



GALLEON ENERGY

2009

Third Quarter

INTERIM REPORT



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Report to the Shareholders

THIRD QUARTER 2009 HIGHLIGHTS

- Drilled 10 (9.3 net) wells in Q3 2009: three (3.0 net) oil wells, 6 (5.7 net) natural gas wells, and one (0.6 net) well drilled and abandoned;
- Revenues (including realized net gains of \$0.7 million from financial derivatives) of \$50.2 million and funds from operations of \$18.8 million (\$0.23/share) were generated from average production of 15,216 BOE/d (62% gas) in Q3 2009;
- Operating expenses averaged \$9.32/BOE in Q3 2009, a decrease of 22% from Q3 2008. Operating expenses from Galleon's four major properties, comprising 68% of total production, have averaged \$5.74/BOE in 2009;
- In Q3 2009, an operating netback of \$18.03/BOE (including \$0.50/BOE of realized net gains from financial derivatives) was recorded. This netback continues to be strong as crude oil and NGL production comprises 38% of total production;
- A loss of \$1.8 million was recorded in Q3 2009 which includes an unrealized gain of \$13.3 million relating to financial derivatives marked to market at September 30, 2009;
- In Q3 2009, exploration and development capital expenditures of \$30 million (including \$12.8 million in plant and facility expenditures) were incurred;
- At September 30, 2009, net debt was \$242.1 million comprised of \$230.8 million in bank debt and a working capital deficiency of \$11.3 million. Credit facilities of \$310 million are available to the Corporation.

In 2009 low commodity prices have limited production growth due to lower cash flow available for investment. The capital budget has been primarily funded from cash flow. Available capital has been directed toward advancing the Montney and Doig resource projects. The 2009 capital expenditures have focused on defining the size of the resource bases, expanding and optimizing facilities for future growth, and improving the technology for unlocking the resource bases. Galleon's Montney and Doig projects are advancing towards the large scale development phase which typically delivers consistent production additions and reserve growth.

DOIG LIGHT OIL RESOURCE PROJECT UPDATE

Over the last 12 months, Galleon has successfully proven a new light (39° API gravity) sweet oil resource project. This project targets the Doig formation. The key to success has been the application of horizontal multi-fracture drilling to a low permeability reservoir historically known to be oil charged. This is analogous to the development of the Bakken and Montney resource plays. To date, there are about 40 vertical wells which define the Doig resource fairway. These vertical wells support the potential for low risk, repeatable horizontal drilling.

Currently, Galleon has 22 sections (approximately 70% working interest) within the mapped Doig resource fairway. To date, Galleon has drilled three horizontal wells with multi-fracture stimulation into the zone. The first horizontal well had a 400 meter lateral. This well has produced over 12,000 barrels of oil over the last ten months and is currently producing approximately 50 BOE/d. The second horizontal well also had a 400 meter lateral, was drilled at the down dip edge of the pool and has produced at a rate of up to 35 BOE/d. The third horizontal well had a 900 meter lateral and an 8-stage fracture completion. This well has been on stream producing on average 161 BOE/d for the last two months.

The oil being produced from these wells is high quality 39° API light sweet crude with a high net back of over \$50/BOE CDN at \$75/Bbl CDN oil price. The project has a high recycle ratio. The total well cost (drill, complete, fracture, equip and tie-in) with a 900 meter lateral was \$1.7 million. The payout period for this type of well at an oil price of \$75/Bbl CDN is 1.1 years. This compares favorably with the Cardium and Bakken horizontal well project economics.

Although this project is in the early stage of its development, Galleon intends to accelerate the drilling program by drilling up to four horizontal wells in Q4 2009 to gather additional production data. With successful drilling results, Galleon plans to drill up to 20 wells in 2010. The Doig formation lends itself to down spacing to eight wells per section due to its tight nature. As such, Galleon sees the potential for over 100 risked drilling locations on existing owned lands over the next four to five years.

CENTRAL MONTNEY PROJECT # 1 UPDATE

In late Q3 2009, Galleon successfully completed the plant expansion from 14 Mmcf/d to 28 Mmcf/d on budget and on schedule. Currently, Galleon has increased its net production from the area to over 3,000 BOE/d from the 200 BOE/d level in Q2 2008. The dramatic growth of production has come from successful Montney drilling and is consistent with a large gas resource. This is also supported by volumetric and pressure data. Galleon plans to continue to grow its production to 4,000 BOE/d in this project over the next 12 months by drilling two to three wells. This project is expected to generate strong cash flow in 2010.

Galleon has seen operating costs for the project drop from \$8.92/BOE in Q3 2008 to \$3.09/BOE in Q3 2009. This dramatic drop in operating costs has been driven by increasing production volume.

To date, there are six producing Montney vertical wells in the project. The typical vertical well has historically produced at rates averaging 3.0 Mmcf/d during the first year. The economics of this project are robust and the average well is expected to pay out in less than one year based on \$5.50/Mcf. Based on current service costs, the total well cost is approximately \$1.2 million on average including drilling, completion, equipping and tie in costs. The wells are relatively inexpensive because they are shallow (1400 meters) and generally require only a 3 tonne fracture. At \$5.50/Mcf and \$75/Bbl CDN, this project has a high recycle ratio and netbacks of over \$20/BOE due to a high oil and NGL content of 20 Bbl/Mmcf.

Galleon is currently using its extensive 3D seismic and key lead wells to develop strong exploration locations that target similar Montney plays on new trends. These exploration locations will be layered into the drilling budget throughout 2010.

EASTERN MONTNEY UPDATE

Eastern Montney drilling continued to be curtailed in Q3 2009 due to low natural gas prices and limited capital. Only 2 eastern Montney horizontal wells were drilled in the third quarter 2009.

Galleon has made good progress in reducing the total well cost in the project by saving approximately \$0.3 million per well. This cost saving has been achieved by faster drilling from the original 12 days to 8 days and lower service costs. During Q3 2009, operating costs for the project have averaged \$5.87/BOE.

Since March 2008, Galleon has drilled 36 horizontal wells with multi-stage fracture stimulation. The production from these wells can be classified into three cases (low, expected and high). The strength of this project is that even the "low" case wells payout within 2.2 years based on \$5.50/Mcf CDN. The "expected" and "high" cases are estimated to payout within 1.4 years and 0.5 years respectively. Based on current service costs, the total cost (drilling, completion, fracturing, equipping and tie-in) is now under \$1.3 million per well on average.

The wells are less expensive due to the shallow depth of 1,000 meters and the small fractures that are required. At \$5.50/Mcf and \$75/Bbl CDN, the project has a high recycle ratio and average netbacks of over \$20/BOE due to high oil and NGL content of 15 Bbl/Mmcf.

In 2010, Galleon plans to drill up to 40 horizontal wells compared to 15 horizontal wells planned in the 2009 drilling program. This program may be expanded if natural gas prices increase. To date, Galleon has a large drilling inventory of approximately 400 locations. As production from this area grows, additional production facilities will be required.

NORDEGG UPDATE

The Nordegg formation is a play that represents significant medium gravity oil potential. Over 20 vertical wells have been drilled and have defined the pool. One 250 meter open hole horizontal well was drilled into the Nordegg zone in 2005. To date, this well has produced approximately 110,000 barrels of oil and 0.46 Bcf of natural gas. It has produced consistently at rates of 100 Bbl/d and 250 Mcf/d since October 2007.

Galleon drilled one 500 meter Nordegg open hole horizontal well in Q3 2009. Unfortunately completion challenges were experienced when a portion of the open hole collapsed. A liner was run in the well in Q4 2009 and oil has been produced from the well but at rates which are lower than expected. As such, additional work is planned as budget and weather permits. A second open hole horizontal well was drilled in Q4 2009 and is currently being completed. With current total well costs of approximately \$1 million and based on expected results, the economics for this project are strong.

PUSKWA UPDATE

Puskwa remains a robust light oil project and one that Galleon is committed to. In 2009 Galleon has focused on optimizing the waterflood performance by converting one oil producer into a water injector. In Q3 2009, Galleon has drilled one producer and will follow with a second in Q4 2009. In Q1 2010, Galleon plans to drill one high impact exploration well.

EMERGING PLAYS

In the Senex/Sawn Slave Point project, up to two horizontal multi-fracture laterals are planned to be drilled into the Slave Point formation and up to two vertical wells are planned to be drilled to the Keg River formation. The horizontal wells are estimated to each cost approximately \$2 million to drill and complete. Analog wells have produced at initial rates of approximately 160 BOE/d. Galleon currently has access to 63 sections (approximately 90% interest) of land with Slave Point oil potential.

Up to three horizontal multi-fracture wells targeting Montney oil are planned to be drilled in the North Peace River Arch area. The cost to drill and complete these wells is expected to be less than \$1.3 million each. Analog wells have produced at initial rates approximately 120 BOE/d. Galleon currently has access to 30 sections (approximately 65% interest) of land with Montney oil potential.

In Q1 2010, Galleon also intends to test Montney resource oil in the Two Rivers area of BC. Galleon plans to recomplete a Montney zone that has demonstrated the potential for 40° API Montney oil. Pending successful completion, Galleon may follow up with the drilling of a horizontal well with multi-fracture stimulation. Galleon has access to 15 sections (approximately 70% interest) of land where vertical well control has confirmed the presence of the Montney oil zone.

Management's Discussion and Analysis

This Management's Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Galleon Energy Inc. ("Galleon" or the "Corporation") for the three and nine month periods ended September 30, 2009 with comparisons to the three and nine months ended September 30, 2008 and as at December 31, 2008. The MD&A has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the unaudited interim financial statements as at and for the three and nine month periods ended September 30, 2009 and 2008 and the audited financial statements and MD&A for the year ended December 31, 2008.

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (Bbl) of oil. BOEs may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Amounts are shown in Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes.

This MD&A is based on information available as of, and is dated, November 12, 2009.

NON-GAAP MEASUREMENTS

The MD&A contains terms commonly used in the oil and gas industry, such as funds from operations, funds from operations per share, and operating netback. These terms are not defined by GAAP and should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with Canadian GAAP as an indicator of Galleon's performance. Management believes that in addition to net earnings, funds from operations is a useful financial measurement which assists in demonstrating the Corporation's ability to fund capital expenditures necessary for future growth or to repay debt. Galleon's determination of funds from operations may not be comparable to that reported by other companies. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital and abandonment expenditures. The Corporation calculates funds from operations per share by dividing funds from operations by the weighted average number of Class A shares outstanding.

Galleon uses the term net debt in the MD&A and presents a table showing how it has been determined. This measure does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other companies.

FORWARD-LOOKING STATEMENT

Statements that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, expected production rates, expectation that production will stabilize in certain areas and ability to grow production while spending within cash flow, expected operating costs in 2009, expectation that the Corporation will not be taxable in 2009, drilling plans and the timing thereof, capital expenditures, the timing thereof and the method of funding thereof, plans to continue hedging and to sell non-core assets, plans related to the adoption of IFRS and timing of construction of facilities and shut-in of facilities and the timing and the effects thereof. These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Corporation's objectives, goals or future plans are forward-looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, Galleon's actual results may differ materially from those expressed in, or implied by, the forward-looking statements.

Forward looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although the Corporation believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Corporation can give no assurance that such expectations will prove to be correct.

In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Corporation has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Corporation to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; and the ability of the Corporation to successfully market its oil and natural gas products.

Readers are cautioned that the foregoing list of factors and assumptions is not exhaustive. Additional information on these and other factors that could affect Galleon's operations and financial results are included elsewhere herein and in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or at Galleon's website (www.galleonenergy.com). Furthermore, the forward looking statements contained herein are made as at the date hereof and Galleon does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Financial and Operating Highlights

(\$000s except per share amounts)	Three months ended September 30		Nine month ended September 30	
	2009	2008	2009	2008
FINANCIAL				
Revenue before royalties and financial derivatives	49,497	115,835	156,857	337,953
Funds flow from operations ¹	18,818	58,331	74,573	174,933
Per share – basic	0.23	0.80	0.96	2.49
Per share – diluted	0.23	0.79	0.96	2.45
Net income (loss)	(1,815)	38,061	(28,918)	54,151
Per share – basic	(0.02)	0.52	(0.37)	0.77
Per share – diluted	(0.02)	0.51	(0.37)	0.76
Capital expenditures –				
Exploration & Development	30,035	88,802	80,045	194,984
Total assets	1,127,665	1,121,339	1,127,665	1,121,339
Net debt ²	242,056	260,986	242,056	260,986
Shareholders' equity	701,054	661,350	701,054	661,350
Weighted average shares outstanding				
Basic	82,890,883	72,938,357	78,082,486	70,231,232
Diluted	82,890,883	73,955,365	78,082,486	71,473,655
OPERATING				
Average daily production				
Light oil (Bbl/d)	4,301	5,222	4,438	5,084
Heavy oil (Bbl/d)	852	1,257	909	1,902
NGLs (Bbl/d)	561	499	604	481
Natural gas (Mcf/d)	57,012	61,329	62,746	56,001
Total (BOE/d)	15,216	17,200	16,409	16,800
Average selling prices ³				
Light oil (\$/Bbl)	66.10	116.45	57.52	111.02
Heavy oil (\$/Bbl)	57.42	98.70	47.52	80.86
NGLs (\$/Bbl)	43.87	73.16	38.75	68.78
Natural gas (\$/Mcf)	3.16	8.00	4.03	8.61
Total (\$/BOE)	35.36	73.20	35.01	73.42

¹ See "Non-GAAP Measurements"

² Net debt includes bank indebtedness, working capital and capital leases, but excludes financial derivatives.

³ The average prices reported are before realized derivatives and transportation charges.

RESULTS OF OPERATIONS

Comparative financial results for the quarter are as follows:

<i>Three months ended September 30</i>	<i>2009</i>		<i>2008</i>	
<i>(\$000s)</i>	<i>1,399,847 BOE</i>		<i>1,582,369 BOE</i>	
	<i>\$/BOE</i>		<i>\$/BOE</i>	
Revenues	49,497	35.36	115,835	73.20
Realized gain (loss) on financial derivative	699	0.50	(9,497)	(6.00)
Other income	6	–	105	0.07
Royalties	(13,489)	(9.64)	(24,485)	(15.48)
GCA ¹	3,549	2.54	3,711	2.35
Transportation costs	(1,970)	(1.41)	(2,140)	(1.35)
Operating costs	(13,045)	(9.32)	(18,917)	(11.95)
Net	25,247	18.03	64,612	40.84
G&A	(3,453)	(2.47)	(3,238)	(2.05)
Interest costs	(2,876)	(2.05)	(2,759)	(1.74)
Capital and other taxes	(100)	(0.07)	(284)	(0.18)
Funds from operations²	18,818	13.44	58,331	36.87

<i>Nine months ended September 30</i>	<i>2009</i>		<i>2008</i>	
<i>(\$000s)</i>	<i>4,479,748 BOE</i>		<i>4,603,259 BOE</i>	
	<i>\$/BOE</i>		<i>\$/BOE</i>	
Revenues	156,857	35.01	337,953	73.42
Realized gain (loss) on financial derivative	8,810	1.97	(23,175)	(5.03)
Other income	752	0.17	333	0.07
Royalties	(40,626)	(9.07)	(72,308)	(15.71)
GCA ¹	17,251	3.85	12,231	2.66
Transportation costs	(6,368)	(1.42)	(6,171)	(1.34)
Operating costs	(44,132)	(9.85)	(55,103)	(11.97)
Net	92,544	20.66	193,760	42.10
G&A	(11,481)	(2.56)	(9,307)	(2.02)
Interest costs	(6,163)	(1.38)	(8,539)	(1.85)
Capital and other taxes	(327)	(0.07)	(981)	(0.21)
Funds from operations²	74,573	16.65	174,933	38.02

¹ GCA means Gas Cost Allowance

² See "Non-GAAP Measurements"

PETROLEUM AND NATURAL GAS REVENUES

<i>Three months ended September 30</i>		2009		2008	
<i>(\$000s)</i>		<i>%</i>		<i>%</i>	
Light oil	26,112	53	55,872	48	
Heavy oil	4,505	9	11,417	10	
NGLs	2,266	4	3,362	3	
Natural gas	16,654	34	44,967	39	
Royalty income	(40)	–	217	–	
Total	49,497	100	115,835	100	

<i>Nine months ended September 30</i>		2009		2008	
<i>(\$000s)</i>		<i>%</i>		<i>%</i>	
Light oil	69,523	44	154,520	46	
Heavy oil	11,798	8	42,134	12	
NGLs	6,387	4	9,058	3	
Natural gas	68,859	44	131,685	39	
Royalty income	290	–	556	–	
Total	156,857	100	337,953	100	

Revenues for the three months ended September 30, 2009 decreased by 57% to \$49.5 million from \$115.8 million for the same period in 2008. The decrease is primarily due to a 43% decrease in oil prices and a 61% decrease in natural gas prices. In the third quarter of 2009 and 2008, on a revenue basis, oil and liquids generated 66% and 61% of revenues, respectively.

PRODUCTION

	<i>Three months ended September 30</i>				<i>Nine months ended September 30</i>			
	2009		2008		2009		2008	
	<i>%</i>		<i>%</i>		<i>%</i>		<i>%</i>	
Light oil (Bbls/d)	4,301	28	5,222	30	4,438	27	5,084	30
Heavy oil (Bbls/d)	852	6	1,257	7	909	6	1,902	11
NGLs (Bbls/d)	561	4	499	3	604	3	481	3
Natural gas (Mcf/d)	57,012	62	61,329	60	62,746	64	56,001	56
BOE/d (6:1)	15,216	100	17,200	100	16,409	100	16,800	100

Average production was 15,216 BOE/d for the third quarter of 2009, 12% lower than the average production of 17,200 BOE/d for the third quarter of 2008. Daily production volumes varied by product as follows: light oil decreased by 18%; heavy oil decreased by 32%; natural gas liquids increased by 12% and natural gas decreased by 7%.

Production volumes have decreased since Q3 2008 as a function of reduced drilling activity in the first nine months of 2009. During the nine months ended September 30, 2009, 28 (26.15 net) wells have been drilled compared to 74 (69.15 net) wells for the same period in 2008. The Corporation's 2009 budget focused on matching expenditures to cash flow and allocating capital toward facility expansion projects rather than drilling and producing flush production into a low commodity price environment.

Light oil production decreased particularly at Eaglesham and McLean Creek as high rate, high decline production from 2008 drilling has not been replaced. The rates of decline have now flattened and production is expected to stabilize going forward.

Similarly, natural gas volumes have decreased compared to Q3 2008 mainly due to declines on multi-zone gas properties which were not replaced by new drilling activity. Although flat compared to Q3 2008, natural gas production in our Eastern Montney area declined from Q2 2009. There were only two wells drilled in Eastern Montney in Q3 2009 and the production from these wells did not offset the typical tight gas flush production coming from the 21 horizontal wells drilled in Q4 2008 and Q1 2009.

COMMODITY PRICING AND MARKETING

Petroleum products are sold to major Canadian marketers at spot reference prices or prices subject to commodity contracts based on US WTI for crude oil and AECO for natural gas. As a means of managing the risk of commodity price volatility, Galleon has entered into several natural gas and crude oil financial contracts.

As at September 30, 2009, the Corporation had entered into the following financial contracts:

Natural gas

March 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$5.96/GJ
March 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$6.01/GJ
September 1, 2009 – December 31, 2009	10,000 GJ/d	CDN \$3.25 GJ put (\$3.69-\$0.44)

Crude Oil

Fixed Price:

March 1, 2009 – December 31, 2009	1,000 Bbl/d	WTI CDN \$68.25/Bbl
February 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$63.30/Bbl
February 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$63.85/Bbl
April 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$70.15/Bbl
May 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$72.00/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$74.30/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$74.50/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$76.25/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$76.50/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$77.00/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$77.00/Bbl

Costless Collar:

March 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$60.00-\$70.00/Bbl
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For the three and nine month periods ended September 30, 2009, the Corporation recorded realized gains of \$0.7 million and \$8.8 million, respectively, on financial contracts. The Company recorded a \$13.3 million unrealized gain during the three months ended September 30, 2009, and an unrealized loss of \$7.0 million during the nine months ended September 30, 2009 on financial contracts. The Corporation would pay \$5.7 million if the contracts were unwound at September 30, 2009.

The Corporation has entered into three financial commodity contracts subsequent to September 30, 2009. For the period January 1, 2010 to December 31, 2010, two crude oil contracts have been entered into. Each contract is for 500 Bbls/d with a floor price of \$75.00 WTI CAD/Bbl. One contract has a ceiling price of \$94 WTI CAD/Bbl and one contract has a ceiling price of \$95 WTI CAD/Bbl.

The third financial commodity contract is for 10,000 GJ/d for the period November 1, 2009 to December 31, 2009 at \$5.16 CAD GJ.

The Corporation has the following costless collar physical derivative contracts in place for natural gas at September 30, 2009:

August 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$3.00-\$6.60/GJ
August 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$3.00 - \$6.53/GJ

Galleon has entered into the above physical derivative contracts for the purpose of protecting funds generated from operations and the volatility of natural gas prices.

Prices – prior to realized gains or losses on financial contracts and prior to transportation

	<i>Three months ended September 30</i>		<i>Nine months ended September 30</i>	
	2009	2008	2009	2008
Light oil (\$/Bbl)	66.10	116.45	57.52	111.02
Heavy oil (\$/Bbl)	57.42	98.70	47.52	80.86
NGLs (\$/Bbl)	43.87	73.16	38.75	68.78
Natural gas (\$/Mcf)	3.16	8.00	4.03	8.61

Comparing the three month period ending September 30, 2009 to 2008, the light oil price decreased by 43% to \$66.10/Bbl, the heavy oil price decreased by 42% to \$57.42/Bbl, and the natural gas price decreased by 61% to \$3.16/Mcf.

CRUDE OIL PRICES

	<i>Three months ended September 30</i>		<i>2008</i>	
	<i>\$000s</i>	<i>\$/Bbl</i>	<i>\$000s</i>	<i>\$/Bbl</i>
Crude oil	30,655	64.67	67,367	113.01
Realized financial contracts	(2,220)	(4.68)	(9,497)	(15.93)
Transportation	(478)	(1.01)	(623)	(1.05)
Net crude oil	27,957	58.98	57,247	96.03

	<i>Nine months ended September 30</i>		<i>2008</i>	
	<i>\$000s</i>	<i>\$/Bbl</i>	<i>\$000s</i>	<i>\$/Bbl</i>
Crude oil	81,496	55.82	196,800	102.81
Realized financial contracts	(2,742)	(1.88)	(23,175)	(12.11)
Transportation	(1,579)	(1.08)	(2,086)	(1.09)
Net crude oil	77,175	52.86	171,539	89.61

Natural Gas Prices

	2009		2008	
	\$000s	\$/Mcf	\$000s	\$/Mcf
Natural gas	16,576	3.16	45,106	8.00
Realized financial contracts	3,074	0.59	–	–
Transportation	(1,413)	(0.27)	(1,517)	(0.27)
Net natural gas	18,237	3.48	43,589	7.73

	2009		2008	
	\$000s	\$/Mcf	\$000s	\$/Mcf
Natural gas	68,974	4.03	132,095	8.61
Realized financial contracts	11,794	0.69	–	–
Transportation	(4,710)	(0.27)	(4,085)	(0.27)
Net natural gas	76,058	4.45	128,010	8.34

PERFORMANCE BY PROPERTY

	2009			2008			2009
	Production BOE/d	%	Operating netbacks/ BOE ¹ \$	Production BOE/d	%	Operating netbacks/ BOE ¹ \$	
Eastern Montney	3,710	24	11.97	3,641	21	34.02	20
Kakut	2,351	16	13.18	611	4	32.50	14
Eaglesham	2,177	14	10.65	3,337	19	38.66	10
Puskwa	1,983	13	29.79	2,390	14	75.24	26
Alexis / St.Anne	1,244	8	14.86	1,297	8	43.34	8
Culp /Kimiwan	618	4	23.49	851	5	76.24	6
Edam	561	4	26.66	902	5	32.29	7
Other	2,572	17	8.37	4,171	24	38.58	9
	15,216	100	14.93	17,200	100	44.42	100

	2009			2008			2009
	Production BOE/d	%	Operating netbacks/ BOE ¹ \$	Production BOE/d	%	Operating netbacks/ BOE ¹ \$	
Eastern Montney	4,086	25	13.33	3,600	21	36.37	17
Eaglesham	2,511	15	15.51	3,220	19	46.97	20
Kakut	2,443	15	14.36	586	4	35.07	3
Puskwa	2,202	13	27.89	2,495	15	65.67	22
Alexis / St.Anne	1,107	7	9.73	1,213	7	40.90	7
Culp /Kimiwan	653	4	19.15	797	5	70.93	7
Edam	583	4	15.10	1,350	8	29.71	5
Other	2,824	17	6.65	3,539	21	40.55	19
	16,409	100	14.67	16,800	100	45.02	100

¹ Operating netbacks/BOE exclude GCA and hedging gains and losses, and are calculated by subtracting royalties and operating costs from revenues.

² See "Non-GAAP Measurements".

Eastern Montney production increased slightly to an average of 3,710 BOE/d (88% natural gas and 12% oil and liquids) during Q3 2009 compared to 3,641 BOE/d in Q3 2008. The Eastern Montney natural gas project continues to be a significant resource to Galleon and is still the largest producing area, contributing 20% to total funds from operating activities in Q3 2009 based on 24% of production volumes. Despite very low and stable operating costs of \$5.87/BOE, the operating netback of \$11.97/BOE decreased by 65% from Q3 2009 mainly due to significantly weaker natural gas prices.

In the third quarter of 2009, Galleon successfully drilled two (100% working interest) Eastern Montney horizontal multi-fractured wells. One unsuccessful non-operated (64.71% working interest) well targeting Devonian oil was also drilled in Q3 2009. The five Montney wells drilled in Q2 2009 and Q3 2009 did not offset the decline in flush production from the 21 Montney horizontal wells drilled in Q4 2008 and Q1 2009. This project continues to meet Galleon's expectations and Galleon remains committed to advancing the play. With fewer new drills the flush production decline for the remainder of 2009 will be more manageable. The Corporation is pleased with how the wells are flattening off after producing 4 to 6 months, indicating a solid base of production is firming up. Galleon has identified 400 horizontal drilling locations within its core Eastern Montney lands and this program can be accelerated at any time as gas prices strengthen.

In Q3 2009, Galleon began field preparation work for a booster compression site designed to improve flow efficiency of the Eastern Montney gas gathering system. A new booster compressor is planned to be installed to lower line pressure and regain volumes backed out by the high pressure horizontal wells. This project is scheduled for completion in late Q4 2009 having been delayed by 1 ½ months because of weather.

Kakut production increased by 285% in the third quarter of 2009 compared to the same period of 2008. Contributing 16% of total production in Q3 2009, it is Galleon's second largest producing property. The operating netback was \$13.18/BOE in Q3 2009, a decrease of 59% compared to Q3 2008, resulting from much lower commodity prices.

A plant expansion was completed in third quarter 2009 at Kakut which has allowed behind pipe volumes to be brought on production in Q4 2009. This plant was completed on time and on budget. In Q3 2009 two high-rate gas wells were drilled in the Kakut field and brought on production following the plant expansion. In Q4 2009, one to two wells will be drilled to further evaluate Galleon lands and keep the expanded plant running near capacity.

Average production at Eaglesham decreased by 35% in the third quarter of 2009 to an average of 2,177 BOE/d (76% natural gas and 24% oil and liquids) compared to 3,337 BOE/d in Q3 2008. The decrease in production is mainly due to reduced drilling on this project as the company has moved capital spending away from high risk exploration plays characterized by single well pools in this uncertain economic environment. Drilling for high decline Wabamun oil was curtailed as oil prices softened in 2008. Eaglesham is currently the third largest producing property and contributed 10% of the third quarter 2009 funds from operations from 14% of production. The operating netback of \$10.65/BOE has decreased by 72% compared to \$38.66/BOE in the same period of the prior year as a result of significantly weaker commodity prices.

In Q3 2009, Galleon successfully drilled one (100% working interest) well at Eaglesham. The well has successfully been completed in multiple Montney horizons and subsequent stimulations and eventual tie-in are being evaluated.

At Puskwa, average production for Q3 2009 was 1,983 BOE/d (88% oil and liquids and 12% natural gas) contributing 26% of Q3 2009 funds from operations from 13% of total production. Operating netbacks of \$29.79/BOE decreased by 60% compared to Q3 2008 due to the substantially lower oil prices and to an increase in royalty rates as a result of the Alberta Royalty Framework ("ARF"). The Puskwa project is in the development stage with the implementation of two enhanced recovery schemes.

Production at Puskwa is managed with minor quarterly variations occurring due to the ongoing operation of the enhanced oil recovery ("EOR") project. One well was drilled for EOR purposes in Q3 2009 to take advantage of the reduced royalty rates under the Alberta government "Transitional" and March 2009 Royalty Incentive programs. Further drilling in Q4 2009 is being evaluated to optimize the operating netback and ultimate recovery from these pools.

ROYALTIES

<i>Three months ended September 30</i>	<i>2009</i>	<i>2008</i>
<i>(\$000s, except as indicated)</i>		
Crown	11,710	22,709
Freehold	709	369
GORR and other	1,070	1,407
Gross royalties	13,489	24,485
GCA	(3,549)	(3,711)
Net royalties	9,940	20,774
% of revenue	27.3	21.1
% of revenue net of GCA	20.1	17.9
<i>Nine months ended September 30</i>		
<i>(\$000s, except as indicated)</i>		
Crown	35,313	66,279
Freehold	1,958	1,125
GORR and other	3,355	4,904
Gross royalties	40,626	72,308
GCA	(17,251)	(12,231)
Net royalties	23,375	60,077
% of revenue	25.9	21.4
% of revenue net of GCA	14.9	17.8

Gross royalties were 27.3% for the third quarter of 2009 compared to 21.1% for the same period in 2008. By product the gross royalty rates were 21.4% for heavy oil, 30.2% for light oil, 22.4% for gas and 34.0% for liquids for Q3 2009. For the third quarter of 2008, the royalty rates were 20.8% for heavy oil, 17.1% for light oil, 26.6% for natural gas and 15.2% for liquids.

Net royalties were 20.1% for the third quarter of 2009 compared to 17.9% for the same period in 2008.

Gross royalties for light oil as a percentage of light oil revenue increased by 76.6% in Q3 2009 mainly due to implementation of the ARF on January 1, 2009. The Corporation has recorded higher royalties on light oil and has realized a reduction in the number of light oil wells qualifying for a royalty holiday.

Gross royalties for natural gas as a percentage of natural gas revenue decreased by 15.8% for Q3 2009 compared to the same period in 2008 due to the substantial decrease in natural gas prices.

Gross royalties for heavy oil as a percentage of heavy oil revenue were 21.4% for Q3 2009 and 20.8% for Q3 2008.

Gross royalties for liquids as a percentage of liquids revenue increased by 123.7% in Q3 2009 compared to Q3 2008 as the liquid crown royalty rates have increased substantially with the implementation of the ARF.

Under the Drilling Royalty Credit ("DRC") incentive program the Alberta Government will apply up to \$200 per meter for wells spud during the period April 1, 2009 to March 31, 2011 against net crown royalties payable. To date the Alberta Government is only applying the DRC against 50% of the net gas crown royalties. The application against net oil royalties is expected to be included in the first quarter of 2010. Galleon has submitted a DRC for \$6.3 million of which \$1.8 million has been included in the September 30, 2009 financial statements as a reduction of property and equipment. The \$1.8 million represents the eligible gas crown royalties paid. The remaining DRC's applied for will be included in the financial statements when the Alberta Government commences application of the credit to oil crown royalties.

OPERATING COSTS

	<i>Three months ended September 30</i>			<i>2009</i>			<i>2008</i>		
	<i>Production</i>	<i>Operating Costs</i>		<i>Production</i>	<i>Operating Costs</i>		<i>Production</i>	<i>Operating Costs</i>	
	<i>%</i>	<i>%</i>	<i>\$/BOE</i>	<i>%</i>	<i>%</i>	<i>\$/BOE</i>	<i>%</i>	<i>%</i>	<i>\$/BOE</i>
Eastern Montney	24	18	5.87	21	10	5.90			
Kakut	16	5	3.09	4	3	8.92			
Eaglesham	14	11	8.37	19	16	9.84			
Puskwa	13	6	4.72	14	9	7.70			
Alexis / St. Anne	8	11	13.79	8	7	11.18			
Culp /Kimiwan	4	8	18.31	5	11	26.10			
Edam	4	8	17.77	5	17	38.83			
Other	17	33	18.17	24	27	13.16			
	100	100	9.32	100	100	11.95			

	<i>Nine months ended September 30</i>			<i>2009</i>			<i>2008</i>		
	<i>Production</i>	<i>Operating Costs</i>		<i>Production</i>	<i>Operating Costs</i>		<i>Production</i>	<i>Operating Costs</i>	
	<i>%</i>	<i>%</i>	<i>\$/BOE</i>	<i>%</i>	<i>%</i>	<i>\$/BOE</i>	<i>%</i>	<i>%</i>	<i>\$/BOE</i>
Eastern Montney	25	15	6.97	21	11	6.27			
Eaglesham	15	13	6.84	19	14	8.98			
Kakut	15	5	3.56	4	2	8.04			
Puskwa	13	7	4.60	15	11	8.72			
Alexis / St. Anne	7	12	16.76	7	6	9.77			
Culp /Kimiwan	4	8	20.03	5	9	23.66			
Edam	4	7	21.07	8	19	27.90			
Other	17	33	18.86	21	28	15.36			
	100	100	9.85	100	100	11.97			

Operating costs per BOE decreased 22% during the third quarter of 2009 as compared to Q3 2008 despite the 12% decline in production volumes. Total operating costs were \$13.0 million or \$9.32/BOE for the third quarter of 2009 compared to \$18.9 million or \$11.95/BOE for the same period of the prior year.

The four major properties comprising 68% of Galleon's production continued to show improvement in operating costs. Operating costs for these properties averaged \$5.74/BOE for the nine months of 2009.

In the Eastern Montney natural gas project, operating costs were \$5.87/BOE in Q3 2009 compared to \$5.90/BOE in the same period of the prior year. Eastern Montney is one of Galleon's low cost producing properties.

Kakut is Galleon's lowest cost producing area. Operating costs at Kakut were \$3.09/BOE in Q3 2009 a decrease of 65% compared to \$8.92/BOE in the same period of the prior year. Due to production increases, the natural gas plant was expanded in Q4 2008, resulting in significantly lower operating costs on a per BOE basis. An additional plant expansion completed in third quarter of 2009 at Kakut has allowed additional behind pipe volumes to be brought on production in Q4 2009. With the latest plant expansion completed operating costs are expected to remain under \$3.50/BOE.

Eaglesham operating costs for Q3 2009 were \$8.37/BOE, a decrease of 15% from the \$9.84/BOE incurred in the third quarter of 2008. Decreased operating costs are mainly due to electrification of the facility and certain well sites, which has lowered equipment rental and fuel costs.

Operating costs at Puskwa were \$4.72/BOE in third quarter 2009 compared to \$7.70/BOE in the same period of 2008. The operating costs at Puskwa continue to improve and it continues to be one of Galleon's low cost producing properties. The 39% decrease in operating costs in Q3 2009 compared to the same period prior year is mainly due to reduced road and lease maintenance, equipment rentals and workovers.

GENERAL AND ADMINISTRATION EXPENSES

<i>Three months ended September 30</i>	2009		2008	
<i>(\$000s)</i>	<i>\$/BOE</i>		<i>\$/BOE</i>	
Gross	4,645	3.32	4,978	3.15
Capitalized overhead	(784)	(0.56)	(1,306)	(0.83)
Overhead recoveries	(408)	(0.29)	(434)	(0.27)
	3,453	2.47	3,238	2.05

<i>Nine months ended September 30</i>	2009		2008	
<i>(\$000s)</i>	<i>\$/BOE</i>		<i>\$/BOE</i>	
Gross	15,136	3.38	13,781	2.99
Capitalized overhead	(2,238)	(0.50)	(3,348)	(0.73)
Overhead recoveries	(1,417)	(0.32)	(1,126)	(0.24)
	11,481	2.56	9,307	2.02

Gross G&A expense was lower by 7% or \$0.3 million in Q3 2009 as compared to Q3 2008 due to reduced office and administration costs. Net G&A was \$0.2 million higher in Q3 2009 compared to Q3 2008. Lower capital expenditures during the period resulted in reduced capitalized overhead.

For the three months ended September 30, 2009 G&A expenses by category were: salary and employee – 56%, office – 21%, consulting – 7%, computer – 6%, shareholder costs – 1%, audit, engineering and legal – 6%, and corporate – 3%.

INTEREST

Interest expense was \$2.9 million for the three months ended September 30, 2009, as compared to \$2.8 million for the same period in 2008. The small increase resulted from a slightly higher average outstanding debt balance during the period. As a result of the renewal of the bank credit facilities in late May 2009, the Q3 2009 interest rate was approximately 2% higher than the average rate incurred in Q2 2009. At September 30, 2009 an amount of \$230.8 million was drawn against the Corporation's credit facilities compared to \$227.3 million at September 30, 2008.

STOCK BASED COMPENSATION

Stock based compensation was a non-cash expense of \$2.5 million for the three month period ended September 30, 2009 (September 30, 2008 – \$1.3 million). During the third quarter of 2009, 5,085,067 stock options were surrendered for cancellation resulting in additional stock-based compensation expense of \$2.0 million.

At September 30, 2009, 1,475,834 stock options were outstanding at an average exercise price of \$5.10.

In October 2009, the Corporation granted 5,181,000 options to purchase shares at an exercise price of \$6.38 per share.

DEPLETION, DEPRECIATION AND ACCRETION

For the three months ended September 30, 2009, depletion and depreciation ("D&D") totaled \$30.6 million (\$21.86/BOE), as compared to \$34.4 million (\$21.74/BOE) for the same period in the prior year. Reserve additions for the quarter were estimated internally.

Capital expenditures of \$100.0 million (\$103.1 million – September 30, 2008) related to acquisition of undeveloped land and seismic have been excluded from the depletion and depreciation calculation and \$177.2 million (\$107.2 million – September 30, 2008) of future development costs have been added.

Accretion expense on the Corporation's asset retirement obligation was \$664,000 during the three month period ended September 30, 2009 compared to \$601,000 for the same period in 2008. The increase is due to an increase in the number of wells and facilities in which Galleon has an interest.

CAPITAL AND FUTURE TAXES

The current tax provision was \$100,000 for the three month period ended September 30, 2009. For the same period in 2008, the expense was \$284,000. The provision relates to Saskatchewan capital and resource tax and is calculated based on revenues earned in Saskatchewan. It is not expected that Galleon will pay income taxes in 2009.

The provision for future income taxes was \$0.2 million for the three months ended September 30, 2009 (September 30, 2008 – \$15.1 million). The Q3 2009 future tax expense is primarily a result of the non-deductible stock-based compensation expense booked during the period.

CAPITAL EXPENDITURES

	(\$000s)
Property & equipment balance at December 31, 2008	1,071,150
Additions to property and equipment	79,815
Dispositions of property and equipment	(5,389)
Acquisition of property and equipment	230
Asset retirement obligation additions	1,074
Asset retirement obligation disposed	(372)
Depletion, depreciation and other	(98,336)
Property & equipment balance at September 30, 2009	1,048,172

<i>Three months ended September 30</i>	2009		2008	
(\$000s)		%		%
Land	791	3	5,959	7
Geological and geophysical	281	1	1,668	2
Drilling and completion	15,974	53	62,138	70
Plant and facilities	12,816	42	18,881	21
Acquisitions	162	1	–	–
Other assets	11	–	156	–
Exploration and Development Expenditures	30,035	100	88,802	100

<i>Nine months ended September 30</i>	2009		2008	
(\$000s)		%		%
Land	2,150	3	11,730	6
Geological and geophysical	1,680	2	9,744	5
Drilling and completion	48,375	60	125,539	64
Plant and facilities	27,554	35	46,801	24
Acquisitions	230	–	–	–
Other assets	56	–	1,170	1
Exploration and Development Expenditures	80,045	100	194,984	100

Exploration and development expenditures during the third quarter of 2009 were \$30.0 million. Drilling and completions expenditures comprised 53% of exploration and development activity. Galleon drilled 10 gross wells resulting in 6 (5.7 net) natural gas wells, three (3.0 net) oil wells and one (0.6 net) non-operated D& A well for a success rate of 90% for the quarter.

Facilities expenditures were \$12.8 million in Q3 2009 or 42% of total expenditures. Land and seismic expenditures totaled \$0.8 million and \$0.3 million, respectively, in the third quarter 2009.

The capital expenditure program to date has been partially funded through the disposition of five non-core oil and gas properties in the Howard, Lashburn, Doe Creek, Gift Lake and Seal Lake areas for cash consideration of \$5.4 million. Due to the substantially lower commodity prices to date in 2009, Galleon's capital expenditure program has been modified to a level which is expected to not exceed funds from operations.

LIQUIDITY AND CAPITAL RESOURCES

<i>September 30</i>	2009	2008
<i>(\$000s)</i>		
Bank debt	230,799	227,297
Capital leases – non current	–	1,932
Working capital deficiency (excluding future income taxes and fair value of financial derivatives)	11,257	31,757
Total net debt	242,056	260,986

FUNDING OF CAPITAL PROGRAM

<i>Three months ended September 30</i>	2009	2008
<i>(\$000s)</i>		
Issuance / repurchase of shares, net of costs	(25)	1,551
Funds from operations	18,818	58,331
Change in bank debt	(5,030)	3,735
Change in debt and working capital from acquisitions	–	289
Change in capital leases	(1,313)	(535)
Disposition (acquisition) of properties	756	(223)
Change in inventory	2,179	(1,804)
Change in working capital and other	14,650	27,458
	30,035	88,802

<i>Nine months ended September 30</i>	2009	2008
<i>(\$000s)</i>		
Net issuance of shares, net of costs	34,922	11,263
Funds from operations	74,573	174,933
Change in bank debt	(18,216)	63,919
Change in debt and working capital from acquisitions	–	(36,658)
Change in capital leases	(1,719)	(1,643)
Disposition (acquisition) of properties	5,389	(11,855)
Change in inventory	6,599	(4,371)
Change in working capital and other	(21,503)	(604)
	80,045	194,984

The Corporation has \$310 million in credit facilities available consisting of a \$270 million extendible 364 day revolving term facility and a \$40 million non-revolving facility. The \$40 million facility is available subject to mutual approval of the banking syndicate and Galleon, including repayment terms. Collateral for the facilities consists of a demand debenture for \$500 million collateralized by a first floating charge over all of the property and equipment of the Corporation, excluding the capital leases. At September 30, 2009, an amount of \$230.8 million was drawn against the credit facilities (December 31, 2008 - \$249.0 million). As at September 30, 2009, the Corporation is in compliance with all covenants, obligations and conditions of its credit facilities.

COMMITMENTS

Drilling Rig

The Corporation has entered into a Master Daywork Contract whereby it is entitled to the use of a drilling rig for a two year period which commenced November 15, 2007. Future minimum payments under this contract are as follows:

<i>Year</i>	<i>Amount (\$000s)</i>
2009	461

Office Lease Payments

At September 30, 2009 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

<i>Year</i>	<i>Amount (\$000)</i>
2009	608
2010	1,801

The above commitment includes an estimate of the Corporation's share of operating expenses, utilities and taxes for the duration of the office lease.

Equipment

At September 30, 2009 the Corporation has commitments to future minimum payments for leased equipment, under operating leases as follow:

<i>Year</i>	<i>Amount (\$000s)</i>
2009	168
2010	71

Capital leases

The Corporation has entered into a series of equipment lease financing arrangements. Under these arrangements, the Corporation is committed to annual minimum lease payments as follows:

	<i>\$</i>
2009	415
2010	1,605
Total minimum lease payments	2,020
Less interest included in payments	(88)
Principal portion of minimum lease payments	1,932
Less current portion	(1,932)
Capital lease obligation at September 30, 2009	–

The applicable terms and commitments are summarized in the following table:

<i>End of lease term</i>	<i>Outstanding principal</i>	<i>Purchase price at end of lease</i>	<i>Interest rate</i>
October 2009	\$1	\$1	2.1 percent above the 30-day banker's acceptance rate
December 2009	\$186	\$1	6.0 percent
September 2010	\$1,745	\$1,000	6.3 percent

A general security agreement and a first charge against the equipment have been provided as collateral.

FINANCIAL INSTRUMENTS

Refer to the "Commodity Pricing and Marketing" section.

BUSINESS RISKS

General

Galleon is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Capital Requirements

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Corporation's revenues have declined as a result of decreased commodity pricing, it has been required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

Financial Risks

Financial risks include fluctuations in commodity prices, interest rates and the Canadian/US dollar exchange rate, and the cost of goods and services. The Corporation currently has financial contracts with Canadian chartered banks (see "Commodity Pricing and Marketing" for details). The Corporation also manages these risks by maintaining a balance sheet with prudent levels of debt measured by debt to funds from operations and debt coverage ratios. This allows for sufficient financial capacity to maintain exploration and development activities in any downturn in commodity prices.

Third Party Credit Risk

An additional risk is credit risk for failure of performance by counter-parties. This risk is controlled by an evaluation of the credit risk before contract initiation and ensuring product sales and delivery contracts are made with well-known and financially strong crude oil and natural gas marketers.

The Corporation may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Corporation and its operations and financial condition.

CRITICAL ACCOUNTING ESTIMATES

There are a number of critical estimates underlying the accounting policies employed in preparing the Financial Statements.

Oil and Gas Accounting

Galleon follows the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the unit-of-production method based on estimated proved oil and gas reserves.

Proved Reserves

Full cost accounting relies on the estimated proved reserves believed to be recoverable from the oil and gas properties. Determination of reserves is a complex process involving judgments, estimates and decisions based on available geological, engineering/production and other relevant economic data. These estimates are subject to change as economic conditions change and ongoing production and development activities provide new information. The Corporation's reserves are evaluated annually by an independent firm and by the Corporation on a quarterly basis. Reserve estimates are critical to the following accounting estimates:

- Calculation of unit of production depletion. Proved reserve estimates are used to determine the depletion and depreciation rate applied to each unit of production.

- Ceiling test calculation, measurement and impairment of oil and gas assets. Estimated future undiscounted cash flows are determined using the estimate of proved reserves.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

The calculation of proved reserves is affected by events, including the following:

- Changes to commodity prices
- Production performance of wells
- Changes to reservoir performance/pressures
- New geological and geophysical data
- Competitor production practices
- Changes to government regulations

As circumstances change and additional data becomes available, revisions are made to these estimates.

Unproved Properties

Certain costs related to unproved properties may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted. The costs related to unproved properties are also excluded from the book value subject to the ceiling test measurement and are assessed for impairment separately.

Full Cost Accounting Ceiling Test

The Corporation is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

The ceiling test is based on estimates of reserves, production rate, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Asset Retirement Obligation

The Corporation is required to provide for future abandonment and site restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to property, plant and equipment and the appropriate liability account over the expected service life of the asset. The estimate of future removal and site restoration costs involves a number of estimates related to timing of abandonment, determination of economic life of the asset, costs associated with abandonment and site restoration, and review of potential abandonment methods.

Income Tax Accounting

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Goodwill

The Corporation recognizes goodwill on corporate acquisitions when the total purchase price exceeds the fair value of net identifiable assets and liabilities of the acquired entity. Goodwill is tested quarterly for impairment or as events occur that could result in impairment. Impairment is recognized based on the fair value of the Corporation compared to the book value of the Corporation. If the fair value of the Corporation is less than the book value, impairment is measured allocating the fair value to the identifiable assets and liabilities as if the Corporation had been acquired in a business combination for its fair value. The excess of the fair value over the amounts assigned to the identifiable assets and liabilities is the fair value of the goodwill. Any excess of the book value over this implied fair value of goodwill is the impairment amount. Impairment is charged to earnings in the period which it occurs. Goodwill is stated at cost less impairment and is not amortized.

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2009, Galleon has adopted the requirements under CICA 3064 "Goodwill and Intangible Assets". The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard has had no impact on Galleon's financial statements.

On January 20, 2009 the CICA issued EIC-173 "Credit Risk and the Fair value of Financial Assets and Financial Liabilities". Under the requirements of EIC-173, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Galleon adopted the requirements of EIC-173 effective January 1, 2009. This has had no impact on Galleon's financial statements or additional disclosure.

Future accounting policies

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of the International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the fiscal year of 2010.

The Corporation has commenced the conversion project which will consist of the following phases: 1) initial diagnostic and planning, 2) impact analysis and evaluation, and 3) implementation and review. The Corporation has completed the initial diagnostic which included identifying major differences between current Canadian GAAP and IFRS. The project plan has been established.

It has been determined that accounting for property and equipment will be impacted by the conversion to IFRS, including accounting for and assessing depletion and impairment.

In July 2009, the International Accounting Standards Board (IASB) issued an amendment to IFRS 1 "First Time Adoption of International Reporting Standards." The amendment allows full cost accounting corporations to elect, at the time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP. The amendment will also permit full cost accounting corporations to measure, at the time of adoption, oil and gas assets in the development or production phases, by using the total value determined under the entity's previous GAAP and allocating values at the unit of account level based on the Corporation's reserve volumes or reserve values as of the date of conversion. This exemption will relieve the Corporation from retrospective application of IFRS for its oil and gas assets. The Corporation currently anticipates that this exemption will be used, however, this will not be determined until the impact analysis and evaluation phase of the conversion project is complete.

At this time, the impact on Galleon's financial position and results of operations from the changeover to IFRS is not reasonably determinable.

In December 2008, the CICA issued Handbook Section 1582 “Business Combinations,” which will replace CICA Handbook Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently, the purchase price used is based on the market price of the shares for a reasonable period before and after the date of the acquisition is agreed upon and announced. This new standard generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently, only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. CICA Handbook Section 1582 is effective January 1, 2011.

CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The Corporation’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Corporation’s Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation’s financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian GAAP.

The Corporation’s CEO and CFO are required to cause the Corporation to disclose any change in the Corporation’s internal controls over financial reporting that occurred during the Corporation’s most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal controls over financial reporting. No material changes in the Corporation’s internal controls over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Corporation’s internal controls over financial reporting.

It should be noted that a control system, including the Corporation’s disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

SHARE INFORMATION

The following table summarizes the outstanding shares of Galleon as of September 30:

	2009	2008
Class A shares outstanding		
Basic	82,890,883	73,100,993
Diluted ¹	82,890,883	79,127,977
Class B shares outstanding	–	922,500
Class A shares issuable on conversion of Class B shares ²	–	984,525

¹ Includes no options at September 30, 2009 (September 30, 2008 – 6,026,984).

² Assumes a conversion at the September 30, 2008 closing price of \$9.37 per Class A share

At September 30, 2009, the market value of Galleon's Class A shares was \$519.7 million based on the closing price of \$6.27 per share. As of November 12, 2009, the number of Class A shares and options outstanding are 82,890,883 and 6,656,834 respectively.

ADDITIONAL INFORMATION

Additional information relating to Galleon, including Galleon's Annual Information Form, can be accessed on-line on SEDAR at www.sedar.com, or from the Corporation's website at www.galleonenergy.com.

OUTLOOK

Despite volatile commodity prices in 2009, Galleon remains optimistic towards its future opportunities. To date, Galleon has captured several large resource projects. The economic viability of converting its Eastern and Central Montney natural gas and Doig light oil resource projects to grow its production base in 2010 and beyond has been confirmed. Galleon has assembled a large drilling inventory of over 500 development locations in the Eastern Montney natural gas, Doig and Puskwa light oil resource projects. Galleon continues to build inventories of new light oil resource projects, including those located in Two Rivers, BC, northern Peace River Arch, Senex and Central Montney, for future production and resource growth.

Galleon's board of directors has approved a 2010 capital expenditure budget of \$160 million. This capital will be directed primarily toward the expansion of Eastern Montney natural gas, Puskwa Beaverhill Lake light oil and Doig light oil resource projects. Funding of the 2010 capital program is expected to be financed from internal cash flow, available bank credit facilities and minor asset sales. Production in 2010 is expected to average between 17,000 and 17,500 BOE/d (37% oil and liquids and 63% natural gas). Production in 2009 is expected to average between 16,000 and 16,350 BOE/d. To date in Q4 2009, Galleon has been affected by poor weather conditions which are similar to conditions experienced during spring break. These conditions have prevented and/or caused a delay in key drilling, completion and tie-in operations. Also, delays in pipeline and drilling operations have been caused by the suspension of EUB approvals relating to sour licenses. These two challenges have resulted in lower than expected production averages in Q4 2009. Galleon has factored the delayed activities into the Q1 2010 capital budget.

A global recession starting in late 2007/early 2008 is showing some key signs of recovery such that a global economic recovery may be seen in 2010. The global recovery is expected to create a stronger demand for oil. Greater industrial demand in the United States should create higher consumption of natural gas. Therefore, Galleon is optimistic about higher commodity prices in 2010 as compared to 2009.

Galleon has used average commodity price assumptions of \$75/Bbl USD WTI for oil and \$6.25/GJ CDN for natural gas in the 2010 corporate budget. A foreign exchange rate of \$0.95 has been used. In 2009, commodity prices received have averaged \$60/Bbl USD WTI for oil and \$3.75/GJ CDN for natural gas.

Galleon estimates 2010 funds from operations to be approximately \$153 million based on the Corporation's budget assumptions, current hedges in place and production expectations. Commodity price changes and variances in production estimates may impact the available funds from operations. Please refer to the advisory regarding forward looking statements.

Galleon plans to drill between 70 and 80 wells including up to 40 horizontal wells in the Eastern Montney project and up to 20 horizontal wells in the Doig light oil resource project. Galleon continues to pursue emerging plays that focus on oil and have the potential for significant size. Q1 2010 plans include drilling activity on 3 light oil resource plays. Galleon continues to evaluate new acquisition opportunities to complement its existing core areas. Any acquisitions would be incremental to the planned 2010 budget.

Quarterly Highlights

	2009				2008		2007	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
PRODUCTION								
Light oil (Bbl/d)	4,301	4,323	4,695	5,491	5,222	4,629	5,401	4,419
Heavy oil (Bbl/d)	852	899	979	1,046	1,257	2,066	2,389	1,746
Natural Gas (Mcf/d)	57,012	61,733	69,632	67,875	61,329	53,971	52,644	49,486
Liquids (Bbl/d)	561	565	687	604	499	501	441	283
BOE/d	15,216	16,076	17,965	18,453	17,200	16,191	17,005	14,695
Total BOE produced	1,399,847	1,462,922	1,616,979	1,697,711	1,582,369	1,473,414	1,547,476	1,351,986
Daily BOE of production per million Class A shares – basic								
	184	211	239	250	236	229	254	232
PRICES (prior to realized gains or losses on financial contracts and prior to transportation)								
Light oil (\$/Bbl)	66.10	60.49	46.75	63.14	116.45	122.97	95.48	84.52
Heavy oil (\$/Bbl)	57.42	52.60	33.88	25.46	98.70	89.51	63.89	37.75
Crude oil (\$/Bbl)	64.67	59.13	44.53	57.12	113.01	112.64	85.79	71.27
Natural Gas (\$/Mcf)	3.16	3.61	5.13	6.97	8.00	9.92	7.98	6.37
NGLs (\$/Bbl)	43.87	39.23	34.07	42.76	73.16	71.19	61.02	72.89
PER BOE (\$)								
Revenues	35.36	34.43	35.24	47.29	73.20	81.85	65.60	52.77
Royalties, net of ARTC and GCA	(7.10)	(2.11)	(6.40)	(6.51)	(13.13)	(14.29)	(11.79)	(8.55)
Transportation costs	(1.41)	(1.41)	(1.45)	(1.39)	(1.35)	(1.64)	(1.04)	(1.18)
Operating costs	(9.32)	(9.43)	(10.70)	(12.20)	(11.95)	(12.71)	(11.28)	(10.52)
Net	17.53	21.48	16.69	27.19	46.77	53.21	41.49	32.52
Other revenue	–	0.05	0.42	0.06	0.07	0.07	0.08	–
G&A	(2.47)	(2.62)	(2.60)	(2.37)	(2.05)	(2.51)	(1.53)	(2.00)
Interest	(2.05)	(1.16)	(0.98)	(1.53)	(1.74)	(2.02)	(1.81)	(1.83)
Capital and other taxes	(0.07)	(0.11)	(0.04)	(0.05)	(0.18)	(0.24)	(0.22)	0.05
Realized gain (loss) on financial derivative	0.50	2.58	2.68	15.78	(6.00)	(7.00)	(2.18)	(2.49)
Funds from operations¹	13.44	20.22	16.17	39.08	36.87	41.51	35.83	26.25

¹ See "Non-GAAP Measurements"

Quarterly Highlights

<i>(unaudited)</i>	2009				2008
	<i>Q3</i>	<i>Q2</i>	<i>Q1</i>	<i>Q4</i>	<i>Q4</i>
FINANCIAL (\$000s)					
Revenues	49,497	50,373	56,987		80,280
Operating costs	(13,045)	(13,790)	(17,297)		(20,704)
General & Administrative expenses	(3,453)	(3,827)	(4,201)		(4,019)
Interest expense	(2,876)	(1,702)	(1,585)		(2,599)
Funds from operations¹	18,818	29,605	26,150		66,365
Per share, basic ¹	0.23	0.39	0.35		0.90
Per share, diluted ¹	0.23	0.39	0.35		0.90
Earnings (loss)	(1,815)	(22,012)	(5,091)		25,113
Per share, basic	(0.02)	(0.29)	(0.07)		0.34
Per share, diluted	(0.02)	(0.29)	(0.07)		0.34
Total assets	1,127,665	1,141,506	1,158,329		1,181,003
Weighted average outstanding Class A shares-basic	82,890,883	76,040,581	75,231,828		73,710,516
Weighted average outstanding Class A shares-diluted	82,890,883	76,040,581	75,231,828		74,032,935

	2008			2007
	<i>Q3</i>	<i>Q2</i>	<i>Q1</i>	<i>Q4</i>
FINANCIAL (\$000s)				
Revenues	115,835	120,602	101,516	71,339
Operating costs	(18,917)	(18,726)	(17,460)	(14,227)
General & Administrative expenses	(3,238)	(3,698)	(2,371)	(2,712)
Interest expense	(2,759)	(2,977)	(2,803)	(2,476)
Funds from operations¹	58,331	61,157	55,445	35,483
Per share, basic ¹	0.80	0.86	0.83	0.56
Per share, diluted ¹	0.79	0.84	0.81	0.55
Earnings (loss)	38,061	5,673	10,417	(495)
Per share, basic	0.52	0.08	0.16	(0.01)
Per share, diluted	0.51	0.08	0.15	(0.01)
Total assets	1,121,339	1,070,765	975,911	799,359
Weighted average outstanding Class A shares-basic	72,938,357	70,741,901	67,034,895	63,206,585
Weighted average outstanding Class A shares-diluted	73,955,365	72,575,607	68,630,474	64,716,872

¹ See "Non-GAAP Measurements".

Consolidated Balance Sheets

<i>(\$000s) (unaudited)</i>	<i>September 30,</i> 2009	<i>December 31,</i> 2008
ASSETS		
Current		
Accounts receivable	28,257	54,864
Deposits and prepaid expenses	7,325	6,661
Future income taxes (note 10)	1,701	–
Fair value of financial derivatives (note 12)	1,769	1,237
	39,052	62,762
Goodwill (note 3)	34,891	34,891
Equipment inventory	5,550	12,200
Property and equipment (notes 3, 4, 5, 6, 7 and 8)	1,048,172	1,071,150
	1,127,665	1,181,003
LIABILITIES		
Current		
Accounts payable and accrued liabilities	44,907	91,305
Capital leases (notes 3 and 8)	1,932	2,110
Bank loan (note 7)	230,799	249,015
Fair value of financial derivatives (note 12)	7,499	–
	285,137	342,430
Asset retirement obligation (note 6)	41,546	39,905
Capital leases (notes 3 and 8)	–	1,541
Future income taxes (note 10)	99,928	107,603
	426,611	491,479
SHAREHOLDERS' EQUITY		
Share capital (note 9)	582,929	547,298
Contributed surplus (note 9)	27,826	23,009
Retained earnings	90,299	119,217
	701,054	689,524
	1,127,665	1,181,003

See accompanying notes

Consolidated Statements of Earnings (Loss), Comprehensive Income (Loss) and Retained Earnings

	Three months ended September 30		Nine months ended September 30	
(\$000s, except per share amounts) (unaudited)	2009	2008	2009	2008
REVENUE				
Petroleum and natural gas revenue	49,497	115,835	156,857	337,953
Royalties, net of GCA	(9,940)	(20,774)	(23,375)	(60,077)
Realized gain on gas contract	–	2,288	–	3,051
Realized gain (loss) on financial derivative (note 12)	699	(9,497)	8,810	(23,175)
Unrealized gain (loss) on financial derivative (note 12)	13,342	28,872	(6,966)	5,767
Other income	6	105	752	333
	53,604	116,829	136,078	263,852
EXPENSES				
Operating	13,045	18,917	44,132	55,103
Transportation	1,970	2,140	6,368	6,171
General and administration	3,453	3,238	11,481	9,307
Interest	2,876	2,759	6,163	8,539
Stock-based compensation (note 9)	2,487	1,302	5,056	6,344
Accretion	664	601	1,987	1,633
Depletion and depreciation	30,600	34,402	98,389	100,454
	55,095	63,359	173,576	187,551
EARNINGS (LOSS) BEFORE TAXES	(1,491)	53,470	(37,498)	76,301
Income taxes (note 10)				
Capital and other taxes	100	284	327	981
Future income taxes (recovery)	224	15,125	(8,907)	21,169
	324	15,409	(8,580)	22,150
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(1,815)	38,061	(28,918)	54,151
RETAINED EARNINGS, BEGINNING OF PERIOD	92,114	56,043	119,217	39,953
RETAINED EARNINGS, END OF PERIOD	90,299	94,104	90,299	94,104
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) PER SHARE (note 9)				
Basic	(0.02)	0.52	(0.37)	0.77
Diluted	(0.02)	0.51	(0.37)	0.76
Weighted average Class A shares – Basic	82,890,883	72,938,357	78,082,486	70,231,232
– Diluted	82,890,883	73,955,365	78,082,486	71,473,655

See accompanying notes

Consolidated Statements of Cash Flows

	<i>Three months ended September 30</i>		<i>Nine months ended September 30</i>	
<i>(\$000s) (unaudited)</i>	2009	2008	2009	2008
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net (loss) earnings	(1,815)	38,061	(28,918)	54,151
Items not requiring cash:				
Future income taxes (recovery)	224	15,125	(8,907)	21,169
Depletion and depreciation	30,600	34,402	98,389	100,454
Accretion	664	601	1,987	1,633
Stock-based compensation	2,487	1,302	5,056	6,344
Unrealized loss (gain) on financial derivative	(13,342)	(28,872)	6,966	(5,767)
Realized gain on gas contract	–	(2,288)	–	(3,051)
Abandonment costs	(524)	(988)	(1,048)	(2,182)
Change in non-cash working capital	1,413	9,819	9,029	(7,751)
	19,707	67,162	82,554	165,000
FINANCING ACTIVITIES				
Issue of common shares	–	1,551	36,695	11,444
Repurchase of common shares	–	–	(32)	–
Share issue costs	(25)	–	(1,741)	(181)
Capital lease payment	(1,313)	(535)	(1,719)	(1,643)
Working capital assumed on acquisition of ExAlta (note 3)	–	–	–	(44,966)
Working capital assumed on acquisition of Adamant (note 4)	–	289	–	8,308
Bank loan (repayment)	(5,030)	3,735	(18,216)	63,919
	(6,368)	5,040	14,987	36,881
INVESTING ACTIVITIES				
(Additions to) disposal of equipment inventory	2,179	(1,804)	6,599	(4,371)
Additions to oil and gas properties	(30,035)	(88,802)	(80,045)	(194,984)
Acquisition of oil and gas properties (note 3 and 4)	–	(223)	–	(11,855)
Disposition of oil and gas properties	756	–	5,389	–
Change in non-cash working capital	13,761	18,627	(29,484)	9,329
	(13,339)	(72,202)	(97,541)	(201,881)
CHANGE IN CASH	–	–	–	–
CASH, BEGINNING AND END OF PERIOD	–	–	–	–
SUPPLEMENTARY INFORMATION				
Cash interest paid	2,423	3,158	6,668	8,933
Cash taxes paid	252	277	627	915

See accompanying notes

Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2009 and 2008 (unaudited)

Unless otherwise stated, amounts presented in these notes are in Canadian dollars and tabular amounts are in thousands of Canadian dollars, except number of shares and per share amounts.

1. ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

Galleon Energy Inc. ("Galleon" or the "Corporation") was incorporated under the Business Corporations Act of Alberta on March 27, 2003. The business of the Corporation is the acquisition of, exploration for and development of petroleum and natural gas properties in western Canada. Galleon is listed on the TSX under the symbol "GO".

On January 1, 2009, the Corporation's wholly owned subsidiaries, Exalta Energy Inc. and Adamant Energy Inc., were amalgamated with Galleon Energy Inc.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and follow the same accounting policies as the financial statements for the year ended December 31, 2008, except as noted below.

These notes do not include all disclosures required in annual financial statements and are incremental to, and should be read in conjunction with the audited financial statements for the year ended December 31, 2008.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

As of January 1, 2009, Galleon has adopted the requirements under CICA 3064 "Goodwill and Intangible Assets". The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard has had no impact on Galleon's financial statements.

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Future accounting policies

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Corporations will be required to provide comparative IFRS information for the fiscal year of 2010.

The Corporation has commenced the conversion project which will consist of the following phases: 1) initial diagnostic and planning, 2) impact analysis and evaluation, and 3) implementation and review. The Corporation has completed the initial diagnostic which included identifying major differences between current Canadian GAAP and IFRS. The project plan has been established.

It has been determined that accounting for property and equipment will be impacted by the conversion to IFRS, including accounting for and assessing depletion and impairment.

In July 2009, the International Accounting Standards Board (IASB) issued an amendment to IFRS 1 "First Time Adoption of International Reporting Standards." The amendment allows full cost accounting corporations to elect, at the time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP. The amendment will also permit full cost accounting corporations to measure, at the time of adoption, oil and gas assets in the development or production phases, by using the total value determined under the entity's previous GAAP and allocating values at the unit of account level based on the Corporation's reserve volumes or reserve values as of the date of conversion. This exemption will relieve the Corporation from retrospective application of IFRS for its oil and gas assets. The Corporation currently anticipates that this exemption will be used, however, this will not be determined until the impact analysis and evaluation phase of the conversion project is complete.

At this time, the impact on Galleon's financial position and results of operations from the changeover to IFRS is not reasonably determinable.

In December 2008, the CICA issued Handbook Section 1582 "Business Combinations," which will replace CICA Handbook Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently, the purchase price used is based on the market price of the shares for a reasonable period before and after the date of the acquisition is agreed upon and announced. This new standard generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently, only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. CICA Handbook Section 1582 is effective January 1, 2011.

3. ACQUISITION OF EXALTA ENERGY INC.

On January 16, 2008, the Corporation acquired all of the outstanding common shares of ExAlta Energy Inc. ("ExAlta"). The ExAlta acquisition was accounted for by the purchase method and shares were acquired for an aggregate of \$62.5 million by the issuance of 4,334,856 Class A shares of Galleon at a value of \$14.42 per share plus the assumption of \$48.5 million of net debt including capital leases.

The acquisition has been accounted for as a purchase as at the closing date of the transaction, with the purchase price allocated to assets and liabilities as follows:

<i>Allocation of Purchase Price</i>	<i>\$</i>
Property and equipment	95,748
Equipment inventory	1,027
Goodwill	18,869
Future income taxes	582
Bank debt and working capital assumed (including bank debt of \$43.1)	(44,966)
Asset retirement obligation	(3,403)
Capital lease	(3,575)
	64,282
<hr/>	
<i>Calculation of Purchase Price</i>	
Fair value of shares issued	62,509
Transaction costs	1,773
	64,282

4. ACQUISITION OF ADAMANT ENERGY INC

On May 9, 2008, the Corporation acquired all of the outstanding common shares of Adamant Energy Inc. ("Adamant"). The Adamant acquisition was accounted for by the purchase method and shares were acquired for an aggregate of \$65.2 million by the issuance of 4,193,288 Class A shares of Galleon at a value of \$15.55 per share. The acquisition has been accounted for as a purchase as at the closing date of the transaction, with the purchase price allocated to assets and liabilities as follows:

<i>Allocation of Purchase Price</i>	<i>\$</i>
Property and equipment	76,099
Equipment inventory	271
Working capital assumed (including cash of \$2.4 million)	8,308
Future income taxes	(9,130)
Asset retirement obligation	(4,431)
Gas contract	(5,340)
	65,777
<hr/>	
<i>Calculation of Purchase Price</i>	
Fair value of shares issued	65,206
Transaction costs	571
	65,777

The gas contract was amortized over the term of the contract which expired on December 31, 2008.

5. PROPERTY AND EQUIPMENT

On October 22, 2008 the Corporation purchased oil and gas properties in the Senex area of Alberta for cash, net of adjustments, of \$5.8 million and issuance of 215,000 Class A shares for a total purchase price of \$7.1 million.

<i>Allocation of Purchase Price</i>	<i>\$</i>
Property and equipment	5,836
Undeveloped land	1,858
Asset retirement obligations	(551)
	7,143

As at September 30, 2009, \$100.1 million (September 30, 2008- \$103.1 million) of undeveloped land and seismic have been excluded from and \$177.2 million (September 30, 2008 - \$107.2 million) in future development costs have been added into the full cost pool for depletion purposes. For the three and nine months ended September 30, 2009, \$273,000 and \$818,000, respectively (September 30, 2008 – \$329,088 and \$898,810) of exploration salaries have been capitalized.

<i>As at September 30, 2009</i>	<i>Cost</i> \$	<i>Accumulated depletion</i> \$	<i>Net book value</i> \$
Petroleum and natural gas properties & equipment	1,491,813	(447,751)	1,044,062
Equipment under capital lease	3,439	(786)	2,653
Office furniture and equipment	2,548	(1,091)	1,457
	1,497,800	(449,628)	1,048,172

<i>As at December 31, 2008</i>	<i>Cost</i> \$	<i>Accumulated depletion</i> \$	<i>Net book value</i> \$
Petroleum and natural gas properties & equipment	1,413,071	(348,822)	1,064,249
Equipment under capital lease	6,878	(1,278)	5,600
Office furniture and equipment	2,492	(1,191)	1,301
	1,422,441	(351,291)	1,071,150

During the nine month period ended September 30, 2009, certain minor properties were sold for net proceeds of \$5.4 million.

6. ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately \$86.3 million, which will be incurred over the next 18 years. Credit adjusted risk free rates of 5% and 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

	<i>Nine months ended September 30, 2009</i> \$	<i>Year ended December 31, 2008</i> \$
Balance, beginning of year	39,905	25,535
Accretion expense	1,987	2,253
Liabilities incurred	1,074	6,668
Liabilities acquired	–	7,834
Disposition of liabilities	(372)	–
Settlement of liabilities	(1,048)	(2,385)
Balance, end of period	41,546	39,905

7. AVAILABLE CREDIT FACILITY

The Corporation has \$310 million in credit facilities available consisting of a \$270 million extendible 364 day revolving term facility and a \$40 million non-revolving facility. The \$40 million facility is available subject to mutual approval of the banking syndicate and the Corporation, including repayment terms. Collateral for the facilities consists of a demand debenture for \$500 million collateralized by a first floating charge over all of the property and equipment of the Corporation, excluding the capital leases. At September 30, 2009, an amount of \$230.8 million was drawn against the credit facilities (December 31, 2008 - \$249.0 million). For the three and nine months ended September 30, 2009, the effective interest rates were 4.8% and 3.2%, respectively (September 30, 2008 – 4.8% and 5.1%). As at September 30, 2009, the Corporation is in compliance with all covenants, obligations and conditions of its credit facilities.

8. CAPITAL LEASE OBLIGATIONS

The Corporation has entered into a series of equipment lease financing arrangements. Under these arrangements, the Corporation is committed to annual minimum lease payments as follows:

	\$
2009	415
2010	1,605
Total minimum lease payments	2,020
Less interest included in payments	(88)
Principal portion of minimum lease payments	1,932
Less current portion	(1,932)
Capital lease obligation at September 30, 2009	–

Interest expense of \$35,000 and \$133,000, respectively, was incurred on the capital leases during the three and nine months ended September 30, 2009 (September 30, 2008 - \$69,000 and \$231,000).

The applicable terms and commitments are summarized in the following table:

<i>End of lease term</i>	<i>Outstanding principal</i>	<i>Purchase price at end of lease</i>	<i>Interest rate</i>
October 2009	\$1	\$1	2.1 percent above the 30-day banker's acceptance rate
December 2009	\$186	\$1	6.0 percent
September 2010	\$1,745	\$1,000	6.3 percent

A general security agreement and a first charge against the equipment have been provided as collateral.

9. SHARE CAPITAL

Authorized

Unlimited number of preferred shares with no par value

Unlimited number of voting Class A shares with no par value

Unlimited number of voting Class B shares with no par value.

On December 15, 2008 the Class B shares were converted into Class A shares. The conversion factor was calculated by dividing \$10 by \$5.36264, being the weighted average trading price for the Class A shares for the 30 consecutive trading days commencing October 15, 2008.

CLASS A SHARES	<i>Number of Shares</i>	<i>Amount \$</i>
Balance at December 31, 2007	63,215,552	413,804
Issued as consideration for shares in ExAlta Energy Inc. (e)	4,334,856	62,509
Issued for cash on exercise of stock options	1,491,797	11,825
Tax effect of flow through shares	–	(16,200)
Share issue costs, net of tax of \$49	–	(132)
Issued as consideration for shares in Adamant Energy Inc. (d)	4,193,288	65,206
Issued on acquisition of petroleum and natural gas properties (c)	215,000	1,354
Issued on conversion of Class B shares	1,720,240	5,207
Transfer from contributed surplus	–	3,725
Balance at December 31, 2008	75,170,733	547,298
Issued for cash on exercise of stock options	157,750	490
Common shares purchased (b)	(10,100)	(32)
Transfer from contributed surplus	–	167
Balance at March 31, 2009	75,318,383	547,923
Issued for cash on exercise of stock options	72,500	205
Issued for cash (a)	7,500,000	36,000
Share issue costs, net of tax of \$463	–	(1,253)
Transfer from contributed surplus	–	71
Balance at June 30, 2009	82,890,883	582,946
Share issue costs, net of tax of \$8	–	(17)
Balance at September 30, 2009	82,890,883	582,929

- a) On June 23, 2009, Galleon issued 7,500,000 Class A shares at \$4.80 per share for cash proceeds.
- b) On November 24, 2008, Galleon received regulatory approval for a Normal Course Issuer Bid (“Bid”) to purchase, for cancellation, up to a maximum of 5,610,908 shares of the Corporation. The Bid commenced on November 26, 2008 and will terminate on November 25, 2009. As at September 30, 2009, Galleon has purchased 10,100 shares for total consideration of \$32,627.
- c) On October 22, 2008, the Corporation issued 215,000 Class A shares at a price of \$6.30 per share to a third party as part of the consideration for the acquisition of certain petroleum and natural gas properties.
- d) On May 9, 2008, the Corporation issued 4,193,288 Class A shares at \$15.55 per share as consideration for shares in Adamant Energy Inc. as described in Note 4.
- e) On January 16, 2008, the Corporation issued 4,334,856 Class A shares at \$14.42 per share as consideration for shares in ExAlta Energy Inc. as described in Note 3.

The tax effect of \$16.2 million related to the renouncement in January 2008 of flow-through shares issued in 2007 was recorded in 2008.

The Corporation has a share option plan which was approved on May 19, 2005 and amended on August 25, 2005, June 19, 2007 and May 13, 2008. The exercise price of each option may not be less than the closing price of the Corporation’s Class A shares on the trading day immediately prior to the date of the grant. Compensation expense is recognized as the options vest. With options granted prior to November 2008 one third of the options vest immediately, and one third vest on each of the first and second anniversaries of the date of the grant.

With options granted commencing November, 2008, the vesting period is one third on each of the next three anniversaries of the date of the grant. The options expire five years from the date of grant. The Corporation may grant up to 10% of the aggregate number of Class A shares outstanding and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the aggregate number of issued and outstanding Class A shares. Class A shares have been reserved for all options granted.

In July 2009, 5,085,067 share options were surrendered to the Corporation for cancellation, resulting in additional stock-based compensation expense of \$2.0 million.

	<i>Nine months ended September 30, 2009</i>	<i>Year ended December 31, 2008</i>
	\$	\$
Contributed surplus, beginning of period	23,009	19,064
Stock-based compensation expense	5,056	7,670
Transfer to share capital	(238)	(3,725)
Paid on surrender of share options	(1)	–
Contributed surplus, end of period	27,826	23,009

The fair value of options granted was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rates of 1.33-4.51%; dividend yield of 0%; volatility factors of the market price of the Corporation's common shares of 36-45%; and an average expected life of the options of three years.

	<i>Number of Shares</i>	<i>Weighted Average Exercise Price \$</i>
Outstanding, December 31, 2007	6,210,950	12.36
Granted	3,306,000	10.87
Cancelled	(987,502)	(10.40)
Exercised	(1,491,797)	(7.93)
Outstanding, December 31, 2008	7,037,651	11.87
Granted	120,000	3.45
Cancelled	(98,833)	(10.59)
Exercised	(157,750)	(3.10)
Outstanding, March 31, 2009	6,901,068	11.94
Granted	80,000	4.52
Cancelled	(70,667)	(12.06)
Exercised	(72,500)	(2.84)
Outstanding, June 30, 2009	6,837,901	11.95
Surrendered for cancellation	(5,085,067)	(13.92)
Cancelled	(277,000)	(12.04)
Outstanding, September 30, 2009	1,475,834	5.10

Earnings per share

The Corporation utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase common shares of the Corporation at their average market price for the period.

10. INCOME TAXES

The future income tax liability is comprised of the following temporary differences as at:

	<i>September 30, 2009</i>	<i>December 31, 2008</i>
	<i>\$</i>	<i>\$</i>
Property and equipment	98,065	101,197
ACRI benefit	(1,260)	(870)
Share issue costs	(2,008)	(2,712)
Asset retirement obligation	(1,123)	(869)
Non-capital losses	(27,256)	(54,628)
Partnership income tax deferral	33,878	66,137
Capital leases	(522)	(986)
Financial derivative	(1,547)	334
Future income tax liability	98,227	107,603
Add current future income tax asset	1,701	–
Long term future income tax liability	99,928	107,603

11. COMMITMENTS

Drilling Rig

The Corporation has entered into a Master Daywork Contract whereby it is entitled to the use of a drilling rig for a two year period which commenced in November, 2007. Future minimum payments under this contract are as follows:

<i>Year</i>	<i>Amount \$</i>
2009	461

Office Lease Payments

At September 30, 2009 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

<i>Year</i>	<i>Amount \$</i>
2009	608
2010	1,801

The above commitment includes an estimate of the Corporation's share of operating expenses, utilities and taxes for the duration of the office lease.

Equipment

At September 30, 2009 the Corporation committed to future minimum payments for leased equipment, under operating leases, as follows:

<i>Year</i>	<i>Amount \$</i>
2009	168
2010	71

Litigation

The Corporation is involved in various other claims and legal actions arising from the normal course of business. The Corporation does not expect that the outcome of these proceedings will have a material adverse effect on the Corporation as a whole.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Fair value of financial assets

The Corporation's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable, bank loan and financial derivatives ("financial instruments"). The carrying value of accounts receivable and accounts payable approximated their fair values at September 30, 2009 due to their short-term nature. The carrying value of the bank loan approximates fair value due to the floating interest rate on the facility. The fair value of the financial derivatives is recognized on the balance sheet as described below.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A portion of the Corporation's production is currently sold through joint venture partners under normal industry sale and payment terms. As at September 30, 2009, approximately 46% of the accounts receivable balance is due from three customers, compared to 27%, due from two customers, at December 31, 2008. These customers are considered to have high credit worthiness. The Corporation generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners. No provision has been made for past due receivables as of September 30, 2009 as the Corporation has assessed there are no impaired receivables.

	<i>2009</i>
	<i>\$</i>
Current	21,198
30 - 60 days	1,797
60 - 90 days	1,370
Greater than 90 days	3,892
Total	28,257

Liquidity risk

Liquidity risk arises through excess financial obligations over available financial assets due at any point in time. The Corporation's objective in managing liquidity risk is to maintain sufficient available reserves in order to meet its liquidity requirements at any point in time. The Corporation believes that it has access to sufficient capital through internally generated cash flows and external equity sources, and to undrawn committed credit facilities to meet current spending forecasts. All of the Corporation's current liabilities mature within a one year period.

Interest rate risk

The Corporation is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Corporation's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Corporation's strategy is to manage interest rate risk. If interest rates on the floating instrument were to change by 1% it is estimated that annual cash flow would change by approximately \$2.5 million.

Market risk

Market risk is the risk of uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk and interest rate risk. It is estimated that annual cash flow would change approximately by \$2.0 million and by \$5.0 million, respectively, due to a \$1 USD WTI and a \$0.25/Mcf CDN change in oil and natural gas prices.

The Corporation has the following financial contracts in place as at September 30, 2009:

Natural Gas

March 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$5.96/GJ
March 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$6.01/GJ
September 1, 2009 – December 31, 2009	10,000 GJ /d	CDN \$3.25 GJ put (\$3.69-\$0.44)

Crude Oil

Fixed Price

March 1, 2009 – December 31, 2009	1,000 Bbl/d	WTI CDN \$68.25/Bbl
February 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$63.30/Bbl
February 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$63.85/Bbl
April 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$70.15/Bbl
May 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$72.00/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$74.30/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$74.50/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$76.25/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$76.50/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$77.00/Bbl
January 1, 2010 – December 31, 2010	500 Bbl/d	WTI CDN \$77.00/Bbl

Costless Collar

March 1, 2009 – December 31, 2009	500 Bbl/d	WTI CDN \$60.00-\$70.00/Bbl
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Interest Rate Swap

Notional Amount CAD \$100 million	Term: January 20, 2009 – January 20, 2011
Fixed rate 1.1% – Floating rate is reset against CAD – CDOR on each three month anniversary	

Galleon has entered into the above contracts for the purpose of protecting funds generated from operations from the volatility of commodity prices and interest rates. The Corporation recognizes the fair value of its financial derivatives on the balance sheet each reporting period with the change in fair value recognized as an unrealized gain or loss on the statement of earnings. The fair value is based on quoted market prices. At September 30, 2009 the fair value is estimated to be a net liability of \$5.7 million, composed of a \$1.6 million short term asset, a \$0.1 million long-term asset, a \$5.9 million short term liability and a \$1.5 million long term liability.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values for commodity price and interest rate derivatives are provided by the financial intermediary with whom the transactions were completed and tested by the Corporation for reasonableness based on comparative market prices and the fixed prices of the contracts. In determining fair values, the Corporation uses quoted prices for identically traded commodities obtained from active exchanges such as the New York Mercantile Exchange and the Natural Gas Exchange, or obtained directly from counterparties, or other publicly available market data providers.

The Corporation has the following costless collar physical derivative contracts in place for natural gas at September 30, 2009:

August 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$3.00 - \$6.60 /GJ
August 1, 2009 – March 31, 2010	5,000 GJ/d	CDN \$3.00 - \$6.53 /GJ

Galleon has entered into the above physical derivative contracts for the purpose of protecting funds generated from operations and the volatility of natural gas prices.

13. CAPITAL STRUCTURE FINANCIAL POLICIES

The Corporation defines capital as total debt and shareholders' equity comprised of retained earnings and share capital. The Corporation's primary capital management objective is to maintain a strong balance sheet affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in the business environment. The Corporation manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Corporation may adjust capital spending, issue new shares, issue new debt or repay existing debt.

The Corporation monitors its progress through the following two measures utilizing book values: net debt to funds from operations and total debt to total debt and shareholders' equity. Net debt to funds from operations is calculated as current liabilities and long term debt less current assets divided by the most recent three quarters annualized funds from operations. Total debt to total debt plus shareholders' equity is calculated as short term debt plus long term debt divided by short term debt plus long term debt plus shareholders' equity.

The Corporation's strategy is to maintain net debt to funds from operations at or below a level of 1.5 to 1. While the corporation may exceed this rate from time to time, variations are viewed as short term, and efforts are made after a period of variation to bring the measure back in line.

The Corporation's strategy concerning capitalization is to utilize more equity than debt. This is measured by targeting total debt to total debt plus shareholders' equity at a ratio of less than 0.4 to 1. The Corporation has no externally imposed capital requirements.

<i>At September (\$000s)</i>	<i>Target Measure</i>	<i>2009</i> \$	<i>2008</i> \$
Components of ratios			
Current assets (excluding fair value of financial derivative and future income tax)		35,582	59,190
Current liabilities (including short term debt; excluding fair value of financial derivative)		277,638	318,244
Short term debt (bank loan and current portion of capital lease)		232,731	29,575
Net debt		242,056	260,986
Total debt (bank loan and capital leases)		232,731	231,507
Shareholders' equity (share capital plus retained earnings)		673,228	639,536
Total capitalization (total debt plus shareholders' equity)		905,959	871,043
Funds from operations ¹ (nine months ended September 30 annualized)		99,431	233,244
Net debt/funds from operations	< 1.5 times	2.4	1.1
Total debt/total debt plus shareholders' equity	< 0.4 times	0.3	0.3

¹ Funds from operations is a non-GAAP measure and is based on cash flow from operating activities before changes in non-cash working capital and abandonment expenditures.

The increase in the net debt to funds from operations ratio from 2008 to 2009 resulted primarily from the 57% decrease in funds from operations, offset by the 7% decrease in net debt.

14. SUBSEQUENT EVENTS

In October 2009, the Corporation granted 5,181,000 options to purchase Class A shares at an exercise price of \$6.38 per share.

In November 2009, the Corporation closed a flow-through financing of 2,200,000 flow-through shares at a price of \$7.80 per flow-through share for aggregate proceeds of \$17,160,000. The proceeds will be used to incur eligible Canadian Exploration Expenses which will be renounced to subscribers on or before December 31, 2009.

The Corporation has entered into three financial commodity contracts subsequent to September 30, 2009. For the period January 1, 2010 to December 31, 2010, two crude oil contracts have been entered into. Each contract is for 500 Bbls/d with a floor price of \$75.00 WTI CAD/Bbl. One contract has a ceiling price of \$94 WTI CAD/Bbl and one contract has a ceiling price of \$95 WTI CAD/Bbl.

The third financial commodity contract is for 10,000 GJ/d for the period November 1, 2009 to December 31, 2009 at \$5.16 CAD GJ.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's consolidated financial statement presentation.

Corporate Information

HEAD OFFICE

400, 250 – Second Street SW
Calgary, Alberta T2P 0C1
p (403) 261-6012
f (403) 262-5561
www.galleonenergy.com

BOARD OF DIRECTORS

John A. Brussa
Glenn R. Carley, *Executive Chairman*
William L. Cooke ^{1 3 4}
Lawrence Fenwick ^{2 3}
Daryl H. Gilbert ^{1 2}
Brad R. Munro ^{1 2 4}
Steve Sugianto

¹ Member of the Audit Committee

² Member of the Reserves Committee

³ Member of the Compensation Committee

⁴ Member of the Corporate Governance Committee

OFFICERS

Steve Sugianto, *President and Chief Executive Officer*
Glenn R. Carley, *Executive Chairman*
Shivon M. Crabtree, *Vice President, Finance & Chief Financial Officer*
Jim Iverson, *Vice President, Exploration*
Dale Orton, *Vice President, Engineering & Corporate Development*
Devin Sundstrom, *Vice President, Production*
Chris Tibbles, *Vice President, Land*
Bill Wee, *Vice President, Operations*
C. Steven Cohen, *Secretary*

AUDITOR

Ernst & Young LLP
Calgary, Alberta

BANK

The Bank of Nova Scotia
Calgary, Alberta
ATB Financial
Calgary, Alberta
HSBC Bank Canada
Calgary, Alberta
The Toronto-Dominion Bank
Calgary, Alberta
Union Bank
Canada Branch
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

EVALUATION ENGINEERS

DeGolyer and MacNaughton
Canada Limited
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol GO