



GALLEON ENERGY

2009

First Quarter

INTERIM REPORT



| | |
|----|--|
| 1 | Report to Shareholders |
| 3 | Management's Discussion and Analysis |
| 21 | Quarterly Highlights |
| 23 | Consolidated Financial Statements |
| 26 | Notes to the Consolidated Financial Statements |
| 37 | Corporate Information |

Report to Shareholders

FIRST QUARTER 2009 HIGHLIGHTS

- Drilled 11 wells in Q1 2009: seven (7 net) Eastern Montney gas wells, one (0.9 net) Central Montney gas well, one (1.0 net) Puskwa oil well, one (1.0 net) light oil resource stratigraphic test and one (0.1 net) non-operated gas well. All wells were cased for production with the exception of the light oil resource stratigraphic test. This well was drilled as a control point for an upcoming horizontal multi-fractured well and was abandoned.
- During Q1 2009, one of Galleon's three light oil resource plays was advanced by drilling a stratigraphic test from which a horizontal multi-fractured well will be drilled later in 2009.
- Average production from the Montney resource projects rose to approximately 8,000 BOE/d (with another 1,000 BOE/d behind pipe) in Q1 2009 which represents an increase of 7,800 BOE/d from Q3 2005 average production of 200 BOE/d.
- In Q1 2009, Galleon received down spacing approvals for (i) four wells per section on 73 sections of land in the core Eastern Montney fairway; (ii) four wells per section per Montney zone on two sections of land in the Central Montney #2 project; and (iii) eight wells per section on six sections of land at Puskwa.
- Galleon has reserve assignments on a fraction of its Montney lands. In the Eastern Montney project, reserves have been assigned on 72 sections (69.9 net) of land. Galleon's landholdings extend to over 220 sections in the Eastern Montney core fairway and another 380 sections along the Montney trend.
- In the Central Montney projects, 10 sections in a fairway of 320 Galleon owned sections had reserves assigned to them in the December 31, 2008 reserve evaluation.

OPERATIONS UPDATE

During first quarter 2009, 11 wells were drilled and capital expenditures totaled \$30.4 million. This compares to 32 wells drilled in first quarter 2008 and \$71.3 million spent on exploration and development activities. The first quarter 2009 capital program was kept to within cash flow. The projects selected in 2009 must provide superior cost effectiveness from a production deliverability perspective as well as a reserves perspective.

EASTERN MONTNEY

The Eastern Montney is slowly gaining recognition as being a premium high quality asset. Galleon's 2008 reserves evaluation at December 31, 2008 attributed proved plus probable gross gas reserves of 112 Bcf to this area, an increase of 79% compared to the December 31, 2007 reserves assignment of 63 Bcf. The reserve additions were attributable to horizontal well performance and the extended production history of the existing vertical wells. Incremental reserves are expected to result from new wells drilled on both developed and undeveloped lands and also from extended production history on the existing horizontal wells. Reserves booked to December 31, 2008 related to wells drilled throughout 72 sections (69.9 net) of land. There are another 140 gross sections of Galleon lands in the Eastern Montney core that have no reserves assigned to them. In addition, Galleon believes that there are another 400 gross sections of land along trend that also have potential. To December 31, 2008, 59 horizontal locations have been evaluated in the Corporation's December 31, 2008 reserve evaluation. Galleon has identified an additional 350 potential horizontal locations on the existing core lands based on vertical well control and geologic mapping.

The economics for the Eastern Montney project remain strong. Total well costs, including drilling, completion and tie-in costs, are approximately \$1.3 million. The average annual rate of return on wells drilled to date based on \$4.50/Mcf (Cdn) is in excess of 100%. Due to these positive economics, a large part of the Q1 2009 capital program was directed towards Eastern Montney wells. Up to 25 horizontal multi-fractured wells are planned for 2009.

Seven Montney horizontal multi-fractured wells were drilled in Q1 2009. Each well tested in excess of 1 Mmcf/d net to Galleon in line during the test periods. The horizontal wells typically have a high flowing pressure relative to offset vertical producers. Accordingly, production from many of the vertical wells has been backed out and will require field optimization in order to be brought back on stream. Current modeling of the field is addressing this issue and a field implementation plan is expected to commence in the third quarter of 2009.

To date in Q2 2009, three successful horizontal wells were drilled over break up from one pad. Pad drilling will be more common as development of the pool continues. This should translate to savings in drilling and tie-in costs. Pad drilling is in part made possible by obtaining down spacing to four wells per section. In Q1 2009 Galleon received approvals on 73 additional sections of land to allow four wells per section.

CENTRAL MONTNEY

In Q1 2009 no wells were drilled in the Central Montney project #1 but the first phase of the natural gas plant expansion was completed. Production from this project increased to 14 Mmcf/d (12 Mmcf/d net) in Q4 2008. An additional 8 Mmcf/d (6 Mmcf/d net) is behind pipe. In September 2008 only one well was on production at a rate of 1.6 Mmcf/d (1.2 Mmcf/d net). Production has grown significantly in a short period of time. This strong production and production from future wells confirmed the requirement to expand the plant capacity to 28 Mmcf/d. The expansion has an expected completion date of early Q4 2009. Up to two more wells are planned to be drilled in this area on trend in 2009. Development of this project is planned using vertical wells which have drilling, completion and tie-in costs of approximately \$1.1 million. To date, wells have produced between 1.5 Mmcf/d and 4.0 Mmcf/d per well.

One horizontal multi-fractured well was drilled into a mid Montney zone in the Central Montney project #2 in Q1 2009. The drilling, completion and tie-in costs for the well were \$1.6 million. The well came on stream at an initial flush rate of 3.5 Mmcf/d with 10 Bbls of NGLs per million cubic feet of natural gas and is expected to stabilize at 1 to 1.5 Mmcf/d plus NGLs. Five wells are currently producing approximately 6 Mmcf/d (5.5 Mmcf/d net) in aggregate in this project.

The Central Montney #2 project is characterized by having seven Montney zones that are gas charged. To date four of those zones have been tested with two producing. The other two zones have a sour component that exceeds present plant specifications. The project provides exceptional development drilling as down spacing to four wells per section per Montney zone has been approved for two sections. Up to two more horizontal wells and two more vertical wells are planned to be drilled on this project over the remainder of 2009.

PUSKWA BEAVERHILL LAKE LIGHT OIL

Approvals for down spacing to 80 acre spacing have been received on six key Galleon owned sections at Puskwa. One well was drilled on the down spacing and flowed at a rate of 550 BOE/d and 1.2 Mmcf/d over a 62 hour test period. This well has been on production at a rate of approximately 400 BOE/d net to Galleon for one month. The well initially flowed without artificial lift but recently has been put on pump.

Approval for two more water injection wells was recently received at Puskwa. These wells are required in order to maintain a one to one voidage replacement ratio for the pool and to achieve effective optimization of the project. Galleon plans to continue to pursue optimization throughout 2009. Additional drilling activity will be dictated by commodity prices. Puskwa continues to be an excellent light oil project. Net production has been stable over the last year at approximately 2,500 BOE/d.

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 month period ended March 31, 2009 with comparisons to the three months ended March 31, 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 month periods ended March 31, 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, May 14, 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, growth expectations within the Corporation, expected initial production rates from certain new wells, expected decline rates of certain wells, expected reduction in operating costs in certain areas, expectation that the Corporation will not be taxable in 2009, drilling plans and the timing thereof, timing of review of credit facilities, 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 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

Three months ended March 31 2009 2008
 (\$000s except per share and per BOE amounts)

FINANCIAL

| | | |
|--|-----------|---------|
| Revenue before royalties and financial derivatives | 56,987 | 101,516 |
| Funds flow from operations ¹ | 26,150 | 55,445 |
| Per share – basic | 0.35 | 0.83 |
| Per share – diluted | 0.35 | 0.81 |
| Net income (loss) | (5,091) | 10,417 |
| Per share – basic | (0.07) | 0.16 |
| Per share – diluted | (0.07) | 0.15 |
| Capital expenditures – Exploration & Development | 30,391 | 71,326 |
| Total assets | 1,158,329 | 975,911 |
| Net debt ² | 284,001 | 260,558 |
| Shareholders' equity | 686,170 | 539,296 |
| Weighted average shares outstanding (million) | | |
| Basic | 75.2 | 67.0 |
| Diluted | 75.2 | 68.6 |

OPERATING

| | | |
|-------------------------------------|--------|--------|
| Average daily production | | |
| Light oil (Bbl/d) | 4,695 | 4,871 |
| Heavy oil (Bbl/d) | 979 | 2,919 |
| NGLs (Bbl/d) | 687 | 441 |
| Natural gas (Mcf/d) | 69,632 | 52,644 |
| Total (BOE/d) | 17,965 | 17,005 |
| Average selling prices ³ | | |
| Light oil (\$/Bbl) | 46.74 | 94.04 |
| Heavy oil (\$/Bbl) | 33.91 | 60.95 |
| NGLs (\$/Bbl) | 34.07 | 61.02 |
| Natural gas (\$/Mcf) | 5.13 | 7.98 |
| Total (BOE/d) | 35.24 | 65.60 |

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 March 31</i> | <i>2009</i> | | <i>2008</i> | |
|---|----------------------|--------------|----------------------|--------------|
| | <i>1,616,979 BOE</i> | | <i>1,547,476 BOE</i> | |
| <i>(\$000s)</i> | <i>\$/BOE</i> | | <i>\$/BOE</i> | |
| Revenues | 56,987 | 35.24 | 101,516 | 65.60 |
| Realized gain (loss) on financial derivatives | 4,337 | 2.68 | (3,361) | (2.18) |
| Other income | 672 | 0.42 | 123 | 0.08 |
| Royalties | (15,577) | (9.63) | (20,668) | (13.36) |
| GCA ¹ | 5,225 | 3.23 | 2,423 | 1.57 |
| Transportation costs | (2,342) | (1.45) | (1,615) | (1.04) |
| Operating costs | (17,297) | (10.70) | (17,460) | (11.28) |
| Net | 32,005 | 19.79 | 60,958 | 39.39 |
| G&A | (4,201) | (2.60) | (2,371) | (1.53) |
| Interest costs | (1,585) | (0.98) | (2,803) | (1.81) |
| Capital and other taxes | (69) | (0.04) | (339) | (0.22) |
| Funds from operations² | 26,150 | 16.17 | 55,445 | 35.83 |

¹ GCA means Gas Cost Allowance

² See "Non-GAAP Measurements"

PETROLEUM AND NATURAL GAS REVENUES

| <i>Three months ended March 31</i> | <i>2009</i> | | <i>2008</i> | |
|------------------------------------|---------------|------------|----------------|------------|
| | <i>%</i> | | <i>%</i> | |
| Light oil | 19,663 | 35 | 46,858 | 46 |
| Heavy oil | 2,989 | 5 | 13,887 | 14 |
| NGLs | 2,105 | 4 | 2,452 | 2 |
| Natural gas | 32,007 | 56 | 38,181 | 38 |
| Royalty income | 223 | – | 138 | – |
| Total | 56,987 | 100 | 101,516 | 100 |

Revenues for the three months ended March 31, 2009 decreased by 44% to \$57.0 million from \$101.5 million for the same period of the prior year. This decrease is primarily due to a 48% decrease in oil prices and a 36% decrease in natural gas prices. A shift in the product mix towards natural gas was made in the second half of 2008 and as a result, on a volume basis, the oil and liquids to natural gas production ratio for the first quarter of 2009 was 35% to 65% compared to a ratio of 48% to 52% in the prior year.

In the first quarter of 2009, on a revenue basis, oil and liquids generated 44% of revenues compared to 62% in the same period of the prior year.

PRODUCTION

| <i>Three months ended March 31</i> | <i>2009</i> | | <i>2008</i> | |
|------------------------------------|---------------|------------|---------------|------------|
| | <i>BOE/d</i> | <i>%</i> | <i>BOE/d</i> | <i>%</i> |
| Light oil (Bbls/d) | 4,695 | 26 | 4,871 | 29 |
| Heavy oil (Bbls/d) | 979 | 5 | 2,919 | 17 |
| NGLs (Bbls/d) | 687 | 4 | 441 | 2 |
| Natural gas (Mcf/d) | 69,632 | 65 | 52,644 | 52 |
| BOE/d (6:1) | 17,965 | 100 | 17,005 | 100 |

Average production was 17,965 BOE/d for the first quarter of 2009, 6% higher than the average production of 17,005 BOE/d in first quarter 2008. By product, production volume varied as follows: light oil production decreased by 4%, heavy oil production decreased by 66%, natural gas volumes increased by 32% and natural gas liquids volumes increased by 56%. Overall production growth has been impacted by a number of factors: the typical high flush production decline in McLean Creek/Culp/Kimiwan high volume oil; backing out existing Eastern Montney gas due to high pressure horizontal production; behind pipe production waiting on facilities; and the loss of heavy oil volumes in 2008.

Light oil production in Q1 2009 decreased by 4% compared to Q1 2008 as a function of a corporate shift toward natural gas resource drilling. Puskwa production has remained stable and is currently producing at approximately 2,500 BOE/d. Fewer light oil wells have been drilled in the fourth quarter of 2008, and, as a result, production from the flush, high decline phase of existing wells has not been replaced. The well declines have now flattened off and rates of decline going forward are expected to be reduced.

Natural gas volumes have increased as a result of the natural gas resource brought on production in the last half of 2008 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. Galleon currently produces over 8,000 BOE/d of resource gas (not including NGL volumes) with an additional 1,000 BOE/d behind pipe waiting on facility expansion. This production compares with 200 BOE/d in Q3 2005 and 4,000 BOE/d in Q1 2008. The Eastern and Central Montney projects have been responsible for this growth and have also made significant additions to Galleon's proved plus probable reserves.

Heavy oil production suffered a set back in Q2 2008 with a number of wells not recovering their production rates after being shut in during spring breakup. This heavy oil production could only be recovered with new drilling, which is not practical given the reduced heavy oil prices. Current heavy oil production levels remain stable, but at lower levels.

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 March 31, 2009, the Corporation had entered into the following financial contracts:

Natural gas

| | | |
|---------------------------------|------------|---------------|
| 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 |
| 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

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 |

Costless Collar:

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

In the first quarter of 2009, Galleon recorded realized gains of \$1.3 million on these contracts. In March, one natural gas contract was unwound, which resulted in an additional realized gain of \$3.0 million.

Subsequent to March 31, 2009, Galleon has entered into the following financial contracts:

Crude Oil

Fixed Price:

| | | |
|-------------------------------------|-----------|---------------------|
| 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 |

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

| <i>Three months ended March 31</i> | <i>2009</i> | <i>2008</i> |
|------------------------------------|-------------|-------------|
| Light oil (\$/Bbl) | 46.74 | 94.04 |
| Heavy oil (\$/Bbl) | 33.91 | 60.95 |
| Natural gas (\$/Mcf) | 5.13 | 7.98 |
| NGLs (\$/Bbl) | 34.07 | 61.02 |

Light oil prices decreased by 50% to \$46.74/Bbl, excluding the loss incurred from the crude oil contracts. Average heavy oil prices of \$33.91/Bbl decreased by 44% from the same period of the prior year. Average natural gas prices of \$5.13/Mcf decreased by 36% from the first quarter of 2008.

Crude Oil Prices

| <i>Three months ended March 31</i> | <i>2009</i> | | <i>2008</i> | |
|------------------------------------|-------------|--------|-------------|--------|
| | \$ | \$/Bbl | \$ | \$/Bbl |
| Crude oil | 22,740 | 44.53 | 60,813 | 85.79 |
| Realized financial contracts | 217 | 0.42 | (3,361) | (4.74) |
| Transportation | (557) | (1.09) | (390) | (0.55) |
| Net crude oil | 22,400 | 43.86 | 57,062 | 80.50 |

Natural Gas Prices

| <i>Three months ended March 31</i> | <i>2009</i> | | <i>2008</i> | |
|------------------------------------|-------------|--------|-------------|--------|
| | \$ | \$/Mcf | \$ | \$/Mcf |
| Natural gas | 32,142 | 5.13 | 38,251 | 7.98 |
| Realized financial contracts | 4,120 | 0.66 | – | – |
| Transportation | (1,785) | (0.28) | (1,225) | (0.26) |
| Net natural gas | 34,477 | 5.51 | 37,026 | 7.72 |

PERFORMANCE BY PROPERTY

| | 2009 | | | 2008 | | | 2009 |
|------------------|---------------------|-----|--|---------------------|-----|--|--|
| | Production BOE/d | % | Operating netbacks/ BOE ¹ \$ | Production BOE/d | % | Operating netbacks/ BOE ¹ \$ | Funds from operations ² % |
| Eastern Montney | 4,439 | 25 | 14.77 | 3,872 | 23 | 33.03 | 27 |
| Eaglesham | 2,959 | 16 | 17.77 | 2,973 | 17 | 45.39 | 22 |
| Puskwa | 2,395 | 13 | 24.54 | 2,704 | 16 | 56.97 | 24 |
| Kakut | 2,356 | 13 | 17.79 | 429 | 3 | 33.40 | 17 |
| Alexis / St.Anne | 1,042 | 6 | 8.82 | 978 | 6 | 32.38 | 4 |
| Culp /Kimiwan | 700 | 4 | 12.20 | 815 | 5 | 56.71 | 4 |
| Edam | 609 | 3 | (3.76) | 1,803 | 11 | 24.47 | – |
| Other | 3,465 | 20 | 2.38 | 3,431 | 19 | 38.58 | 2 |
| | 17,965 | 100 | 13.50 | 17,005 | 100 | 40.32 | 100 |

¹ Operating netbacks/BOE excludes GCA and are calculated by subtracting royalties and operating costs from revenues.

² See "Non-GAAP Measurements".

Eastern Montney production increased by 15% to an average of 4,439 BOE/d (88% natural gas and 12% oil and liquids) during Q1 2009 compared to 3,872 BOE/d in Q1 2008. The Eastern Montney natural gas project represents a significant resource to Galleon and is currently the largest producing area contributing 27% to total funds from operating activities in Q1 2009 based on 25% of production volumes. The operating netbacks of \$14.77/BOE have decreased by 55% from Q1 2008 mainly due to significantly weaker natural gas prices.

In the first quarter of 2009, Galleon successfully drilled seven (100% working interest) Eastern Montney horizontal multi-fractured wells. Five of the seven wells, on average, tested over a 48 hour flow period in excess of 1 Mmcf/d and concurrently produced oil and water as is typical of the zone. Six of the seven wells were drilled from two well pads. Galleon plans to continue utilizing pad drilling as the pool continues to be developed thereby reducing tie in costs. The production data continues to suggest horizontal wells have a higher production profile (two to three times better) and lower initial production decline rates than the vertical wells previously being drilled in this area. To date, the economics of the horizontal wells have proven to be better than the vertical wells on both a rate of return and reserve optimization basis. Galleon has delineated a gas charged fairway with vertical well control that is 35 miles long by 12 miles wide. Based on vertical well control and geologic mapping Galleon has identified 350 horizontal drilling locations on over 200 sections of owned land within the delineated Eastern Montney fairway.

Average production at Eaglesham in the first quarter of 2009 averaged 2,959 BOE/d (75% natural gas and 25% oil and liquids) making it the second largest producing property. Eaglesham contributed 22% of the first quarter 2009 funds from operations from 16% of production. The operating netback of \$17.77/BOE has decreased by 61% compared to \$45.39/BOE in the same period of the prior year as a result of significantly weaker commodity prices.

The Montney is a new and unique project in the Eaglesham area with up to seven natural gas charged Montney sands identified. 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. The Montney has shown significant growth at Eaglesham during Q4 2008 and Q1 2009. One horizontal multi-fractured well (90% working interest) was drilled into a mid Montney member in Q1 2009. The initial production from this well was 3.5 Mmcf/d with 10 Bbl of natural gas liquids per million cubic feet of natural gas. The well cost was \$1.6 million including tie in costs. Current aggregate production is 7 Mmcf/d from the Montney wells. There are no facility constraints in this area.

At Puskwa, average production for Q1 2009 was 2,395 BOE/d (83% oil and liquids and 17% natural gas) contributing 24% of Q1 2009 funds from operations from 13% of total production.

Operating netbacks of \$24.54/BOE decreased by 57% compared to Q1 2008 due to the drastic drop in oil prices and to an increase in royalty rates as a result of the Alberta New Royalty Program ("NRF"). Production levels decreased by 11% compared to Q1 2008. This decrease was due to some down time on an injection well in the pool, which resulted in reduced oil production in order to maintain a one to one voidage replacement. The Puskwa project is now in the development stage with the implementation of two enhanced recovery schemes. In Q1 2009, approval was received for 80 acre down spacing on six Galleon sections, which allows eight wells per section. During first quarter 2009, Galleon successfully drilled a Beaverhill Lake light oil well (100% working interest) at Puskwa. This was the first well drilled on the approved 80 acre down spacing. This well flowed oil at 550 BOE/d and natural gas at 1.2 Mmcf/d over a 62 hour test period. It is anticipated that the well will initially be brought on production at approximately 400 BOE/d.

Production at Puskwa will be managed to target 2,500 BOE/d with minor quarterly variations as a function of maintaining a one to one injection to production ratio. The focus has been on increasing water injection to maintain this one to one voidage replacement ratio. One well was drilled for this purpose in Q3 2008 and a second well was converted into an injection well in Q1 2009. Wells such as these with low costs provide a low risk method of increasing production by allowing an incremental increase in oil production for every barrel of water injected. Additional activity will be dictated by commodity prices, but as many as two more wells may be drilled at Puskwa over the remainder of 2009. One of these will likely be a water injection well as optimization of the water flood continues to be an ongoing project.

Kakut production increased by 449% in the first quarter of 2009 compared to the same period of 2008 and contributed 13% of total production in Q1 2009. The operating netback was \$17.79/BOE in Q1 2009, a decrease of 47% compared to Q1 2008 as a result of much lower commodity prices.

ROYALTIES

| <i>Three months ended March 31</i> | <i>2009</i> | <i>2008</i> |
|-------------------------------------|---------------|---------------|
| <i>(\$000s) except as indicated</i> | | |
| Crown | 13,839 | 18,563 |
| Freehold | 647 | 454 |
| GORR and other | 1,091 | 1,651 |
| Subtotal | 15,577 | 20,668 |
| GCA | (5,225) | (2,423) |
| Net royalties | 10,352 | 18,245 |
| % of revenue | 27.3 | 20.4 |
| % of revenue net of GCA | 18.2 | 18.0 |

Gross royalties were 27.3% of revenues for the first quarter of 2009 compared to 20.4% for the same period in 2008. By product, gross royalties were 25.8% for light oil, 29.7% for natural gas, 11.2% for heavy oil, and 22.7% for liquids. For the first quarter of 2008, gross royalties were 15.4% for light oil, 24.7% for natural gas, 22.7% for heavy oil, and 28.1% for liquids.

Net royalties were 18.2% for the first quarter of 2009 compared to 18.0% for the same period in 2008. Galleon's Q1 2009 corporate net royalty rate as a percentage of revenue is 9.1% lower than the gross royalty rate due to a significant GCA credit received in Q1 2009 for eligible capital expenditures and capital retirement relating to prior periods.

Gross royalties for light oil as a percentage of light oil revenue increased by 10.4% in Q1 2009 mainly due to a reduced number of light oil wells qualifying for a royalty holiday in the first quarter of 2009 compared to Q1 2008. Most royalty holiday incentives in Alberta were terminated December 31, 2008 with the implementation of the NRF. Under the NRF oil royalty calculations are substantially based on par price. In the first quarter of 2009, January par price was significantly higher than the par prices for February and March.

Light oil royalties for January were 31.7% of light oil revenues compared to light oil royalties in March of 20.8% of light oil revenues. This also contributed to the increased royalty rate in Q1 2009.

Gross royalties for natural gas as a percentage of natural gas revenue increased by 5% for Q1 2009 compared to the same period in Q1 2008 due to an increase in natural gas royalty rates under the NFR and to an over accrual of natural gas royalty credits in Q4 2008 relating to prior periods.

Gross royalties for heavy oil as a percentage of heavy oil revenue decreased by 11.5% as a result of the reduced production volumes and lower heavy oil prices in Q1 2009 compared to Q1 2008.

Gross royalties for liquids as a percentage of liquids revenue decreased by 5.4% in Q1 2009 compared to Q1 2008 as a function of reduced commodity prices.

OPERATING COSTS

Three months ended March 31

2009

| | <i>Production</i> | <i>Operating costs</i> | <i>Operating costs</i> |
|------------------|-------------------|------------------------|------------------------|
| | <i>%</i> | <i>%</i> | <i>\$/BOE</i> |
| Eastern Montney | 25 | 16 | 7.14 |
| Eglesham | 16 | 10 | 6.17 |
| Puskwa | 13 | 5 | 3.97 |
| Kakut | 13 | 5 | 4.17 |
| Alexis / St.Anne | 6 | 8 | 15.16 |
| Culp /Kimiwan | 4 | 9 | 24.78 |
| Edam | 3 | 9 | 28.39 |
| Other | 20 | 38 | 20.91 |
| | 100 | 100 | 10.70 |

Three months ended March 31

2008

| | <i>Production</i> | <i>Operating costs</i> | <i>Operating costs</i> |
|------------------|-------------------|------------------------|------------------------|
| | <i>%</i> | <i>%</i> | <i>\$/BOE</i> |
| Eastern Montney | 23 | 11 | 5.35 |
| Eglesham | 17 | 11 | 7.33 |
| Puskwa | 16 | 13 | 9.00 |
| Kakut | 3 | 2 | 8.01 |
| Alexis / St.Anne | 6 | 5 | 9.09 |
| Culp /Kimiwan | 5 | 9 | 21.87 |
| Edam | 11 | 20 | 21.53 |
| Other | 19 | 29 | 16.34 |
| | 100 | 100 | 11.28 |

Operating costs were \$17.3 million or \$10.70/BOE for the first quarter of 2009 compared to \$17.5 million or \$11.28/BOE for the same period of the prior year. This represents a decrease year over year of 5% on a per unit basis.

In the Eastern Montney natural gas project, operating costs were \$7.14/BOE in Q1 2009 compared to \$5.35/BOE in the same period of the prior year. Operating cost increases in Q1 2009 compared to Q1 2008 were related to emulsion trucking, water trucking and equipment rentals associated with the increased emulsion storage requirements. In addition, operating costs of approximately \$1.00/BOE were recorded in Q1 2009 related to prior periods. Operating costs are expected to average between \$6.00/BOE and \$7.00/BOE in 2009 in this area.

Eaglesham operating costs for Q1 2009 were \$6.17/BOE a decrease of 16% compared to \$7.33/BOE in first quarter 2008. Decreased operating costs in Q1 2009 compared to Q1 2008 are mainly due to the Eaglesham oil battery coming on production with an increased ability to handle emulsion. With the oil battery coming on production, emulsion processing was eliminated and emulsion trucking costs were significantly reduced. Operating costs at Eaglesham are expected to reduce further in 2009, with the installation of electricity at the plant and well sites.

Operating costs at Puskwa were \$3.97/BOE in first quarter 2009 compared to \$9.00/BOE in the same period of 2008. Operating costs were higher in Q1 2008 due to the expansion of the water flood operations which resulted in temporary water trucking and pump equipment rental costs which have now been largely eliminated.

Operating costs at Kakut were \$4.17/BOE in Q1 2009 a decrease of 48% compared to \$8.01/BOE in the same period prior year. Due to production increases, the natural gas plant was expanded in Q4 2008 which resulted in significantly lower operating costs on a per BOE basis.

GENERAL AND ADMINISTRATION EXPENSES

| <i>Three months ended March 31</i> | <i>2009</i> | | <i>2008</i> | |
|------------------------------------|---------------|--------|---------------|--------|
| <i>(\$000s)</i> | <i>\$/BOE</i> | | <i>\$/BOE</i> | |
| Gross | 5,505 | 3.40 | 3,884 | 2.51 |
| Capitalized overhead | (798) | (0.49) | (1,209) | (0.78) |
| Overhead recoveries | (506) | (0.31) | (304) | (0.20) |
| Net | 4,201 | 2.60 | 2,371 | 1.53 |

Gross G&A expenses have increased from Q1 2008 due to the growth of the Corporation. Office rent and salaries have increased during the past year as a result of the growth. Gross G&A expenses per barrel of oil equivalent have increased by 35%.

Capitalized overhead has decreased year over year due to reduced capital in Q1 2009. Net general and administrative (G&A) expenses of \$2.60/BOE for the first quarter of 2009 increased by 70% compared to the same period of the previous year.

For the three months ended March 31, 2009 G&A expenses by category were: salary and employee – 52%, office – 22%, consulting – 9%, computer – 9%, shareholder costs – 1%, audit, engineering and legal – 6%, and corporate – 1%.

INTEREST

Interest expense of \$1.6 million for the three months ended March 31, 2009 was 43% lower than in the same period of the prior year due to interest rates charged on bank credit facilities being approximately 50% lower than in the prior year. At March 31, 2009 an amount of \$263.6 million was drawn against the Corporation's credit facilities compared to \$229.9 million in the same period of the prior year.

STOCK BASED COMPENSATION

Stock based compensation was a non-cash expense of \$1.3 million for the first quarter of 2009 compared to \$2.8 million in the same quarter of the prior year. During the first quarter of 2009, 120,000 stock options were granted to employees at an average exercise price of \$3.45, having fair values of \$1.18 per option.

At March 31, 2009, 6,901,068 stock options were outstanding at an average exercise price of \$11.94.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion and depreciation (“D&D”) charges were \$35.5 million or \$21.97/BOE for the three months ended March 31, 2009 compared to \$33.6 million or \$21.73/BOE for the same period of the prior year. Reserve additions for the first quarter of 2009 were estimated internally.

Capital expenditures of \$104.6 million (\$103.5 million – March 31, 2008) related to undeveloped land and seismic have been excluded from the depletion and depreciation calculation and \$161.9 million (\$114.9 million – March 31, 2008) of future development costs have been added.

Accretion expense on the Corporation’s asset retirement obligation was \$659,000 for the first quarter of 2009 compared to \$568,000 in the same quarter of 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 \$69,000 for the first quarter was comprised of Saskatchewan capital and resource taxes, as was the provision for the first quarter of 2008. The provision is calculated based on revenues earned in Saskatchewan. It is not expected that Galleon will pay any income taxes in 2009.

The provision for future income taxes was a recovery of \$1.5 million for the first quarter of 2009 compared to a tax provision of \$3.1 million for the first quarter of the prior year. The future tax recovery is a result of a net loss recorded in the first quarter of 2009 compared with net earnings recorded in the first quarter of 2008.

CAPITAL EXPENDITURES

| | <i>(\$000s)</i> |
|---|------------------|
| Property & equipment balance at December 31, 2008 | 1,071,150 |
| Additions to property and equipment | 30,391 |
| Asset retirement obligation additions | 476 |
| Depletion and depreciation | (35,530) |
| Property & equipment balance at March 31, 2009 | 1,066,487 |

| <i>Three months ended March 31</i> | <i>2009</i> | | <i>2008</i> | |
|---|---------------|------------|---------------|------------|
| <i>(\$000s)</i> | | <i>%</i> | | <i>%</i> |
| Land | 778 | 3 | 2,039 | 3 |
| Geological and geophysical | 1,055 | 3 | 5,353 | 8 |
| Drilling and completion | 21,545 | 71 | 44,393 | 62 |
| Plant and facilities | 6,969 | 23 | 19,408 | 27 |
| Other assets | 44 | – | 133 | – |
| Exploration and Development Expenditures | 30,391 | 100 | 71,326 | 100 |

Exploration and development expenditures during the first quarter of 2009 were \$30.4 million. Drilling and completions expenditures comprised 71% of exploration and development activity. Galleon drilled 11 gross wells resulting in nine (8.0 net) natural gas wells and one (1.0 net) light oil wells for a success rate of 91% for the quarter.

Facilities expenditures were \$7.0 million in Q1 2009 or 23% of total expenditures. Land and seismic expenditures totaled \$0.8 million and \$1.1 million, respectively in the first quarter 2009. 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 match funds from operations. The Corporation does not plan to fund the capital program with incremental bank debt.

LIQUIDITY AND CAPITAL RESOURCES

| <i>Three months ended March 31</i> | <i>2009</i> | <i>2008</i> |
|------------------------------------|-------------|-------------|
| <i>(\$000s)</i> | | |
| Bank debt | 263,619 | 229,865 |
| Capital leases – non current | 1,337 | 3,091 |
| Working capital deficiency | 19,045 | 27,602 |
| Total net debt | 284,001 | 260,558 |

Funding of Capital Program

| <i>Three months ended March 31</i> | <i>2009</i> | <i>2008</i> |
|-------------------------------------|-------------|-------------|
| <i>(\$000s)</i> | | |
| Issuance of shares, net of costs | 458 | 1,746 |
| Funds from operations | 26,150 | 55,445 |
| Change in bank debt | 14,604 | 20,205 |
| Change in capital leases | (204) | (484) |
| Change in working capital and other | (10,617) | (5,586) |
| | 30,391 | 71,326 |

At March 31, 2009, the Corporation has extendible revolving term credit facilities of \$310 million in place with a bank syndicate. 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 March 31, 2009, an amount of \$263.6 million was drawn against the credit facilities (March 31, 2008 – \$229.9 million).

An annual review of the credit facilities is scheduled to be completed prior to 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.

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</i> <i>(\$000s)</i> |
|-------------|----------------------------------|
| 2009 | 1,737 |

Office Lease Payments

At March 31, 2009 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

| <i>Year</i> | <i>Amount</i> <i>(\$000)</i> |
|-------------|---------------------------------|
| 2009 | 1,868 |
| 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 March 31, 2009 the Corporation has commitments to future minimum payments for leased equipment, under operating leases as follows:

| <i>Year</i> | <i>Amount (\$000s)</i> |
|-------------|----------------------------|
| 2009 | 452 |

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 | 1,655 |
| 2010 | 1,605 |
| Total minimum lease payments | 3,260 |
| Less interest included in payments | (172) |
| Principal portion of minimum lease payments | 3,088 |
| Less current portion | (1,751) |
| Capital lease obligation at March 31, 2009 | 1,337 |

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> |
|--------------------------|----------------------------------|---|---|
| June 2009 | \$88 | \$142 | 2.2 percent above the 30-day bankers' acceptance rate |
| October 2009 | \$133 | \$1 | 2.1 percent above the 30-day banker's acceptance rate |
| December 2009 | \$729 | \$1 | 6.0 percent |
| September 2010 | \$2,138 | \$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 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 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. 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.

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 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 March 31:

| | 2009 | 2008 |
|--|------------|------------|
| Class A shares outstanding | | |
| Basic | 75,318,383 | 67,798,274 |
| Diluted ¹ | 75,318,383 | 72,221,524 |
| Class B shares outstanding | – | 922,500 |
| Class A shares issuable on conversion of Class B shares ² | – | 623,311 |

¹ Includes no options (March 31, 2008– 4,423,250)

² Assumes a conversion at the March 31, 2008 closing price of \$14.80 per Class A share.

At March 31, 2009, the market value of Galleon's Class A shares was \$300 million based on the March 31, 2009 closing price of \$3.61 per share. As of May 14, 2009, the number of Class A shares and options outstanding are 75,390,883 and 6,822,901 respectively.

Galleon has received approval from the Toronto Stock Exchange (the "TSX") for a normal course issuer bid (the "Bid") to purchase for cancellation, from time to time, up to a maximum of 5,610,908 Class A Shares. The Bid commenced on November 26, 2008 and will terminate on November 25, 2009 or such earlier time as the Bid is completed or terminated at the option of Galleon. As at March 31, 2009, Galleon had purchased an aggregate of 10,100 Class A Shares for total consideration of \$32,627. Shareholders may obtain a copy of the notice filed with the TSX in connection with the Bid, without charge, by contacting Galleon.

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

In 2009, Galleon intends to spend within cash flow, continue to selectively hedge production and sell certain non-core assets.

To date, Galleon has captured a number of significant Montney natural gas and light oil resource plays. To maximize the value of the initial flush production period of these resource plays, Galleon plans to focus the majority of the capital expenditures during the second and third quarters of 2009 towards optimizing infrastructure and increasing facility capacity. Drilling projects are anticipated to receive the largest portion of the Q4 2009 and Q1 2010 capital budget in order to take advantage of the benefits from the recently announced Alberta royalty incentive programs and to fill the expanded facility capacity when commodity prices are expected to be higher. This approach is both financially prudent and positions Galleon to quickly ramp up production when commodity prices recover.

Approximately 65% of the capital program in the second and third quarters of 2009 is directed towards (i) a natural gas plant expansion in the Central Montney #1 project (capacity will increase from 14 Mmcf/d to 28 Mmcf/d), (ii) optimizing oil recovery and lowering the pressure in gas gathering systems in the Eastern Montney project, and (iii) constructing an oil battery in the St. Anne property and initializing the waterflood project at the Alexis property. The remaining capital in the second and third quarters of 2009 is expected to be directed towards drilling wells in two light oil resource projects that Galleon believes have the potential to add significant light oil reserves and production in 2009 and 2010. Currently, Galleon plans to direct up to 90% of the fourth quarter 2009 capital program towards development drilling in the Eastern Montney project and the two Central Montney projects thereby driving gas production growth.

Based on current commodity prices, Galleon plans to drill up to 14 wells over the second and third quarters of 2009 and then to increase the drilling program in fourth quarter of 2009 to between 15 and 20 wells. Production is expected to decline through the second and third quarters of 2009 with a substantial increase in the fourth quarter of 2009 fueled by the Central Montney #1 project. Average 2009 production is expected to be in the range of 17,000 and 17,500 BOE/d.

Quarterly Highlights

| | 2009 | | | | 2008 | | | 2007 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| PRODUCTION | | | | | | | | |
| Light oil (Bbl/d) | 4,695 | 5,491 | 5,222 | 4,629 | 4,871 | 4,419 | 3,375 | 3,317 |
| Heavy oil (Bbl/d) | 979 | 1,046 | 1,257 | 2,066 | 2,919 | 1,746 | 1,949 | 2,247 |
| Natural Gas (Mcf/d) | 69,632 | 67,875 | 61,329 | 53,971 | 52,644 | 49,486 | 48,989 | 45,314 |
| Liquids (Bbl/d) | 687 | 604 | 499 | 501 | 441 | 283 | 237 | 256 |
| BOE/d | 17,965 | 18,453 | 17,200 | 16,191 | 17,005 | 14,695 | 13,726 | 13,372 |
| Total BOE produced | 1,616,979 | 1,697,711 | 1,582,369 | 1,473,414 | 1,547,476 | 1,351,986 | 1,262,762 | 1,216,855 |
| Daily BOE of production per million Class A shares – basic | | | | | | | | |
| | 239 | 250 | 236 | 229 | 254 | 232 | 229 | 226 |
| PRICES (net of transportation) | | | | | | | | |
| Light oil (\$/Bbl) | 45.62 | 61.80 | 115.20 | 120.68 | 94.79 | 83.38 | 78.43 | 70.12 |
| Heavy oil (\$/Bbl) | 32.95 | 24.75 | 98.51 | 88.93 | 63.52 | 37.32 | 40.04 | 35.89 |
| Crude oil (\$/Bbl) | 43.43 | 55.88 | 111.96 | 110.88 | 85.20 | 70.34 | 63.25 | 56.30 |
| Natural Gas (\$/Mcf) | 4.84 | 6.72 | 7.73 | 9.65 | 8.08 | 6.16 | 5.73 | 7.14 |
| NGLs (\$/Bbl) | 34.07 | 42.76 | 73.16 | 71.19 | 59.59 | 72.90 | 64.05 | 59.67 |
| PER BOE (\$) | | | | | | | | |
| Revenues | 35.24 | 47.29 | 73.20 | 81.85 | 65.60 | 52.77 | 47.64 | 49.91 |
| Royalties, net of ARTC and GCA | (6.40) | (6.51) | (13.13) | (14.29) | (11.79) | (8.55) | (8.41) | (9.04) |
| Transportation costs | (1.45) | (1.39) | (1.35) | (1.64) | (1.04) | (1.18) | (1.13) | (1.16) |
| Operating costs | (10.70) | (12.20) | (11.95) | (12.71) | (11.28) | (10.52) | (8.35) | (8.63) |
| Net | 16.69 | 27.19 | 46.77 | 53.21 | 41.49 | 32.52 | 29.75 | 31.08 |
| Other revenue | 0.42 | 0.06 | 0.07 | 0.07 | 0.08 | – | – | – |
| G&A | (2.60) | (2.37) | (2.05) | (2.51) | (1.53) | (2.00) | (1.19) | (1.48) |
| Interest | (0.98) | (1.53) | (1.74) | (2.02) | (1.81) | (1.83) | (2.14) | (2.20) |
| Capital and other taxes | (0.04) | (0.05) | (0.18) | (0.24) | (0.22) | 0.05 | (0.18) | (0.41) |
| Realized gain (loss) on financial derivative | 2.68 | 15.78 | (6.00) | (7.00) | (2.18) | (2.49) | (0.44) | – |
| Funds from operations¹ | 16.17 | 39.08 | 36.87 | 41.51 | 35.83 | 26.25 | 25.80 | 26.99 |

¹See "Non-GAAP Measurements"

Quarterly Highlights

| <i>(unaudited)</i> | 2009 | | 2008 | |
|---|------------------|------------------|------------------|------------------|
| | Q1 | Q4 | Q3 | Q2 |
| FINANCIAL (\$000s) | | | | |
| Revenues | 56,987 | 80,280 | 115,835 | 120,602 |
| Operating costs | (17,297) | (20,704) | (18,917) | (18,726) |
| General & Administrative expenses | (4,201) | (4,019) | (3,238) | (3,698) |
| Interest expense | (1,585) | (2,599) | (2,759) | (2,977) |
| Funds from operations¹ | 26,150 | 66,365 | 58,331 | 61,157 |
| Per share, basic ¹ | 0.35 | 0.90 | 0.80 | 0.86 |
| Per share, diluted ¹ | 0.35 | 0.90 | 0.79 | 0.84 |
| Earnings (loss) | (5,091) | 25,113 | 38,061 | 5,673 |
| Per share, basic | (0.07) | 0.34 | 0.52 | 0.08 |
| Per share, diluted | (0.07) | 0.34 | 0.51 | 0.08 |
| Total assets | 1,158,329 | 1,181,003 | 1,121,339 | 1,070,765 |
| Weighted average outstanding Class A shares – basic | 75,231,828 | 73,710,516 | 72,938,357 | 70,741,901 |
| Weighted average outstanding Class A shares – diluted | 75,231,828 | 74,032,935 | 73,955,365 | 72,575,607 |

| <i>(unaudited)</i> | 2008 | | 2007 | |
|---|----------------|----------------|----------------|----------------|
| | Q1 | Q4 | Q3 | Q2 |
| FINANCIAL (\$000s) | | | | |
| Revenues | 101,516 | 71,339 | 60,156 | 60,734 |
| Operating costs | (17,460) | (14,227) | (10,547) | (10,507) |
| General & Administration expenses | (2,371) | (2,712) | (1,507) | (1,797) |
| Interest expense | (2,803) | (2,476) | (2,707) | (2,681) |
| Funds from operations¹ | 55,445 | 35,483 | 32,566 | 32,834 |
| Per share, basic ¹ | 0.83 | 0.56 | 0.54 | 0.55 |
| Per share, diluted ¹ | 0.81 | 0.55 | 0.53 | 0.54 |
| Earnings (loss) | 10,417 | (495) | 1,590 | 3,270 |
| Per share, basic | 0.16 | (0.01) | 0.03 | 0.06 |
| Per share, diluted | 0.15 | (0.01) | 0.03 | 0.05 |
| Total assets | 975,911 | 799,359 | 743,932 | 699,112 |
| Weighted average outstanding Class A shares – basic | 67,034,895 | 63,206,585 | 59,880,135 | 59,204,393 |
| Weighted average outstanding Class A shares – diluted | 68,630,474 | 64,716,872 | 61,724,550 | 61,175,217 |

¹ See "Non-GAAP Measurements"

Consolidated Balance Sheets

| <i>As at</i> | <i>March 31, 2009</i> | <i>December 31, 2008</i> |
|--|---------------------------|------------------------------|
| <i>(\$000s) (unaudited)</i> | | |
| ASSETS | | |
| Current | | |
| Accounts receivable | 32,856 | 54,864 |
| Deposits and prepaid expenses | 6,550 | 6,661 |
| Fair value of financial derivatives (note 12) | 7,869 | 1,237 |
| | 47,275 | 62,762 |
| Goodwill (notes 3 and 4) | 34,891 | 34,891 |
| Equipment inventory | 9,676 | 12,200 |
| Property and equipment (notes 3,4,5,6,7 and 8) | 1,066,487 | 1,071,150 |
| | 1,158,329 | 1,181,003 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 56,700 | 91,305 |
| Capital leases (notes 3 and 8) | 1,751 | 2,110 |
| Bank loan (note 7) | 263,619 | 249,015 |
| Fair value of financial derivatives (note 12) | 1,942 | – |
| Future income taxes (note 10) | 1,127 | – |
| | 325,139 | 342,430 |
| Asset retirement obligation (note 6) | 40,743 | 39,905 |
| Capital leases (notes 3 and 8) | 1,337 | 1,541 |
| Future income taxes (note 10) | 104,940 | 107,603 |
| | 472,159 | 491,479 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 9) | 547,923 | 547,298 |
| Contributed surplus (note 9) | 24,121 | 23,009 |
| Retained earnings | 114,126 | 119,217 |
| | 686,170 | 689,524 |
| | 1,158,329 | 1,181,003 |

See accompanying notes

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

Three months ended March 31

(\$000s, except per share amounts) (unaudited)

| | 2009 | 2008 |
|---|----------------|---------------|
| REVENUE | | |
| Petroleum and natural gas revenue | 56,987 | 101,516 |
| Royalties, net of GCA | (10,352) | (18,245) |
| Realized gain (loss) on financial derivatives (note 12) | 4,337 | (3,361) |
| Unrealized gain (loss) on financial derivatives (note 12) | 4,691 | (4,927) |
| Other income | 672 | 123 |
| | 56,335 | 75,106 |
| EXPENSES | | |
| Operating | 17,297 | 17,460 |
| Transportation | 2,342 | 1,615 |
| General and administration | 4,201 | 2,371 |
| Interest | 1,585 | 2,803 |
| Stock-based compensation (note 9) | 1,279 | 2,771 |
| Accretion | 659 | 568 |
| Depletion and depreciation | 35,530 | 33,619 |
| | 62,893 | 61,207 |
| EARNINGS (LOSS) BEFORE TAXES | (6,558) | 13,899 |
| Income taxes (note 10) | | |
| Capital and other taxes | 69 | 339 |
| Future income taxes (recovery) | (1,536) | 3,143 |
| | (1,467) | 3,482 |
| NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) | (5,091) | 10,417 |
| RETAINED EARNINGS, BEGINNING OF PERIOD | 119,217 | 39,953 |
| RETAINED EARNINGS, END OF PERIOD | 114,126 | 50,370 |
| NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) PER SHARE (note 9) | | |
| Basic | \$(0.07) | \$0.16 |
| Diluted | \$(0.07) | \$0.15 |
| Weighted average Class A shares – basic | 75,231,828 | 67,034,895 |
| – diluted | 75,231,828 | 68,630,474 |

See accompanying notes

Consolidated Statements of Cash Flows

| <i>Three months ended March 31</i> | <i>2009</i> | <i>2008</i> |
|--|-----------------|-----------------|
| <i>(\$000s) (unaudited)</i> | | |
| Cash provided by (used in): | | |
| OPERATING ACTIVITIES | | |
| Net (loss) earnings | (5,091) | 10,417 |
| Items not requiring cash: | | |
| Future income taxes (recovery) | (1,536) | 3,143 |
| Depletion and depreciation | 35,530 | 33,619 |
| Accretion | 659 | 568 |
| Stock-based compensation | 1,279 | 2,771 |
| Unrealized loss (gain) on financial derivative | (4,691) | 4,927 |
| Abandonment costs | (296) | (1,103) |
| Change in non-cash working capital | 9,608 | (12,957) |
| | 35,462 | 41,385 |
| FINANCING ACTIVITIES | | |
| Issue of common shares | 458 | 1,838 |
| Share issue costs | – | (92) |
| Capital lease payment | (204) | (484) |
| Bank loan | 14,604 | 66,488 |
| Debt assumed on acquisition of ExAlta (note 3) | – | (46,283) |
| | 14,858 | 21,467 |
| INVESTING ACTIVITIES | | |
| Additions to equipment inventory | 2,524 | (123) |
| Additions to oil and gas properties | (30,391) | (71,326) |
| Acquisition of oil and gas properties (note 3) | – | (1,783) |
| Change in non-cash working capital | (22,453) | 10,380 |
| | (50,320) | (62,852) |
| CHANGE IN CASH | – | – |
| CASH, BEGINNING OF PERIOD | – | – |
| CASH, END OF PERIOD | – | – |
| SUPPLEMENTARY INFORMATION | | |
| Cash interest paid | 1,798 | 2,803 |
| Cash taxes paid | 225 | 390 |

See accompanying notes

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 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.

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 material 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.

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.

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 |

| <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 |

| <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 March 31, 2009, \$104.6 million (March 31, 2008 – \$103.5 million) of undeveloped land and seismic have been excluded from and \$161.9 million (March 31, 2008 – \$114.9 million) in future development costs have been added into the full cost pool for depletion purposes. For the three months ended March 31, 2009, \$272,563 (March 31, 2008 – \$237,656) of exploration salaries have been capitalized.

| <i>As at March 31, 2009</i> | <i>Cost</i> <i>\$</i> | <i>Accumulated depletion</i> <i>\$</i> | <i>Net book value</i> <i>\$</i> |
|--|--------------------------|---|------------------------------------|
| Petroleum and natural gas properties & equipment | 1,443,894 | (384,073) | 1,059,821 |
| Equipment under capital lease | 6,878 | (1,461) | 5,417 |
| Office furniture and equipment | 2,536 | (1,287) | 1,249 |
| | 1,453,308 | (386,821) | 1,066,487 |

| <i>As at December 31, 2008</i> | <i>Cost</i> <i>\$</i> | <i>Accumulated depletion</i> <i>\$</i> | <i>Net book value</i> <i>\$</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 |

6. ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligation results 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 \$92.9 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>Three months ended March 31, 2009</i> <i>\$</i> | <i>Year ended December 31, 2008</i> <i>\$</i> |
|-------------------------------|---|--|
| Balance, beginning of year | 39,905 | 25,535 |
| Accretion expense | 659 | 2,253 |
| Liabilities incurred | 475 | 6,668 |
| Liabilities acquired | – | 7,834 |
| Settlement of liabilities | (296) | (2,385) |
| Balance, end of period | 40,743 | 39,905 |

7. AVAILABLE CREDIT FACILITY

The Corporation has extendible revolving term credit facilities of \$310 million in place with a bank syndicate. 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 March 31, 2009, an amount of \$263.6 million was drawn against the credit facilities (December 31, 2008 - \$249 million). As at March 31, 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 | 1,655 |
| 2010 | 1,605 |
| Total minimum lease payments | 3,260 |
| Less interest included in payments | (172) |
| Principal portion of minimum lease payments | 3,088 |
| Less current portion | (1,751) |
| Capital lease obligation at March 31, 2009 | 1,337 |

Interest expense of \$0.1 million was incurred on the capital leases during the three months ended March 31, 2009 (March 31, 2008 – \$0.1 million).

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> |
|--------------------------|------------------------------|---------------------------------------|---|
| June 2009 | \$88 | \$142 | 2.2 percent above the 30-day bankers' acceptance rate |
| October 2009 | \$133 | \$1 | 2.1 percent above the 30-day banker's acceptance rate |
| December 2009 | \$729 | \$1 | 6.0 percent |
| September 2010 | \$2,138 | \$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. (d) | 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. (c) | 4,193,288 | 65,206 |
| Issued on acquisition of petroleum and natural gas properties (b) | 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 (a) | (10,100) | (32) |
| Transfer from contributed surplus | – | 167 |
| Balance at March 31, 2009 | 75,318,383 | 547,923 |
| CLASS B SHARES | | |
| Balance at December 31, 2007 | 922,500 | 5,207 |
| Conversion of Class B shares to Class A shares | (922,500) | (5,207) |
| Total share capital at December 31, 2008 and March 31, 2009 | 75,318,383 | 547,923 |

- a) 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 March 31, 2009, Galleon has purchased 10,100 shares for total consideration of \$32,627.
- b) 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.
- c) 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.
- d) 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.

| | <i>Three months ended March 31, 2009</i> | <i>Year ended December 31, 2008</i> |
|---|--|---|
| | \$ | \$ |
| Contributed surplus, beginning of period | 23,009 | 19,064 |
| Stock based compensation expense | 1,279 | 7,670 |
| Transfer to share capital | (167) | (3,725) |
| Contributed surplus, end of period | 24,121 | 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 1.39-4.51%; dividend yield of 0%; volatility factors of the market price of the Corporation's common shares of 36-49%; 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 |

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>March 31, 2009</i> | <i>December 31, 2008</i> |
|---|-----------------------|--------------------------|
| | \$ | \$ |
| Property and equipment | 100,302 | 101,197 |
| ACRI benefit | (870) | (870) |
| Share issue costs | (2,383) | (2,712) |
| Asset retirement obligation | (967) | (869) |
| Non-capital losses | (45,763) | (54,628) |
| Partnership income tax deferral | 54,982 | 66,137 |
| Capital leases | (834) | (986) |
| Financial derivative | 1,600 | 334 |
| Future income tax liability | 106,067 | 107,603 |
| Less current portion of future income tax liability | (1,127) | - |
| Long term portion of future income tax liability | 104,940 | 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 | 1,737 |

Office Lease Payments

At March 31, 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 | 1,868 |
| 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 March 31, 2009 the Corporation committed to future minimum payments for leased equipment, under operating leases, as follows:

| <i>Year</i> | <i>Amount \$</i> |
|-------------|------------------|
| 2009 | 452 |

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 March 31, 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 March 31, 2009, approximately 54% of the accounts receivable balance is due from three customers, compared to 66%, due from two customers, at March 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 March 31, 2009 as the Corporation has assessed there are no impaired receivables.

| | <i>2009 \$</i> |
|----------------------|----------------|
| Current | 24,512 |
| 30 - 60 days | 3,391 |
| 60 - 90 days | – |
| greater than 90 days | 4,953 |
| Total | 32,856 |

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 \$5.1 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 March 31, 2009:

Natural Gas

| | | |
|---------------------------------|------------|---------------|
| 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 |
| 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

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 |

Costless Collar:

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

Interest Rate Swap

Notional Amount CAD \$100 million

Term: January 20, 2009 – January 20, 2011

Fixed rate 1.1% – Floating 1.08667% reset against CAD — CDOR on each 3 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 March 31, 2009 the fair value was estimated to be an asset of \$5.9 million.

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 brokers, or other publicly available market data providers

Subsequent to March 31, 2009 the Corporation has entered into the following financial contracts:

Crude Oil

Fixed Price:

| | | |
|-------------------------------------|-----------|---------------------|
| 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 |

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 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 March 31 (\$000s)</i> | <i>Target Measure</i> | <i>2009 \$</i> | <i>2008 \$</i> |
|--|---------------------------|--------------------|--------------------|
| Components of ratios | | | |
| Current assets (excluding fair value of financial derivative) | | 39,406 | 60,154 |
| Current liabilities (including short term debt and excluding fair value of financial derivative) | | 322,070 | 317,621 |
| Short term debt (bank loan and current portion of capital lease) | | 265,370 | 232,067 |
| Net debt | | 284,001 | 260,558 |
| Total debt (bank loan and capital leases) | | 266,707 | 235,158 |
| Shareholders' equity (share capital plus retained earnings) | | 662,049 | 518,060 |
| Total capitalization (total debt plus shareholders' equity) | | 928,756 | 753,218 |
| Funds from operations ¹ | | | |
| (three months ended March 31 annualized) | | 104,600 | 221,780 |
| Net debt/funds from operations | < 1.5 times | 2.7 | 1.2 |
| 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 large decrease of 53% in funds from operations compared to an increase of 9% in net debt.

14. SUBSEQUENT EVENTS

On April 1, 2009 Galleon completed the sale of non-core properties in the Howard area of Alberta for total cash proceeds of \$1.9 million. Proceeds were used to reduce debt.

15. COMPARATIVE FIGURES

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

Corporate Information

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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
Fortis Capital Canada Ltd.
Calgary, Alberta
Union Bank
Canada Branch
Calgary, Alberta

LEGAL COUNSEL

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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

