

FOR IMMEDIATE RELEASE – March 11, 2009

GALLEON REPORTS 2008 EARNINGS OF \$79.3 MILLION AND OPERATIONS UPDATE

CALGARY, ALBERTA – (GO: TSX) Galleon Energy Inc. (“Galleon” or the “Corporation”) announces record revenues, earnings and funds from operations in 2008.

2008 Performance

One of the key highlights in 2008 was the successful capture and development of the Eastern and Central Montney resource projects. Horizontal drilling and multi-stage fracture technology has advanced the development of the Eastern Montney project and one of the Central Montney projects. These resource projects are expected to deliver predictable, sustainable growth throughout the multi- year drilling program.

- Net present value of estimated future net revenue before tax from gross proved plus probable reserves based on forecast prices and costs discounted at 10% reached \$1.3 billion, a 10% increase over December 31, 2007; Gross proved plus probable reserves grew to 80.4 million BOE, an increase of 35% over December 31, 2007;
- Gross proved reserves grew to 49.3 million BOE, an increase of 45%;
- Gross proved producing reserves grew to 23.6 million BOE, an increase of 53%;
- Gross proved plus probable reserve life index was 11.9 years based on average Q4 2008 production;
- Production on a gross proved plus probable basis was replaced 4.3 times;
- A drilling success rate of 89%: drilled 107 gross wells resulting in 56 (53.2 net) natural gas wells, 35 (32 net) light oil wells, 3 (3 net) heavy oil wells and 1 (1 net) water injection well.

2008 Financial Highlights

- Revenues reached \$418.2 million, an increase of 71% compared to 2007;
- Funds from operations of \$241.3 million (\$3.39 per basic share) were generated, an increase of 84% from 2007;
- Earnings of \$79.3 million (\$1.11 per basic share) were recorded;
- Daily production averaged 17,216 BOE: natural gas – 59 Mmcf and crude oil and NGLs – 7,385 Bbl, an increase of 28% from 2007;
- Investment in exploration and development activities was \$273.6 million.

Operational Update

As commodity prices have continued to weaken over the past 4 to 6 months, Galleon has focused on low cost projects that also provide strong reserve growth. The majority of the drilling program has targeted the Eastern and Central Montney projects.

To date in Q1 2009, 7 (7.0 net) Eastern Montney horizontal wells, 1 (0.9 net) Central Montney horizontal well, 1 (1.0 net) Puskwa Beaverhill Lake infill well have been drilled and cased and 1 (0.1 net) non-operated well, a 100% success rate. One well targeting a new light oil resource play is currently drilling.

Current production based on field report estimates is approximately 18,000 BOE/d with in excess of 1,500 BOE/d of tested production behind pipe. Approximately 1,000 BOE/d of this production is scheduled to be on stream during Q4 2009 pending completion of the natural gas plant

expansion in the Central Montney. The remaining 500 BOE/d, at Puskwa, is expected to be on stream in Q3 2009/Q4 2009 subject to receipt of regulatory approval for water injection.

Eastern Montney Update

The Eastern Montney horizontal program has continued to exceed expectations.

- The project is viable at low commodity prices.
- The horizontal well program will focus on drilling from pad locations to reduce costs and improve drilling and tie-in efficiencies.
- Horizontal well initial production rates and associated proven reserves have been on average approximately 2 to 3 times the rates of offset vertical wells. The horizontal well costs have been on average 1.5 times the cost of a typical vertical well.
- Horizontal well performance is more consistent and repeatable and production decline rate is lower and more stable compared to vertical wells.
- Gas, water and oil are co-produced which is typical in tight immature reservoirs. All horizontal wells have associated water production which is not part of an active bottom water drive. Such water is not expected to materially impact total recoverable reserves.
- Production life is expected to exceed 10 years based on original analog pools.

There have been 31 (30.6 net) Eastern Montney horizontal wells drilled by Galleon since March 2008. The average initial production rate is 1.3 Mmcf/d with 20 Bbls/d of oil per Mmcf. As the project has evolved, tests have been done on the length of the horizontal lateral, size of fractures, fracture density and fracture fluid to maximize productivity and reduce costs. The optimal configuration appears to be a 900 to 1000 meter lateral with 8 stages of 2 to 3 tonne water based fractures. Average initial production rates for the wells drilled to date in Q1 2009, have increased to 1.6 Mmcf/d. Total drilling and completion costs to date have been approximately \$1.3 million per well on average.

Galleon plans to continue to use pad drilling throughout the 57 sections of land in the main fairway which has received approvals for down spacing to 4 wells per section. Up to 25 Eastern Montney horizontal wells are planned for 2009. As at December 31, 2008, a total of 59 gross proved plus probable horizontal drilling locations were recognized in the independent reserve evaluation report. Based on vertical well control and geologic mapping, an additional 300 horizontal locations with no reserves assigned have been identified. Galleon has access to over 200 sections (average interest 90%) of prospective land in the delineated Eastern Montney fairway which is approximately 35 miles long by 10 miles wide.

Central Montney Update

As the drilling program on the two Central Montney projects commenced in July 2008, the projects are in the early stages of development. Galleon has delineated some very significant reserves.

- The project is viable at low commodity prices.
- Central Montney project #1 can be developed using inexpensive vertical wells with average drilling, completion and tie-in costs of \$1.1 million to date.
- Galleon plans to develop the Central Montney project #2 using a combination of vertical and horizontal wells. Vertical wells cost on average \$1.0 million to date in total and serve to identify the depth of each of the 7 gas charged Montney sands. The vertical wells can be produced but they also provide an accurate reference for the location of

follow up horizontal legs. In this play horizontal wells have generally produced at rates of 2 times the vertical wells with well costs averaging 1.5 times the vertical well costs.

Four Montney wells were drilled in the Central Montney project #1 in the last half of 2008. These wells provided ample justification for the plant expansion which occurred in fourth quarter 2008. The plant was up and running by January 10, 2009 and, since that time, net production has been stable at 14 Mmcf/d. The discovery well plus the 4 wells drilled in 2008 are contributing approximately 11.6 Mmcf/d of net production. No follow up wells have been drilled in Q1 2009 as the plant capacity is full and there is 6 Mmcf/d of tested net gas production currently behind pipe. Plans are underway to expand the plant capacity to up to 28 Mmcf/d in Q4 2009. At least 2 more Montney vertical wells are planned to be drilled on this project in 2009.

Since July 2008, 3 Montney wells (2 horizontal wells and 1 vertical well) have been drilled and one Montney recompletion has been performed in the Central Montney project #2. One of the Montney horizontal wells was drilled in Q1 09. Including the original discovery well, this project is currently producing at approximately 7.4 Mmcf/d net from the Montney. There are no plant capacity constraints in this area and up to 4 more Montney wells (two vertical wells and two horizontal wells) are planned to be drilled in 2009. Drilling risk on these wells has been lowered due to approvals being received for down spacing to 4 wells per section on the two key sections. At least one exploitation well is planned to test the expansion of the play along trend.

Puskwa Beaverhill Lake Light Oil Update

Puskwa continues to be a solid light oil project. Net production has been stable over the last year at approximately 2,500 BOE/D. Two wells (100% interest) have been drilled since July 2008. The first well was drilled to be a water injection well. This well was drilled in August 2008 and has not yet received regulatory approval to commence injecting water. The second well was drilled in Q1 2009. This is the first well drilled on the recently approved 80 acre down spacing. This well flowed at 550 Bbl/d and 1.2 Mmcf/d gas for a period of 62 hours on test. The production rate has not yet been determined. The well is expected to be eligible for the Alberta Government transitional royalty rate. The number of wells planned for Puskwa in 2009 will depend on receiving water injection approval on the two outstanding applications.

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 year ended December 31, 2008 with comparisons to the year ended December 31, 2007. 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 audited financial statements 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, March 11, 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 Statements

Statements that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, growth expectations within the Corporation, expected production and production increases, length of drilling program in the Montney, expected general and administration, operating and transportation expenses in 2009, expected royalty rates in 2009 and the impact of the New Alberta Royalty Framework and the transitional royalties and incentives provided in connection therewith, expected levels of cash flow and earnings in 2009, drilling and completion plans and the timing thereof, facilities to be constructed or expanded and the timing thereof, capital expenditures, the timing thereof and the method of funding 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 manor; 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 all 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.

Annual Information

(\$000s)	2008	2007	2006
Revenues	418,233	245,203	157,931
Funds from Operations ¹	241,298	131,052	85,151
Per share, basic ¹	3.39	2.18	1.60
Per share, diluted ¹	3.35	2.12	1.52
Net Earnings	79,264	8,286	13,826
Per share, basic	1.11	0.14	0.26
Per share, diluted	1.10	0.13	0.25
Total Assets	1,181,003	799,359	614,565
Net debt	282,446	193,557	151,213
Bank debt	249,015	163,378	122,996
Total Long-term Financial Liabilities	-	-	-

¹ Funds from operations and funds from operations per share is not a standard measure under GAAP and may not be comparable to similar measures presented by other companies. Management believes that funds flow per share is a useful supplementary measure that may assist investors in assessing the underlying per share value of the Corporation.

² See “ Non-GAAP Measurements”

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.

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. Cash of \$2.4 million was acquired and positive working capital of \$5.9 million was assumed in the acquisition.

The increase in revenues, funds from operations and net earnings in 2008 compared to 2007 was due to strong commodity prices in the majority of 2008 and to an increase in production volumes

throughout 2008. Total assets and net debt increased in 2008 due to the capital expenditure program and the acquisitions of ExAlta and Adamant.

On February 1, 2007, the Corporation closed a transaction resulting in an acquisition of an interest in a partnership and the minority partnership's holdings resulting in a 100% consolidated interest. The partnership held oil and gas assets within Galleon's core area of Dawson, Alberta. The total consideration of \$28.7 million was paid in cash. The acquisition of the partnership increased funds from operations and total assets compared to 2006. The decrease in net income in 2007 compared to 2006 is due to the fair value of financial derivatives recorded based on quoted market prices. At December 31, 2007 the fair value was an unrealized loss of \$9.3 million.

Results of Operations

Year ended December 31	2008		2007	
	6,300,970 BOE		4,901,518 BOE	
(\$000s)		\$/BOE		\$/BOE
Revenues	418,233	66.38	245,203	50.03
Other income	438	0.07	-	-
Royalties	(86,717)	(13.76)	(51,586)	(10.52)
GCA ¹	15,595	2.48	10,033	2.05
Transportation costs	(8,537)	(1.35)	(6,024)	(1.23)
Operating costs	(75,807)	(12.03)	(44,759)	(9.13)
	263,205	41.79	152,867	31.20
G&A	(13,326)	(2.11)	(7,281)	(1.49)
Interest costs	(11,138)	(1.77)	(10,110)	(2.06)
Gain (loss) on financial derivative	3,621	0.57	(3,545)	(0.72)
Capital and other taxes	(1,064)	(0.17)	(879)	(0.18)
Funds from operations²	241,298	38.31	131,052	26.75

¹ GCA means Gas Cost Allowance

² See "Non-GAAP Measurements"

Petroleum and Natural Gas Revenues

Year ended December 31	2008		2007	
		%		%
(\$000s)				
Light oil	189,435	45	98,564	40
Heavy oil	41,503	10	27,776	11
NGLs	11,434	3	5,736	3
Natural gas (net of physical gas contracts)	175,122	42	112,299	46
Royalty income	739	-	828	-
Total	418,233	100	245,203	100

Revenues for the year ended December 31, 2008 increased 71% to \$418.2 million from \$245.2 million in the prior year due to a 28% increase in average production volumes. As well overall revenues increased by 33% to \$66.38/BOE from \$50.03/BOE in 2007 as a result of higher commodity prices. A portion of Galleon's petroleum products are sold at either spot reference prices or prices subject to commodity contracts based on U.S. dollars for crude oil and AECO for natural gas. The

Corporation also enters into fixed price and costless collar commodity contracts on a portion of its petroleum products. Refer to “Commodity Pricing and Marketing” section.

Production

Year ended December 31	2008		2007	
	BOE/d	%	BOE/d	%
Light oil (Bbls/d)	5,187	30	3,562	26
Heavy oil (Bbls/d)	1,686	10	2,005	15
NGLs (Bbls/d)	512	3	246	2
Natural gas (Mcf/d)	58,986	57	45,697	57
BOE/d (6:1)	17,216	100	13,429	100

Average production volumes for 2008 of 17,216 BOE/d increased by 28% compared to 13,429 BOE/d in 2007. By product, light oil volumes increased by 46%, natural gas volumes increased by 29% and heavy oil volumes decreased 16%. Light oil production increased in 2008 as a result of drilling success at Puskwa, Eaglesham, Culp/Kimiwan and McLeans Creek. Natural gas volumes increased in 2008 as a result of the significant resource gas brought on production in the Central Montney project as well as the production additions realized from horizontal drilling and multi-stage fracture technology in the Eastern Montney project. Heavy oil production suffered a set back in Q2 2008 with a number of wells not recovering their oil production rates after being shut in during spring breakup. Current heavy oil production levels remain stable, but at lower levels.

Commodity Pricing and Marketing

Petroleum products are sold to major Canadian marketers at either 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 in 2008, Galleon entered into one term natural gas contract and six crude oil financial contracts. The natural gas contract for 10,000 GJ/day was put in place on January 8, 2008 and had a term from February 1 to December 31, 2008 with pricing subject to a costless collar of \$6.00/GJ and \$8.00/GJ Canadian.

An additional natural gas contract was acquired with Adamant. This second contract was for 8,500 GJ/day and was put in place from January 1, 2008 through December 31, 2008 with pricing subject to a costless collar of \$6.00/GJ to \$7.00/GJ Canadian. At the date of acquisition, this contract represented a \$5.3 million liability which has been fully amortized into income in 2008 and recorded as a realized non cash gain of \$5.3 million. For the year ended December 31, 2008, realized losses of \$2.7 million were recorded from these contracts.

In 2008, Galleon had the following crude oil costless collar contracts in place:

January 1, 2008 – December 31, 2008	2,000 Bbl/d	WTI CDN \$70.00-\$80.75/Bbl
January 1, 2008 – December 31, 2008	1,000 Bbl/d	WTI USD \$75.00-\$100.00/Bbl
July 1, 2008 – December 31, 2008	1,000 Bbl/d	WTI CDN \$110.00-\$177.30/Bbl
October 1, 2008 – December 31, 2008	1,000 Bbl/d	WTI USD \$100.00-\$120.00/Bbl
October 1, 2008 – December 31, 2008	1,000 Bbl/d	WTI USD \$100.00-\$120.00/Bbl
January 1, 2009 – June 30, 2009	1,000 Bbl/d	WTI USD \$100.00-\$115.00/Bbl

For the year ended December 31, 2008, the crude oil contracts resulted in realized gains of \$3.6 million. In addition, the 2009 contract was unwound in 2 separate transactions in December 2008 which resulted in a realized gain of \$10.8 million.

In the last two months of 2008, the Corporation entered into the following natural gas financial fixed price contracts:

January 1, 2009 – June 30, 2009	5,000 GJ/d	CDN \$6.00/GJ
January 1, 2009 – June 30, 2009	5,000 GJ/d	CDN \$6.00/GJ
April 1, 2009 – October 31, 2009	5,000 GJ/d	CDN \$7.40/GJ

Unrealized gains of \$1.2 million were recorded as an asset based on the mark to market value at December 31, 2008 of these natural gas financial contracts.

Subsequent to December 31, 2008 the Corporation has entered into the following financial fixed price 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

Crude Oil:

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

Prices (net of transportation)

Year ended December 31	2008	2007
Light oil (\$/Bbl)	96.94	74.77
Heavy oil (\$/Bbl)	71.77	37.39
Total oil including financial derivative contract (\$/Bbl)	92.20	59.56
Total oil with out financial derivative contract (\$/Bbl)	90.76	61.31
Natural gas (\$/Mcf)	7.87	6.54
NGLs (\$/Bbl)	61.06	63.94

The average light oil price (excluding the financial derivative contract) received for 2008 was \$96.94/Bbl, an increase of 30% compared to \$74.77/Bbl in the prior year. The average heavy oil price was \$71.77/Bbl, an increase of 92% compared to \$37.39/Bbl in the prior year. The 2009 budget is based on an average price of \$65 WTI USD and a foreign exchange rate of \$0.85 USD to \$1.00 CAD. This budget has been modified to reflect current and future prices.

The average natural gas price received for 2008 was \$7.87/Mcf, an increase of 20% compared to \$6.54/Mcf in the prior year. The 2009 budget is based on an average AECO price of \$7.00/Mcf CAD. This budget has been modified to reflect current and future prices.

Performance by Property

Year ended December 31

	2008			2007			2008 Funds from operation s ²
	Average Production	Operating netbacks/ BOE ^{1,2}	Operating netbacks/ BOE ^{1,2}	Average Production	Operating netbacks/ BOE ^{1,2}	Operating netbacks/ BOE ^{1,2}	
	BOE/d	%	\$	BOE/d	%	\$	%
East Montney	3,818	22	33.60	3,668	27	25.63	19
Eaglesham	3,066	18	42.15	1,975	15	28.07	19
Puskwa	2,573	15	57.71	2,129	16	52.08	22
North Peace River Arch	1,318	8	26.59	-	-	-	5
Alexis / St. Anne	1,198	7	35.45	-	-	-	6
Edam	1,174	7	24.73	1,856	14	8.38	4
Culp / Kimiwan	803	5	59.91	804	6	37.14	7
McLeans Creek	618	4	80.25	154	1	68.25	7
Kakut	549	3	30.08	273	2	22.87	2
Western Montney	278	1	30.52	212	2	26.07	1
Other	1,821	10	26.28	2,358	17	22.21	8
Total	17,216	100	39.65	13,429	100	29.15	100

¹ Operating netbacks/BOE exclude GCA and crude oil and gas hedging gains or losses, and are calculated by subtracting royalties and operating costs from revenues and dividing the result by average production for the period.

² See “Non-GAAP Measurements”.

Daily production for the year averaged 17,216 BOE/d, an increase of 28% compared to 13,429 BOE/d in 2007. Volume growth in 2008 was primarily driven by Galleon’s light oil drilling in the first half of the 2008, Montney resource gas drilling in the second half of the year and production from the ExAlta and Adamant acquisitions. Light oil volumes increased due to the drilling of more oil wells in response to higher oil prices in the first part of 2008. Natural gas volumes increased in 2008 compared to 2007 as a result of the success of the significant Eastern Montney gas horizontal drilling program. Twenty of the 24 horizontal wells drilled in 2008 were brought on production during the second half of 2008. Drilling in the Central Montney project commenced in the second half of the year. The drilling focus shifted between the first half and the second half of 2008. The Corporation moved from conventional plays with smaller size and high initial declines toward resource projects that have repeatability, predictability and comparably larger in size.

The Eastern Montney natural gas project represents a significant resource to Galleon and is currently the largest producing area contributing 19% to total funds from operating activities in 2008 based on 22% of production volumes. The operating netback of \$33.60/BOE has improved by 31% from the prior year as a result of stronger 2008 natural gas prices. Production averaged 3,818 BOE/d (91% natural gas and 9% oil and liquids) during 2008 compared to 3,668 BOE/d in 2007.

Galleon’s first Montney horizontal well was drilled in Q1 2008 and commenced production in the latter part of June 2008. In 2008, twenty-four (23.6 net) Eastern Montney horizontal wells were drilled and completed with multi-staged fractures and twenty wells are currently producing approximately 3,600 BOE/d net (20 Mmcf/d and 267 BOE/d of oil and liquids). The production data

suggests that horizontal wells have a higher production profile (2 to 3 times better) and lower initial production decline rates than the vertical wells. To date, the economics of the horizontal wells have proven to be better than the vertical wells on a rate of return and reserve optimization basis. On stream costs (including drilling, completion, tie-in and facility costs) on average for the project are less than \$10,000 per producing BOE. Galleon has delineated a gas charged fairway with vertical well control that is 35 miles long by 12 miles wide.

Production at Eaglesham averaged 3,066 BOE/d making it Galleon's second largest producing property in 2008. Production is comprised of 71% natural gas and 29% oil and liquids. Average production was 55% higher in 2008 compared to 1,975 BOE/d in the prior year. This increase has come from success in Wabamun light oil and Montney resource gas drilling. Eaglesham contributed 19% of the 2008 funds from operations from 18% of production volumes. The operating netback of \$42.15/BOE has improved 50% from the prior year as result of stronger commodity prices in 2008. The Wabamun has been a traditional target in this area. The Montney is a new and unique project in that it has seven gas charged Montney sands. To date, four sands have been tested of which two of these are contributing to current production. The remaining two sands are not on production as the sulphur content exceeds the plant specifications. This project has been delineated in 2008 and current Montney production from this project is over 4 Mmcf/d net from three wells. Galleon plans to drill one vertical and one horizontal well targeting the Montney in first quarter 2009.

Puskwa production averaged 2,573 BOE/d in 2008 an increase of 21% compared to 2007. The operating netback was \$57.71/BOE, an improvement of 11% from 2007. These strong operating netbacks were driven by average light oil prices (net of transportation) in 2008 of \$100.02/Bbl. During 2008, Puskwa contributed 22% of funds from operations from 15% of the production volumes. Average production volumes at Puskwa during 2008 were comprised of 80% oil and 20% associated gas.

The Puskwa project has moved into the development stage with the implementation of two enhanced recovery schemes. Approval for down spacing to 2 wells per quarter section has been received on 6 sections. The focus has been on increasing water injection capacity to maintain a one to one injection to production ratio. One well was drilled for this purpose in Q3 2008. Wells such as this provide a low risk method of increasing production by allowing an incremental increase of oil production for every barrel of water injected. In Q3 2008 the gas plant and oil battery were modified to increase liquids recovery from the natural gas produced and to make the waterflood operation more efficient.

Galleon continued its exploration in the greater Puskwa area by drilling two successful exploration wells in 2008. Galleon drilled a Montney horizontal well that further proved the viability of a significant resource play in the area, although further delineation will be required. In 2008 a deep Granite Wash well was drilled and tested at highly restricted rates. Galleon will continue to pursue optimization at Puskwa in 2009. Work is continuing on applications for an expanded water flood and additional down spacing through the regulatory process. Galleon plans to drill one Beaverhill Lake well in Q1 2009. Additional activity will be dictated by commodity prices.

Production from Galleon's North Peace River Arch area averaged 1,318/BOE/d in 2008. This area was purchased in the first half of 2008 through two corporate acquisitions: ExAlta and Adamant. This area represented 5% of funds from operations in 2008 based on 8% of production. In 2008, activities included re-entering existing wellbores and fracturing Montney wells that had previously only been perforated. A similar program is planned for 2009.

The Alexis and St. Anne properties were acquired in the ExAlta and Adamant acquisitions and generated 6% of funds from operations from 7% of total production for the year. A key focus in 2009

in this area will be optimization with the primary goal of increasing the volume of injected water into the Alexis pool which is anticipated to enhance the existing waterflood. The level of drilling activity will be dictated by commodity prices.

Galleon's Edam area average production of 1,174 BOE/d decreased by 37% in 2008. The heavy oil wells located at Edam, Saskatchewan generated 4% of funds from operations from 7% of total production. Operating netbacks of \$24.73/BOE increased by 195% due to the increase in heavy oil prices in the 2008. Edam production suffered a set back in Q2 2008 with a number of wells not recovering their oil production rates after being shut-in during spring breakup. Current production levels remain stable but at significantly lower levels.

Culp/Kimiwan light oil has contributed 7% of funds from operations year-to-date 2008 based on 5% of production volumes. The strong operating netbacks of \$59.91 realized in 2008 are a result of high oil prices.

McLeans Creek has grown significantly in 2008. Increased drilling prompted by high oil prices prior to Q4 2008 resulted in production growth which increased by 301% compared to 2007. High netbacks and a strong drilling success rate have bolstered this project. Drilling success was a result of picking locations from an extensive 290 sq. kms of 3D seismic data covering this area. An additional 275 sq. kms of 3D seismic was shot in late 2008. Access to this 3D seismic will fuel drilling activity for many years. The level of drilling activity in 2009 will be dictated by commodity prices. McLeans Creek contributed 7% of funds from operations based on 4% of the production volumes. The high netback of \$80.25/BOE in 2008 is attributable to high oil prices received and a royalty holiday period. This deep oil property commenced production in December 2007.

Kakut production increased by 101% during 2008 compared to 2007. The operating netback was \$30.08/BOE in 2008, an improvement of 32% from 2007. This area is characterized primarily by multi-zone gas potential.

Royalties

Year ended December 31	2008	2007
(\$000s, except as indicated)		
Crown	79,072	47,524
Freehold	1,600	1,149
GORR and other	6,045	2,913
Gross royalties	86,717	51,586
GCA	(15,595)	(10,033)
Net royalties	71,122	41,553
% of revenue	20.7	21.0
% of revenue net of GCA	17.0	16.9

Gross royalties were 20.7% of revenues for the year ended December 31, 2008 compared to 21.0% for the same period in 2007.

By product, for the year ended December 31, 2008, gross royalties were 16.8% for light oil, 23.7% for natural gas, 22.6% for heavy oil, and 29.6% for liquids. For the year ended December 31, 2007, gross royalties were 18.8% for light oil, 23.8% for natural gas, 20.6% for heavy oil, and 26.5% for liquids.

Operating Costs

Year ended December 31

	2008			2007		
	Production	Operating Costs		Production	Operating Costs	
	%	%	\$/BOE	%	%	\$/BOE
East Montney	22	12	6.48	27	14	4.78
Eaglesham	18	10	6.92	15	10	6.00
Puskwa	15	10	8.08	16	8	4.61
North Peace River Arch	8	7	10.32	-	-	-
Alexis / St. Anne	7	6	10.47	-	-	-
Edam	7	16	28.72	14	31	20.71
Culp / Kimiwan	5	9	24.23	6	12	18.43
McLeans Creek	4	4	14.04	1	1	8.09
Kakut	3	3	10.98	2	2	7.34
Western Montney	1	2	15.51	2	2	10.50
Other	10	21	22.91	17	20	10.47
Total	100	100	12.03	100	100	9.13

Operating costs increased by 32% to \$12.03/BOE for 2008 compared to \$9.13/BOE for 2007. Galleon's operating costs per barrel of oil equivalent excluding operating costs from the heavy oil properties were \$10.32/BOE for 2008.

Galleon has experienced higher operating costs overall in 2008 due to the increased demand for services and labour in the oil and gas industry which was fueled by the period of high commodity prices. As well Galleon's operating costs have increased with operating more crude oil wells compared to the costs of operating natural gas wells. Some of the more significant operating costs for crude oil wells include trucking, artificial lift and maintenance costs.

In the Eastern Montney natural gas project, operating costs were \$6.48/BOE in 2008 compared to \$4.78/BOE the prior year. Operating cost increases in 2008 were related to emulsion trucking and equipment rentals associated with the increased emulsion storage requirements. As well additional compressor maintenance was incurred in 2008 compared to 2007 relating to the rebuild of one of the units. Operating costs are expected to continue to average between \$6.00/BOE and \$7.00/BOE in 2009.

Eaglesham operating costs for the 2008 were \$6.92/BOE compared to \$6.00/BOE in 2007, mainly due to an increase in the number of pumping oil wells on production and the fuel and equipment rental costs required to operate these wells. These costs are expected to be mitigated in 2009, with installation of electricity at the plant and the well sites.

Operating costs at Puskwa were \$8.08/BOE in 2008 compared to \$4.61/BOE in 2007. Operating costs were higher due to an expansion of the waterflood operations in 2008 which resulted in an increase in utilities as well as temporary water trucking and pump equipment rental costs. Due to greater percentage of pumping oil wells in 2008 compared to flowing wells in 2007 well servicing and equipment maintenance costs were higher in 2008. Operating costs for 2009 are expected to average below \$8.00/BOE at Puskwa.

Operating costs at Kakut were \$10.98 in 2008 compared to \$7.34 in the prior year. This increase is mainly due to the facility turnaround at the oil battery in Q4 2008, rental costs for the sweetening units required prior to the completion of our plant construction, as well as chemicals required for the sweetening units. Operating costs are expected to be significantly lower due to increased volumes with the plant construction and expansion being completed in 2009.

General and Administration Expenses

Year ended December 31	2008		2007	
(\$000s)		\$/BOE		\$/BOE
Gross	19,838	3.15	12,155	2.48
Capitalized overhead	(4,792)	(0.76)	(3,775)	(0.77)
Overhead recoveries	(1,720)	(0.27)	(1,099)	(0.22)
	13,326	2.12	7,281	1.49

Net general and administrative expenses (“G&A”) have increased to \$2.12/BOE in 2008 compared to \$1.49/BOE in 2007. This increase is primarily due to an increase in staffing levels required to manage the growth of the Corporation. Also, in April 2008, Galleon relocated to new and larger office space in order to accommodate the addition of employees and consultants. The office space was 150% greater in area with a rate increase of approximately 30% per square foot. The rate increase reflects current market rates compared to the previous lease put in place in 2005.

In 2008, gross G&A has increased by \$0.67/BOE and net G&A has increased by \$0.63/BOE compared to the same periods in 2007. Galleon expects that net G&A will average approximately \$2.00/BOE in 2009.

G&A by category	Year ended December 31	
	2008	2007
	%	%
Salary and employee	48	54
Office	24	17
Consulting	9	7
Computer	6	6
Investor relations and communications	2	2
Audit, engineering and legal	8	8
Other	3	6
	100	100

Interest

Interest expense of \$11.1 million for the year ended December 31, 2008 was slightly higher than \$10.1 million in the prior year due to increased average debt levels. The effective interest rate was 4.81% (2007 – 6.16%). As at December 31, 2008 an amount of \$249 million was drawn against the Corporation’s credit facility of \$310 million.

Stock Based Compensation

Stock based compensation was a non-cash expense of \$7.7 million for the year compared to \$8.5 million in the prior year. The decrease was due to a lower fair value of new options granted in the current year compared with 2007. During the year 3,306,000 stock options were granted at an average exercise price of \$10.87 and had fair values of between \$1.52 and \$5.12 per option.

At December 31, 2008 7,037,651 stock options were outstanding at an average exercise price of \$11.87.

Depletion, Depreciation and Accretion

Depletion and depreciation (“D&D”) charges were \$137.2 million or \$21.77/BOE for the year ended December 31, 2008 compared to \$100.3 million or \$20.47/BOE in the prior year. Reserve additions for 2008 were estimated by an independent third party qualified reserves evaluator. Gross proved reserves increased by 45% year over year.

Capital expenditures of \$108.4 million (\$105.8 million – December 31, 2007) related to undeveloped land, seismic, and equipment under construction have been excluded from the depletion and depreciation calculation and \$173.1 million (\$110.8 million – December 31, 2007) of future development costs have been added.

Accretion expense on the Corporation’s asset retirement obligation was \$2.3 million for the year compared to \$1.9 million in the prior year. The increase related to a greater asset retirement obligation which is driven by the number of wells and facilities in which Galleon has an interest.

Capital and Future Taxes

The current tax provision of \$1.1 million for the year was comprised of Saskatchewan capital and resource taxes (2007 - \$0.9 million). The provision for future income taxes was \$30.6 million for the year ended December 31, 2008 compared to \$2.7 million for the prior year. The increase in future taxes was a result of higher net earnings during the year and the tax effect of the flow-through share renouncements in January 2008. Galleon has estimated tax pools of approximately \$659.6 million as at December 31, 2008.

Capital Expenditures

	(\$000s)
Property & equipment balance at December 31, 2007	739,643
Additions to property and equipment	273,598
Acquisition of property and equipment	16,551
Acquisition of ExAlta	92,345
Acquisition of Adamant	71,668
Asset retirement obligation acquired	7,834
Asset retirement obligation additions	6,668
Depletion and depreciation	(137,157)
Property & equipment balance at December 31, 2008	1,071,150

Galleon acquired Exalta on January 16, 2008 and Adamant on May 9, 2008.

Year ended December 31	2008		2007	
(\$000s)		%		%
Land	13,688	5	10,789	5
Geological and geophysical	11,827	4	16,808	8
Drilling and completion	177,123	65	140,015	67
Plant and facilities	69,764	26	40,378	20
Other assets	1,196	-	354	-
Exploration and Development Expenditures	273,598	100	208,344	100

Exploration and development expenditures during 2008 were \$273.6 million which included the drilling of 107 gross wells and the completion of 95 gross (89.2 net) wells.

Facilities expenditures of \$69.8 million were incurred in 2008. Land and seismic expenditures totaled \$13.7 million and \$11.8 million, respectively, in 2008. In November 2008, management had

established an exploration and development capital budget of between \$170 and \$190 million for 2009. Due to decreases in commodity prices to date in 2009, the capital expenditure program has been modified to a level which is expected to match funds from operations. The Corporation does not plan to fund the capital program with incremental bank debt.

Liquidity and Capital Resources

December 31	2008	2007
(\$000s)		
Bank debt	249,015	163,378
Capital leases – non current	1,541	-
Working capital deficiency	31,890	30,179
Total net debt	282,446	193,557

Funding of Capital Program, Inventory and Cash Portion of Acquisitions

Year ended December 31	2008	2007
(\$000s)		
Issuance of shares, net of costs	11,644	88,332
Funds from operations	241,298	131,052
Change in bank debt	85,637	40,382
Change in debt and working capital from acquisitions	(36,658)	-
Change in capital leases	(2,034)	-
Change in working capital and other	(675)	(210)
	299,212	259,556

At December 31, 2008, the Corporation has extendible revolving term credit facilities of \$310 million in place with a bank syndicate. The facilities bear interest at rates ranging from the bank's prime rate to prime plus 0.75% per annum on \$290 million and at rates ranging from the bank's prime rate plus 0.95% to prime plus 1.75% on \$20 million based on the Corporation's debt to cash flow ratio. The Corporation may also borrow at the prevailing Banker's Acceptance rate. 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. At December 31, 2008, an amount of \$249.0 million was drawn against the credit facilities (December 31, 2007 - \$163.4 million).

The credit facilities were reconfirmed at November 30, 2008. An annual review is scheduled to occur on or before May 31, 2009. The level of the borrowing base will be determined by the bank syndicate based on their review of, among other things, a review of the Corporation's reserves and the value thereof utilizing commodity prices determined by the bank syndicate, which will be different than that utilized by the Corporation's independent reserve evaluator.

The Corporation has entered into a fixed rate contract for a two year period commencing on January 20, 2009. The Corporation will pay a fixed rate of 1.1% on \$100 million and receive a three month CDOR floating rate from the counterparty to the contract.

Sensitivity Analysis

The following table shows sensitivities to funds from operations as a result of fluctuations to product prices, production volumes and other market factors. The table is based on budgeted 2009 prices and average production volumes.

Change to annual funds from operations	Change	\$000s	\$/share²
Price per barrel of oil (US\$ WTI) ¹	\$1.00	2,090	0.03
Price per Mcf of natural gas (C\$ AECO) ¹	\$0.25	5,137	0.07
Oil production volumes	100 Bbl/d	1,465	0.02
Gas production volumes	1 Mmcf/d	1,088	0.01
Exchange rate (US/Canadian)	\$0.01	1,617	0.02
Interest rate on debt (\$250 Million)	1%	2,500	0.03

¹ After adjustment for estimated royalties.

² Based on basic shares outstanding at December 31, 2008.

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:

Year	Amount (\$000s)
2009	1,791

Minimum Lease Payments:

At December 31, 2008 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

Year	Amount (\$000s)
2009	2,518
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.

Vehicle and equipment:

At December 31, 2008 the Corporation committed to future minimum payments under leases for vehicles and compressors, under operating leases, as follows:

Year	Amount (\$000s)
2009	678

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:

	Amount (\$000s)
2009	2,274
2010	1,605
Total minimum lease payments	3,879
Less interest included in payments	(228)
Principal portion of minimum lease payments	3,651
Less current portion	(2,110)
Capital lease obligation at December 31, 2008	1,541

Flow-through Shares:

In connection with the Corporation's flow-through share offering in 2007, Galleon was obligated to spend \$60.0 million on qualifying exploration expenses prior to December 31, 2008. As at December 31, 2008, all of the required qualifying expenditures have been incurred.

Financial Instruments

Refer to the "Commodity Pricing and Marketing" section.

Fourth Quarter Results

Three months ended December 31	2008		2007	
	1,697,711 BOE		1,351,986 BOE	
(\$000s)	\$	\$/BOE	\$	\$/BOE
Revenues				
	80,280	47.29	71,339	52.77
Other revenue	105	0.06	-	-
Royalties	(14,409)	(10.68)	(14,353)	(10.62)
GCA	3,364	4.17	2,807	2.07
Transportation costs	(2,366)	(1.39)	(1,600)	(1.18)
Operating costs	(20,704)	(12.20)	(14,227)	(10.52)
	46,270	27.25	43,966	32.52
G&A	(4,019)	(2.37)	(2,712)	(2.00)
Interest costs	(2,599)	(1.53)	(2,476)	(1.83)
Realized gain (loss) on financial derivative	26,796	15.78	(3,367)	(2.49)
Capital and other taxes	(83)	(0.05)	72	0.05
Funds from operations	66,365	39.08	35,483	26.25

For the three months ended December 31, 2008 production increased by 26% to 18,493 BOE/d compared to 14,695 BOE/d in the same period of the prior year. Revenues were 13% higher as a result of greater production volumes. Average natural gas prices of \$6.72/Mcf were 9% higher than \$6.16/Mcf in Q4 2007. Average oil prices were \$100.43/Bbl including oil financial derivative contracts. Excluding the oil financial derivative contracts, average oil prices were \$55.88/Bbl or 21% lower than \$70.34/Bbl realized in Q4 2007.

The average light oil price received for Q4 2008 was \$61.80/Bbl a decrease of 26% compared to \$83.38/Bbl in the prior year. The average heavy oil price in Q4 2008 of \$24.75/Bbl decreased by 34% compared to \$37.32/Bbl in the prior year.

Operating costs were \$20.7 million or \$12.20/BOE for Q4 2008 compared to \$14.2 million or \$10.52/BOE for the prior year. Galleon's operating costs per barrel of oil equivalent excluding the heavy oil were \$10.97/BOE for Q4 2008 and \$8.29/BOE in Q4 2007.

G&A expenses of \$4.0 million in Q4 2008 were 48% higher than Q4 2007. In Q4 2008 G&A expenses were \$2.37/BOE, an increase of 19% compared to \$2.00/BOE in Q4 2007.

Performance by Property

	Three months ended December 31		2008	2007			Q4 2008 funds from operations
	BOE/d	%	Operating netbacks/ BOE ¹	BOE/d	%	Operating netbacks/ BOE ¹	
East Montney	4,467	24	\$ 26.95	3,919	27	\$ 25.49	26
Eaglesham	3,538	19	28.17	2,509	17	26.78	22
Puskwa	2,806	15	36.63	2,781	19	52.63	22
North Peace River Arch	1,608	9	20.80	-	-	-	7
Alexis / St. Anne	1,154	6	18.38	-	-	-	5
Edam	650	4	(6.03)	1,630	11	2.26	-
Culp / Kimiwan	818	4	28.56	785	5	42.70	5
McLeans Creek	621	3	48.20	417	3	79.42	6
Kakut	895	5	24.36	489	3	21.32	5
Western Montney	320	1	13.85	207	1	27.78	1
Other	1,576	10	6.48	1,958	14	21.03	1
		10		10			
	18,453	0	25.09	14,695	0	30.02	100

¹ Operating netbacks/BOE exclude GCA and hedging gains or losses, and are calculated by subtracting royalties and operating costs from revenues divided by average production for the quarter.

Production grew in Q4 2008 as a result of significant Montney resource gas brought on production through horizontal multi-fracture technology in Eastern Montney as well as Central Montney drilling done in the second half of the year. Operating netbacks of \$25.09/BOE in Q4 2008 decreased by 16% compared to Q4 2007 primarily due to lower commodity prices.

Operating costs in Galleon's key areas of Eastern Montney, Eaglesham, Puskwa and Central Montney remain low and below the corporate average for 2008 due to control of the facilities in those areas and increased production.

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.

Galleon employs highly qualified people, uses sound operating and business practices, and evaluates all potential and existing wells using the latest applicable technology. Galleon complies with government regulations and has in place an up-to-date emergency response program. Environment and safety policies and standards are adhered to. Asset retirement obligations are recognized upon acquisition, construction, development and/or normal use of the assets. Galleon maintains property and liability insurance coverage. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

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 may decline as a result of decreased commodity pricing, it may be 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 Company 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 annually at year-end 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, 2008, Galleon adopted several new CICA standards, section 1400 “General Standards of Financial Statement Presentation”, section 1535 “Capital Disclosures”, section 3031 “Inventories”, section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”.

CICA 1400, was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have an impact on the Corporation's financial statements.

Section 1535 establishes standards for disclosing information regarding the capital of the entity and how it is managed. The section specifies the disclosure of i) objectives, policies, and processes for managing capital by the entity; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance.

CICA 3031 replaces CICA 3030 and establishes standards for measurement and disclosure of inventories. This standard provides guidance on the determination of cost and subsequent recognition as an expense, including any write-down to net realizable value and the reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also provides guidance on the cost formulas that are used to assign costs. The adoption of this standard did not have an impact on the Corporation’s financial statements.

Sections 3862 and 3863 replace section 3861 “Financial Instruments – Disclosure and Presentation” which revises and enhances financial instrument disclosure requirements and leaves unchanged its presentation requirements. The objective of section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments on the Corporation's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Corporation is exposed to during the reporting period and the balance sheet date and how the Corporation is managing those risks. The purpose of section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments on the Corporation's financial position, performance and cash flows.

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. Galleon is in the initial stages of evaluating the impact of adopting IFRS and is in the process of developing a changeover plan which includes determining appropriate changes to accounting policies and required amendments to financial disclosures; identifying changes required in associated processes and information systems; compliance with internal control requirements; and education and training of internal stakeholders.

CICA 3064, Goodwill and Intangible Assets, will replace CICA 3062, Goodwill and Other Intangible Assets, and results in withdrawal of CICA 3450, Research and Development Costs, and amendments to Accounting Guideline (AcG) 11, Enterprises in the Development Stage and CICA 1000, Financial Statement Concepts. The standard intends to reduce the differences with IFRS in the accounting for intangible assets as under current Canadian standards, more items are recognized as assets. The objectives of CICA 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. The application of the concept of matching revenues and expenses is that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. These changes are effective for fiscal years beginning on or after October 1, 2008. Galleon Energy Inc. is evaluating the effects of adopting this standard.

On January 20, 2009 the CICA Emerging Issues Committee ("EIC") issued EIC-173 Credit risk and the fair value of financial assets and financial liabilities. Under 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 will adopt the requirements of EIC-173 effective January 1, 2009. The impact of this EIC upon the Corporation's financial statements is currently being assessed.

Controls and Procedures

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 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. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's disclosure controls and procedures at the financial year end of the Corporation and have concluded that the Corporation's disclosure controls and procedures are effective at the financial year end of the Corporation for the foregoing purposes.

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. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's internal controls over financial reporting at the financial year end of the Corporation and concluded that the Corporation's internal controls over financial reporting is effective, at the financial year end of the Corporation, for the foregoing purpose.

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 December 31:

	2008	2007
Class A shares outstanding		
Basic	75,170,733	63,215,552
Diluted ¹	76,747,483	67,294,002
Class B shares outstanding	-	922,500
Class A shares issuable on conversion of Class B shares ²	-	595,161

¹ Includes options of 1,576,750 (December 31, 2007 – 4,078,450).

² All Class B shares were converted into an aggregate of 1,720,232 Class A shares on December 15, 2008. The value at December 31, 2007 assumes the closing price at that date of \$15.50 per Class A share.

At December 31, 2008, the market value of Galleon's Class A shares was \$383.4 million based on the December 31, 2008 closing price of 5.10 per Class A share. As of March 11, 2009, the number of Class A shares and options outstanding are 75,233,283 and 6,964,901 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

The year 2008 saw technical and economic success of Galleon's natural gas Montney resource projects. Large resource bases were captured and the development of these projects was advanced through horizontal drilling technology and multi-stage fracture techniques. These resource projects are characterized by long reserve life and stable production. In addition, Galleon's oil projects were successful in contributing significant cash flow with crude oil prices at record levels in the first part of 2008. The exploration and development capital program was funded primarily by cash flow (80%) with an additional portion (15%) funded by an increase in bank debt and working capital.

Galleon plans to maintain or modestly increase production levels in 2009. A disciplined allocation of capital towards lower risk, development projects is planned. The level of the capital program will vary throughout 2009 but it is expected to closely match cash flow levels with no incremental bank debt planned.

Other than an expansion of an owned natural gas plant in the Central Montney project, there are no major facility projects planned in 2009. Commitments are limited to one drilling rig contract, office rental costs and operating leases (see note 12 – Commitments).

Galleon expects to generate significant positive cash flow in 2009. Capital will be expended in moving probable reserves to proven and moving proved reserves to proven producing. The Corporation has entered into commodity price contracts on approximately 30% of its estimated 2009 production volumes in order to realize certain sales prices. Royalty rates are expected to increase in 2009 due to the new royalty framework effective January 1, 2009. The Corporation expects to partially offset these increases by electing, where appropriate, under the transitional royalty program. In addition, on March 3, 2009, the Alberta Government announced an energy incentive program. This program is expected to have a positive impact. Transportation, operating and G&A costs are expected to decrease slightly in 2009 based on industry activity levels. At current commodity prices levels, earnings may be negative.

In summary, Galleon is strongly positioned to continue to execute its business plan in 2009 and beyond. The Corporation has access to a large land base in its core area of the Peace River Arch. The resource projects offer multi-year drilling and growth in production and reserves. Revenue from the existing production base is expected to provide sufficient financial resources to fund the planned capital program. Our Galleon staff has the experience and ability to identify and create opportunities in these challenging times.

GALLEON ENERGY INC.
Consolidated Balance Sheets

As at December 31 (\$000s)	2008	2007
ASSETS		
CURRENT		
Accounts receivable	54,864	35,406
Deposits and prepaid expenses	6,661	5,459
Fair value of financial derivatives	1,237	-
	<u>62,762</u>	<u>40,865</u>
Goodwill	34,891	16,022
Equipment inventory	12,200	2,829
Property and equipment	1,071,150	739,643
	<u>1,181,003</u>	<u>799,359</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	91,305	71,044
Capital leases	2,110	-
Bank loan	249,015	163,378
Fair value of financial derivatives	-	9,075
	<u>342,430</u>	<u>243,497</u>
Asset retirement obligation	39,905	25,535
Capital leases	1,541	-
Future income taxes	107,603	52,299
	<u>491,479</u>	<u>321,331</u>
SHAREHOLDERS' EQUITY		
Share capital	547,298	419,011
Contributed surplus	23,009	19,064
Retained earnings	119,217	39,953
	<u>689,524</u>	<u>478,028</u>
	<u>1,181,003</u>	<u>799,359</u>

GALLEON ENERGY INC.
Consolidated Statements of Earnings

	Year ended December 31	
(\$000s, except per share amounts)	2008	2007
REVENUE		
Petroleum and natural gas revenue	418,233	245,203
Royalties, net of GCA	(71,122)	(41,553)
Realized gain (loss) on financial derivative	3,621	(3,545)
Unrealized gain (loss) on financial derivative	10,311	(9,264)
Gain on gas contract	5,340	-
Other income	438	-
	366,821	190,841
EXPENSES		
Operating	75,807	44,759
Transportation	8,537	6,024
General and administration	13,326	7,281
Interest	11,138	10,110
Stock-based compensation	7,670	8,516
Accretion	2,253	1,949
Depletion and depreciation	137,157	100,331
	255,888	178,970
Earnings before taxes	110,933	11,871
Income taxes		
Capital and other taxes	1,064	879
Future income taxes	30,605	2,706
	31,669	3,585
NET EARNINGS AND COMPREHENSIVE INCOME	79,264	8,286
RETAINED EARNINGS, BEGINNING OF PERIOD	39,953	31,667
RETAINED EARNINGS, END OF PERIOD	119,217	39,953
Basic	1.11	0.14
Diluted	1.10	0.13
<i>Weighted average Class A shares – basic</i>	<i>71,105,806</i>	<i>60,037,422</i>
<i>– diluted</i>	<i>72,128,065</i>	<i>61,827,278</i>

GALLEON ENERGY INC.
Consolidated Statements of Cash Flows

(\$000s)	Year ended December 31	
	2008	2007
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net earnings	79,264	8,286
Items not requiring cash:		
Future income taxes	30,605	2,706
Depletion and depreciation	137,157	100,331
Accretion	2,253	1,949
Stock-based compensation	7,670	8,516
Unrealized loss (gain) on financial derivative	(10,311)	9,264
Gain on gas contract	(5,340)	-
Abandonment costs	(2,385)	(2,172)
Change in non-cash working capital	(10,837)	(5,812)
	228,076	123,068
FINANCING ACTIVITIES		
Issue of common shares	11,825	93,257
Share issue costs	(181)	(4,925)
Capital lease payment	(2,034)	-
Working capital assumed on acquisition of ExAlta	(44,966)	-
Working capital assumed on acquisition of Adamant	8,308	-
Bank loan	85,637	40,382
	58,589	128,714
INVESTING ACTIVITIES		
Additions to equipment inventory	(8,073)	(293)
Additions to oil and gas properties	(273,598)	(208,344)
Acquisition of oil and gas properties	(17,541)	(50,919)
Change in non-cash working capital	12,547	7,774
	(286,665)	(251,782)
CHANGE IN CASH	-	-
CASH, BEGINNING AND END OF PERIOD	-	-
SUPPLEMENTARY INFORMATION		
Cash interest paid	10,890	10,084
Cash taxes paid	811	542

Galleon has approximately 75.2 million shares issued and outstanding which trade on the Toronto Stock Exchange under the symbol "GO".

FOR FURTHER INFORMATION SEE www.galleonenergy.com OR CONTACT:

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ADVISORY: Certain information regarding Galleon Energy Inc. in this news release including management's assessment of future plans and operations including drilling plans, timing of production increases, well costs, facilities expansion and the timing thereof and availability and election to use transitional royalties, the Corporation's planned 2009 capital projects, the method of funding thereof and the expected resulting production levels, may constitute forward-looking statements under applicable securities laws and necessarily involve risks 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, capital expenditure costs, including drilling, completion and facilities costs, unexpected decline rates in wells, wells not performing as expected, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive.

While Galleon has identified a number of drilling locations in certain areas, including the East Montney project, there is no assurance that the locations will be drilled or that Galleon will have the financial resources to drill. If the wells are drilled, there is no assurance that the actual costs or results will be as planned. While Galleon believes that the geologic concepts are similar in the landholdings in the Eastern Montney project, there is no assurance that future results will be the same as results achieved to date. Results may vary depending upon the location.

The net present value of estimated future net revenues does not represent fair market value.

Additional information on these and other factors that could effect Galleon's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), at Galleon's website (www.galleonenergy.com). Furthermore, the forward-looking statements contained in this news release are made as at the date of this news release 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.

Disclosure provided herein in respect of barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.