirements and other conditions existing at the time. At present, the Company does not anticipate declaring and paying dividends in the near future.

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not enter into any material off-balance sheet arrangements, except for certain office leases and equipment usage contracts as discussed under "contractual obligations".

SUMMARY OF QUARTERLY FINANCIAL RESULTS (unaudited)

The following table presents a summary of consolidated quarterly operating results for the quarters ended September 30, 2005 through June 30, 2007.

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Selected quarterly information	2007	2007	2006	2006	2006	2006	2005	2005
Financial (\$000s, except per share)								
Crude oil and natural gas revenue	10,871	10,432	10,867	11,578	8,714	8,392	8,152	3,534
Operating netback	5,378	6,080	5,169	5,612	4,532	4,839	5,243	2,431
General and administrative	2,225	1,518	1,735	1,088	1,040	523	757	454
Stock-based compensation	324	445	457	260	369	343	326	154
Foreign exchange loss (gain)	(1,877)	(476)	2,048	11	(902)	323	447	174
Interest and financing expense	771	1,008	1,089	1,027	645	135	16	46
Write-down of property and equipment	-	-	36,322	-	-	-	-	-
Write-down of goodwill	-	-	12,743	-	-	-	-	-
Depletion, depreciation and accretion	4,316	4,258	8,400	4,742	3,734	2,283	1,592	532
Future income taxes (recovery)	(31)	294	(10,033)	(552)	444	703	1,450	687
Net income (loss)	(171)	(1,037)	(47,511)	(797)	(802)	544	731	508
Per share: basic and diluted	0.00	(0.02)	(0.81)	(0.01)	(0.02)	0.01	0.02	0.01
Funds from operations (1)	3,545	3,494	1,488	3,435	3,955	4,015	4,123	1,955
Per share: basic (1)	0.06	0.06	0.03	0.06	0.08	0.09	0.10	0.05
Reconciliation:								
Funds from operations (1)	3,545	3,494	1,488	3,435	3,955	4,015	4,123	1,955
Changes in non-cash working capital	(3,314)	(531)	(4,557)	7,218	4,974	(2,164)	(2,927)	(1,181)
Cash provided by operating activities	231	2,963	(3,069)	10,653	8,929	1,851	1,196	774
Operational								
Average daily sales (2)								
Natural gas (Mcf/day)	16,553	14,653	16,130	14,861	12,799	10,125	7,732	3,748
Crude oil and NGLs (bbls/day)	47	182	284	463	161	-	-	-
Barrels of oil equivalent (boe/day)	2,805	2,624	2,972	2,939	2,294	1,688	1,289	625
Average realized selling prices								
Natural gas (\$/Mcf)	7.04	7.26	6.44	6.35	6.63	9.21	11.46	10.25
Crude oil and NGLs (\$/bbl)	63.12	52.36	50.53	68.18	67.68	-	-	-
Barrel of oil equivalent (\$/boe)	42.58	44.15	39.75	42.82	41.74	55.25	68.76	61.50
Average operating netback (\$/boe)	21.06	25.75	18.91	20.76	21.71	31.85	44.22	42.30
Exchange rate								
Cdn\$/US\$ average exchange rate	0.911	0.854	0.878	0.892	0.891	0.866	0.851	0.832

(1) Please refer to special advisories regarding use of non-GAAP financial measures.

(2) Sales volumes are before deduction of royalties.

Further details in respect of historical quarterly results can be found in the Company's quarterly and annual reports filed on SEDAR at www.sedar.com or on the Company's web-site at www.mahaloenergy.com.

COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to conform to the presentation in the current period.

OUTLOOK

Mahalo recognizes that sustaining acceptable growth while preserving a suitable balance sheet is a challenge in a marketplace where commodity prices fluctuate rapidly due to news events, weather forecasts and gas inventory statistics. In 2006, Mahalo made cash expenditures of approximately \$77 million on property and equipment; it expects to spend approximately one-half of that amount in 2007 in light of the continued soft natural gas pricing environment. As announced last fall, Mahalo will continue to direct a majority of its near and medium term capital spending towards United States CBM development. Recent and past success, more robust economics and the large number of readily drillable locations clearly favor continued Hartshorne CBM development. It also offers the greatest opportunity to maximize funds flow generation in an uncertain gas pricing environment.

While the Company will invest a meaningful amount of capital in 2007, it will also focus on strengthening its balance sheet. This will better position Mahalo to continue its United States Hartshorne CBM development program, further refine its approach to Canadian Mannville CBM, and build on shale gas development success enjoyed by others within close proximity to its Oklahoma shale holdings.

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure. The Company's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the interim filing that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Company. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the design effectiveness of internal controls over financial reporting and has concluded that such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. In addition, there have been no changes in the Company's internal control over financial reporting during the period covered by the interim filing that have materially affected, or are reasonable likely to materially affect, its internal control over financial reporting.

Management is aware that given the Company's smaller size, adequate segregation of duties may not always be achievable in which case the Company relies on compensating controls. Management is also aware that in-house expertise to deal with complex accounting, taxation and reporting matters may not be sufficient, which is common with companies of a similar size. The Company must periodically rely upon outside assistance and advice to effectively deal with such matters. The Company's internal controls over financial reporting may not prevent or detect all errors, misstatements and fraud. The design of internal controls must also take into account resource constraints. A control system, including the Company's internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make assumptions, judgments and estimates that may have a significant impact on the financial statements. Estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known. A summary of the Company's significant accounting policies can be found in Note 2 of the Consolidated Financial Statements for the year ended December 31, 2006.

ACCOUNTING CHANGES

Effective January 1, 2007, the Company adopted CICA Handbook Section 1506, Accounting Changes which requires expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes are applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3251, Equity; and Section 3861, Financial Instruments – Disclosure and Presentation. The new standards bring Canadian rules in line with the current rules in the United States. The standards introduce the concept of "Comprehensive Income" to Canadian GAAP and require that an enterprise (a) classify items of comprehensive income by their nature in a financial statement and (b) display the accumulated balance of comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Derivative contracts are carried on the balance sheet at their marked-to-market value, with the change in value flowing to either net income or comprehensive income. Gains and losses on instruments that are identified as hedges flow initially to comprehensive income and are brought into net income at the time the underlying hedge is settled. Any instruments that do not qualify for hedge accounting are marked-to-market with the adjustment (tax effected) flowing through the statement of operations. These standards were adopted retroactively without restating prior years, except for the presentation of translation gains or losses on self-sustaining operations.

CANADIAN ACCOUNTING PRONOUNCEMENTS

Financial instruments – disclosures and presentation of financial instruments

Effective January 1, 2008, the Company will be required to adopt two new CICA standards, Handbook Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instruments Presentation which will replace Section 3861, Financial Instruments Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in 2006 and the Company is assessing the impact on its Consolidated Financial Statements.

Capital disclosures

Effective January 1, 2008, the Company will be required to adopt the CICA Handbook Section 1535, Capital Disclosures which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in 2006 and the Company is assessing the impact on its Consolidated Financial Statements.

Convergence with International Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting

Standards Board progress review to be undertaken by early 2008. The impact of this transition on the Corporation's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

RISKS AND UNCERTAINTIES

The business of exploring for, developing and producing oil and gas reserves is inherently risky. There is a risk that the sale of the Company's reserves may be delayed indefinitely due to process constraints, lack of pipeline capacity or lack of markets. The price the Company receives for its crude oil and natural gas fluctuates continuously and for the most part is beyond its control. The Company is also subject to the risks associated with oil and gas properties, including exploration, development and production risks, and environmental risks such as the pollution of air, land and water. In all areas of the Company's business, it competes against entities that have greater technical and financial resources. The Company's growth is dependent upon external sources of financing which may not be available on acceptable terms. Additional information regarding business risks and uncertainties can be found under the heading "Risk Factors" in the Company's Annual Information Form dated March 30, 2007 at www.sedar.com.

SPECIAL CAUTIONARY 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. Mahalo undertakes no obligation to update or revise any forward-looking statements, except as 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" in this MD&A. 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. The non-GAAP financial measures, as calculated and used by the Company, may not be comparable to similarly titled measures reported by other companies.

Management considers these non-GAAP 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 research analysts to value and compare oil and gas exploration and production companies, and are frequently included in published research when providing investment recommendations.

Funds from operations and funds from operations per share 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. Funds from operations represent cash from operating activities before change in related non-cash working capital. Funds from operations per share (basic and diluted) are calculated using the weighted average shares outstanding, consistent with the calculation of net income 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 should not be considered an alternative to, or more meaningful than, net earnings or other measures of performance or liquidity calculated in accordance with Canadian GAAP. 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 on a per unit basis between periods.

Net debt as calculated by the Company represents long-term debt less working capital (excluding unrealized gain or loss on financial instruments).

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.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or at the Company's web-site at www.mahaloenergy.com.

MAHALO ENERGY LTD.*Unaudited Consolidated Financial Statements***Consolidated Balance Sheets***(\$000's)*

As at	June 30 2007	December 31 2006
ASSETS (note 6)		
Current		
Cash	\$ -	\$ 1,287
Accounts receivable	14,820	15,167
Inventory	2,413	2,714
Prepaid and deposits	2,185	1,402
	<u>19,418</u>	<u>20,570</u>
Deferred financing costs (note 3)	-	366
Property and equipment (note 5)	177,174	178,678
	<u>\$ 196,592</u>	<u>\$ 199,614</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	\$ 535	\$ -
Accounts payable and accrued liabilities	19,822	21,025
Unrealized loss on financial instruments (note 4)	139	350
	<u>20,496</u>	<u>21,375</u>
Long-term debt (note 6)	51,099	52,349
Asset retirement obligations (note 7)	4,804	5,763
Future income taxes	3,626	3,364
	<u>80,025</u>	<u>82,851</u>
Shareholders' equity		
Share capital (note 8)	158,979	157,983
Warrants (note 8)	1,990	2,494
Contributed surplus (note 8)	6,925	6,035
Deficit	(51,327)	(49,749)
	<u>116,567</u>	<u>116,763</u>
	<u>\$ 196,592</u>	<u>\$ 199,614</u>
Commitments (note 11)		

See accompanying notes to the consolidated financial statements

MAHALO ENERGY LTD.*Unaudited Consolidated Financial Statements***Consolidated Statements of Earnings, Comprehensive Loss and Deficit***(\$000's, except per share)*

For the periods ended June 30	Three Months		Six Months	
	2007	2006	2007	2006
REVENUES				
Petroleum and natural gas revenue	\$ 10,871	\$ 8,714	\$ 21,303	\$ 17,106
Royalty expense	(2,770)	(2,510)	(4,741)	(4,711)
	8,101	6,204	16,562	12,395
Gain (loss) on financial instruments (note 4)	171	(16)	97	(16)
Interest and other income	14	11	24	27
	8,286	6,199	16,683	12,406
EXPENSES				
Operating	2,175	1,449	4,286	2,612
Transportation	548	222	818	412
General and administrative	2,225	1,040	3,743	1,563
Stock-based compensation (note 8)	324	369	769	712
Foreign exchange (gain) loss (note 9)	(1,877)	(902)	(2,354)	(579)
Interest and financing costs	771	645	1,779	780
Depletion, depreciation and accretion	4,316	3,734	8,574	6,017
	8,482	6,557	17,615	11,516
Income (loss) before income tax	(196)	(358)	(932)	890
Current income taxes	6	-	13	-
Future income taxes (recovery)	(31)	444	262	1,147
NET LOSS AND COMPREHENSIVE LOSS	(171)	(802)	(1,207)	(257)
DEFICIT, BEGINNING OF PERIOD	(51,156)	(638)	(49,749)	(1,183)
Adoption of accounting policy (note 3)	-	-	371	-
DEFICIT, END OF PERIOD	\$ (51,327)	\$ (1,440)	\$ (51,327)	\$ (1,440)
Net loss per share (note 8)				
Basic and diluted	\$ (0.00)	\$ (0.02)	\$ (0.02)	\$ (0.01)

See accompanying notes to the consolidated financial statements

MAHALO ENERGY LTD.
Unaudited Consolidated Financial Statements

Consolidated Statements of Cash Flows
(\$000's)

For the periods ended June 30	Three Months		Six Months	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net loss	\$ (171)	\$ (802)	\$ (1,207)	\$ (257)
Non-cash items:				
Stock-based compensation	324	369	769	712
Depletion, depreciation and accretion	4,316	3,734	8,574	6,017
Unrealized financial derivative (gain) loss (note 4)	(223)	2	(211)	2
Unrealized foreign exchange (gain) loss (note 9)	(670)	183	(1,149)	308
Amortization of deferred financing costs	-	24	-	41
Future income taxes	(31)	444	262	1,147
	3,545	3,955	7,038	7,970
Change in non-cash working capital (note 10)	(3,314)	4,974	(3,845)	2,809
	231	8,929	3,193	10,779
FINANCING ACTIVITIES				
Issue of common shares	-	(113)	450	(113)
Exercise of stock options	42	-	42	-
Bank operating loan advances	-	2,800	-	2,800
Long-term debt	7,260	12,597	760	30,104
Deferred financing costs	-	(91)	-	(184)
	7,302	15,193	1,252	32,607
INVESTING ACTIVITIES				
Expenditure on property and equipment	(13,364)	(13,645)	(22,183)	(34,540)
Property and other acquisitions	-	(4,530)	-	(12,918)
Proceeds on sale of oil and gas properties	91	-	14,274	-
Change in non-cash working capital (note 10)	(3,137)	(8,959)	1,642	1,433
	(16,410)	(27,134)	(6,267)	(46,025)
DECREASE IN CASH	(8,877)	(3,011)	(1,822)	(2,640)
CASH, BEGINNING OF PERIOD	8,342	1,230	1,287	857
BANK INDEBTEDNESS, END OF PERIOD	\$ (535)	\$ (1,781)	\$ (535)	\$ (1,783)

See accompanying notes to the consolidated financial statements

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2007 AND 2006

All amounts are expressed in Canadian dollars unless otherwise stated

1. NATURE OF OPERATIONS

Mahalo Energy Ltd. (“Mahalo” or the “Company”) was incorporated under the Business Corporations Act (Alberta) on April 21, 2004. Mahalo completed its initial public offering and was listed on the Toronto Stock Exchange on July 29, 2005. Mahalo has one wholly-owned subsidiary, Mahalo Energy (USA) Inc.

The Company’s primary business is the acquisition of, exploration for and development and production of coal bed methane and shale gas in Canada and the United States, as well as conventional oil and gas in Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles, except that certain disclosures have been condensed or omitted. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2006, except for the change described in note 3.

The interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto as at and for the year ended December 31, 2006.

The results of operations for the three and six months ended June 30, 2007 may not be indicative of the results for the 2007 fiscal year.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, Mahalo adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

CICA Section 1506, “Accounting Changes,” provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

CICA Section 1530, “Comprehensive Income,” introduces a new requirement to temporarily present certain gains and loss from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. The application of this standard did not result in a difference between comprehensive income (loss) and net income (loss) for the periods presented.

CICA Section 3855, “Financial Instruments – Recognition and Measurement” and Section 3861, “Financial Instruments – Recognition and Measurement,” outlines when and at what amount the financial instrument is to be recognized on the balance sheet. The new standard also specifies how financial instrument gains and losses are to be presented. All financial instruments are classified into one of the following five categories; held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities.

Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification;

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

The financial instruments recognized on Mahalo's balance sheet are recorded at amounts that approximate their estimated fair values; therefore no further adjustments were required upon adoption of the new sections. There were no financial assets on the balance sheet which were designated as held-for-trading, held-to-maturity or available-for-sale, except for the financial derivative contracts (see note 4). For financial assets and financial liabilities that are not classified as held for trading, the new accounting standards require the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to be added to the fair value initially recognized for that financial instrument or expensed to earnings as incurred.

As a result of adopting Sections 3855 and 3861, unamortized deferred financing costs of \$370,736 relating to the Company's debt facility have been reclassified for presentation purposes as an adjustment to opening retained earnings as at January 1, 2007. The Company has elected future financing costs to be charged to income as incurred.

CICA Section 3865, "Hedges," provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships," and the hedging guidance in Section 1650, "Foreign Currency Translation," by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company is currently using mark-to-market accounting for its derivative instrument, which does not qualify or has not been designated as a hedge.

Accounting Pronouncements

Effective January 1, 2008, the Company will be required to adopt two new CICA standards, Handbook Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instruments Presentation which will replace Section 3861, Financial Instruments Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in 2006 and the Company is assessing the impact on its Consolidated Financial Statements.

Effective January 1, 2008, the Company will be required to adopt the CICA Handbook Section 1535, Capital Disclosures which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in 2006 and the Company is assessing the impact on its Consolidated Financial Statements.

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken by early 2008. The impact of this transition on the Corporation's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

4. FINANCIAL INSTRUMENTS

a) Carrying Values of Financial Assets and Liabilities

Effective January 1, 2007, Mahalo has elected to designate its financial instruments as follows;

- Loans and receivables – accounts receivables
- Held-for-trading – financial instruments
- Other financial liabilities – bank debt and accounts payables

Due to the short-term nature of these financial instruments, carrying value approximates fair value.

b) Financial Sales Contracts

As at June 30, 2007, the Company had the following financial derivative contracts.

Transaction Type	Volume	Contract Price/Bbl	Expiry
WTI Collar	30 Bbl/Day	US \$38.00 - \$44.65	October 2007
WTI Puts	30 Bbl/Day	US \$ 40.00	November 2007
AECO Financial Hedge	300 GJ/Day	CDN \$ 6.64	October 2007

Based on dealer quotes, the unrealized loss on these contracts was \$84,992 at June 30, 2007 (2006 - \$213,859). For the three and six months ended June 30, 2007, the gain on these contracts recognized in income was \$130,141 and \$15,442 (2006 – loss of \$ 16,171) composed of an unrealized financial derivative gain of \$182,118 and \$128,867 (2006 – loss of \$ 2,200) and a realized loss of \$51,977 and \$113,425 (2006 – loss of \$ 13,971).

The Company recorded a liability of \$231,420 related to the fair value of physical sales contracts assumed on the May 2006 acquisition of Peregrine Energy Ltd. The amount is being amortized over the term of the physical sales contracts. For the three and six months ended June 30, 2007, amortization amounted to \$40,839 and \$81,678 (2006 - \$nil), which has been recognized in income, leaving an unamortized balance of \$54,451.

The following table summarizes the Company's unrealized loss on financial instruments.

	June 30	December 31
(\$000's)	2007	2006
Unrealized loss on financial derivative contracts	\$ 85	\$ 214
Unamortized financial liability	54	136
Balance, June 30, 2007	\$ 139	\$ 350

5. PROPERTY AND EQUIPMENT

(\$000s)	Cost	Accumulated Depletion and Depreciation	Net Book Value
June 30, 2007:			
Canada:			
Petroleum and natural gas properties and equipment	\$ 108,630	\$ 33,164	\$ 75,466
Other	1,668	162	1,506
	<u>110,298</u>	<u>33,326</u>	<u>76,972</u>
USA:			
Petroleum and natural gas properties and equipment	117,195	17,947	99,248
Other	965	11	954
	<u>118,160</u>	<u>17,958</u>	<u>100,202</u>
	<u>\$ 228,458</u>	<u>\$ 51,284</u>	<u>\$ 177,174</u>
December 31, 2006:			
Canada:			
Petroleum and natural gas properties and equipment	\$ 116,403	\$ 30,421	\$ 85,982
Other	2,875	140	2,735
	<u>119,278</u>	<u>30,561</u>	<u>88,717</u>
USA:			
Petroleum and natural gas properties and equipment	101,430	12,332	89,098
Other	870	6	864
	<u>102,300</u>	<u>12,338</u>	<u>89,962</u>
	<u>\$ 221,578</u>	<u>\$ 42,899</u>	<u>\$ 178,679</u>

Costs associated with unproven properties excluded from costs subject to depletion amounted to \$67,939,760 (December 31, 2006 - \$72,755,560). Of the total excluded costs, \$47,795,425 (December 31, 2006 - \$55,443,939) related to Canada and \$20,144,335 (December 31, 2006 - \$17,311,621) to the United States.

Future development costs of \$18,948,700 (December 31, 2006 - \$23,118,400) have been included in the costs subject to depletion, of which \$4,364,700 (December 31, 2006 - \$7,244,700) related to Canada and \$14,584,000 (December 31, 2006 - \$15,873,700) to the United States.

The Company capitalized \$120,769 (2006 - \$148,237) of direct general and administrative costs related to petroleum and natural gas properties in the six months ended June 30, 2007. In addition, the Company capitalized \$120,220 (2006 - \$140,779) of stock based compensation during the same period.

During the six months ended June 30, 2007, the Company sold certain non-core conventional oil and gas assets and facilities for net proceeds of \$14,340,732.

6. BANK DEBT

As at June 30, 2007, Mahalo has a CDN \$75.0 million revolving credit facility with a United States bank with an approved borrowing base of CDN \$60.0 million. The Company has drawn CDN \$51,099,298 on the facility. The revolving credit facility bears interest at the lender's base, US prime rate or Libor plus 0.0 to 1.5 percent depending on the level of facility utilization. The facility requires Mahalo to maintain certain financial ratios and other covenants and is collateralized by a fixed charge on Mahalo's United States assets and a floating charge on its Canadian assets.

The effective interest rate on amounts outstanding under the credit facility at June 30, 2007 was 7.32 percent (2006 – 7.78 percent).

7. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems and processing facilities.

At June 30, 2007, the estimated total undiscounted amount required to settle the asset retirement obligations, adjusted for 2.0 percent inflation, is \$12.1 million (December 31, 2006 - \$13.9 million). This amount has been discounted using a credit adjusted risk free interest rate of 8.5 percent. The expected period until settlement is dependent upon the useful lives of the underlying assets, which currently extend up to 50 years.

A reconciliation of the asset retirement obligation is provided below:

<i>(\$000s)</i>	
Balance, December 31, 2006	\$ 5,763
Liabilities incurred	195
Liabilities disposed	(1,350)
Revision to assumptions	7
Accretion expense	189
Balance, June 30, 2007	\$ 4,804

8. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares with no par value.
Unlimited number of non-voting preferred shares issuable in series.

(b) Issued

Common shares	Shares	(\$000s)
Balance, December 31, 2006	58,386,035	\$ 157,983
Exercise of share purchase warrants	900,000	954
Exercise of stock options	12,000	42
Balance, June 30, 2007	59,298,035	\$ 158,979

During the six months ended June 30, 2007, the remaining 900,000 share purchase warrants were exercised to purchase an equivalent number of common shares at \$0.50 per share. Each warrant was assigned a value of \$0.56 based on a net asset value of the Company at the date of issue. In addition, 12,000 stock options were exercised to purchase an equivalent number of common shares at \$3.54 per share.

The weighted average number of shares outstanding is as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Weighted average basic	59,286,562	48,128,107	59,186,599	43,865,459
Weighted average diluted	59,286,562	48,128,107	59,186,599	43,865,459

(c) Share Purchase Warrants

At June 30, 2007, the Company had 912,000 performance warrants outstanding at a strike price of \$4.92 per share. The warrants will become 100 per cent vested when the Company's stock price is \$8.33 per share on a 45 day weighted average trading price basis. The warrants expire July 29, 2010. The warrants carry a "Put Right" whereby the warrant holders, at their option, may receive cash in an amount equal to the excess of the market price at the time of exercise over the strike price. No value was assigned to these warrants. At the date of the grant, once the performance condition becomes likely, the warrants will be valued by the changes in the market price of the common shares at the end of each accounting period and will be amortized into earnings over their expected life. In addition, the Company had warrants, which enables the warrant holder to acquire 1,440,000 common shares at \$4.17 per share. These warrants expire November 30, 2009.

(d) Stock Options

The Company has a stock option plan whereby the Company may grant options to its directors, officers, employees and consultants, for up to an aggregate of 10 percent of the issued and outstanding common shares.

The following table provides a continuity of stock options outstanding and the weighted average share prices for which shares have been reserved.

	Options	Weighted Average Exercise Price
Outstanding, December 31, 2006	4,967,700	\$ 4.15
Granted	655,000	\$ 3.90
Exercised	(12,000)	\$ 3.54
Forfeited	(455,000)	\$ 3.22
Outstanding, June 30, 2007	5,155,700	\$ 4.21
Exercisable, June 30, 2007	2,225,226	\$ 4.43

The following table summarizes information about stock options outstanding at June 30, 2007.

Range of Exercise Price	Stock Options Outstanding	Weighted Average Remaining Term (Years)	Stock Options Exercisable
\$2.30 to \$3.95	1,927,200	4.75	418,394
\$4.19 to \$4.77	2,820,100	3.11	1,625,100
\$5.00 to \$5.68	388,400	3.31	175,066
\$7.38 to \$7.40	20,000	3.55	6,666
	5,155,700	3.69	2,225,226

(e) Stock-Based Compensation

The fair value of stock options granted during the six months ended June 30, 2007 was estimated using the Black-Scholes option-pricing model, using the following weighted average assumptions:

	2007
Risk free interest rate (%)	3.5
Expected life (years)	5.0
Expected volatility (%)	45.0

The weighted average fair value of options granted was \$1.75 per share.

During the three and six months ended June 30, 2007, the Company recorded stock-based compensation of \$383,527 and \$889,932 (2006 - \$431,040 and \$821,423), respectively, related to options granted under the

formal stock option plan, of which \$324,481 and \$769,712 (2006 - \$369,029 and \$711,859) was recognized as an expense and \$59,046 and \$120,220 (2006 - \$62,012 and \$109,564) was capitalized to property and equipment.

(f) Contributed Surplus

The following table reconciles Mahalo's contributed surplus.

<i>(\$000s)</i>	Amount
Balance, December 31, 2006	\$ 6,035
Stock-based compensation costs	890
Balance, June 30, 2007	\$ 6,925

9. FOREIGN EXCHANGE

During the three and six months ended June 30, 2007, the Company recognized a net foreign exchange gain of \$1,877,403 and \$2,353,830 (2006 – net gain of \$902,419 and \$579,112), respectively, of which \$670,489 and \$1,148,867 (2006 – net loss of \$183,177 and \$307,679) was unrealized during the respective periods. The amounts recorded reflect the impact of fluctuations in the Canadian/United States exchange rate on monetary assets and liabilities, revenue and expenses of the Company that are denominated in United States dollars.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital for the three and six months ended June 30 was as follows:

<i>(\$000s)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Decrease (increase) in non-cash working capital				
Accounts receivable	\$ (2,493)	\$ (2,534)	\$ 347	\$ (1,920)
Inventory	(301)	(1,665)	(301)	(1,665)
Prepaid and deposits	(990)	(760)	(783)	(1,063)
Accounts payable and accrued liabilities	(2,667)	1,857	(1,466)	9,773
Less working capital deficiency on business acquisition	-	(883)	-	(883)
Net change in non-cash working capital	\$ (6,451)	\$ (3,985)	\$ (2,203)	\$ 4,242
Relating to:				
Operating activities	\$ (3,314)	\$ 4,974	\$ (3,845)	\$ 2,809
Investing activities	(3,137)	(8,959)	1,642	1,433
Net change in non-cash working capital	\$ (6,451)	\$ (3,985)	\$ (2,203)	\$ 4,242

11. COMMITMENTS

The Company has committed to certain payments over the next five years as follows:

	2007	2008	2009	2010	2011	Total
Canada: (\$000s)						
Office lease	\$ 328	\$ 506	\$ 542	\$ 568	\$ 426	\$ 2,370
Equipment usage	1,074	2,376	2,376	874	-	6,700
	\$ 1,402	\$ 2,882	\$ 2,918	\$ 1,442	\$ 426	\$ 9,070
USA (US\$000s):						
Office lease	\$ 20	\$ 31	\$ 10	\$ -	\$ -	\$ 61

The Company has sales contracts outstanding with respect to the physical delivery of natural gas at a fixed price. The following is a summary of the commodity fixed forward physical commitments entered into by the Company as at June 30, 2007.

	Daily Volume	Contract Price	Term
Sell	2,000 GJ	Cdn \$7.35/GJ	January 2007 - December 2007
Sell	1,000 GJ	US \$7.23/MMBtu	November 2006 - October 2007
Sell	450 GJ	Cdn \$6.55/GJ	November 2006 - October 2007
Purchase	2,000 GJ	Cdn \$7.07/GJ	April 2007 - October 2007

The estimated fair value of these contracts as at June 30, 2007 is a loss of \$304,769, which has not been recognized in income as the Company has elected these non-financial derivative contracts to meet normal purchase and sale usage requirements and the pricing variables are closely related to the asset being purchased and sold.

12. SEGMENTED INFORMATION

The Company's petroleum and natural gas exploration, development and production operations are conducted in two geographic segments: Canada and the United States. The following tables reflect segmented information as at and for the three and six months ended June 30, 2007 and 2006.

<i>(\$000s)</i>	Canada	United States	Total
Three months ended June 30, 2007			
Net revenue	\$ 2,773	\$ 5,513	\$ 8,286
Net income (loss)	(1,927)	1,756	(171)
Net capital expenditures	3,369	9,903	13,272
Six months ended June 30, 2007			
Net revenue	5,691	10,992	16,683
Net income (loss)	(3,891)	2,684	(1,207)
Net capital expenditures	(7,868)	15,777	7,909
As at June 30, 2007			
Property and equipment	76,972	100,202	177,174
Total assets	147,054	49,538	196,592
<i>(\$000s)</i>	Canada	United States	Total
Three months ended June 30, 2006			
Net revenue	\$ 1,625	\$ 4,574	\$ 6,199
Net income (loss)	(1,689)	888	(802)
Net capital expenditures	89,317	5,083	94,400
Six months ended June 30, 2006			
Net revenue	1,851	10,555	12,406
Net income (loss)	(2,245)	1,987	(257)
Net capital expenditures	103,268	23,089	126,357
As at June 30, 2006			
Property and equipment	155,676	83,724	239,400
Total assets	187,809	71,948	259,757

13. RELATED PARTY TRANSACTIONS

The Company is related to Avenir Capital Corporation and Avenir Operating Corp. by virtue of certain directors in common. The Company conducts joint operating activities with these companies in the normal course of business. During the six months ended June 30, 2007, the Company sold certain non-core properties to Avenir Operating Corp. for \$7.2 million.

14. COMPARATIVE AMOUNTS

Certain comparative figures have been restated to conform to the current year's presentation.



**CORPORATE
INFORMATION**

TSX - CBM

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William Gallacher, Chairman
Duncan Chisholm
J.G. (Jeff) Lawson
Gary Dundas
Michael Dilger
Kevin Wolfe
David Butler

Officers

Duncan Chisholm
President and CEO

David Burton
Vice President Engineering and Business
Development

William Dawidowski
Vice President Finance and CFO

Edward Marcinew
Vice President Exploration

Vernon Haberlack
Vice President Production

Lindsay Goos
Controller

Banker

Union Bank of California

Legal Counsel

Burnet, Duckworth & Palmer, LLP

Auditor

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