

GALLEON ENERGY INC.

Management Discussion & Analysis

December 31, 2009

Management's Discussion and Analysis

This Management's Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Galleon Energy Inc. ("Galleon" or the "Corporation") for the year ended December 31, 2009 with comparisons to the year ended 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 audited financial statements for the year ended December 31, 2009.

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

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

This MD&A is based on information available as of, and is dated, March 10, 2010.

Non-GAAP Measurements

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

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

Forward-Looking Statements

Statements that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, development plans, drilling plans and the timing thereof and plans for additional facilities and their impact, expected initial production rates from new wells, timing and steps in connection with the strategic review process and plans in connection therewith, timing of incurring of qualified expenditures to flow-through share subscribers, expected level of 2010 operating costs, budgeted commodity prices in 2010, capital expenditures, the nature of the expenditures and timing thereof and the method of funding thereof, commodity risk management, expectation as to the volatility of commodity prices and plans and timing related to the adoption of IFRS. 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 and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; and the ability of the Corporation to successfully market its oil and natural gas products.

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

2009 Performance

- Gross proved plus probable reserves grew to 84.6 million BOE, (50% oil and NGLs), an increase of 5% from 2008;
- Gross proved plus probable oil and NGL reserves grew to 42.6 million BOE, an increase of 12% from 2008;
- A reserve life index of 15.8 years based on gross proved plus probable reserves and average Q4 2009 production;
- 2009 average production was replaced 1.7 times based on gross proved plus probable reserves;

2009 Financial Highlights

- Gross revenues of \$213.1 million and funds from operations of \$97.4 million were generated from average production of 15,976 BOE/d (64% gas);
- Operating expenses averaged \$9.73/BOE, a 19% decrease from 2008. Operating expenses on Galleon's four major properties, comprising 68% of total production, averaged \$5.86/BOE in 2009;
- A net loss of \$34.6 million was recorded, which included a \$10.8 million unrealized loss on financial derivatives marked to market at December 31, 2009;

- Investment in exploration and development activities was \$106.1 million;
- Drilled 44 gross wells resulting in 27 (25.1 net) natural gas wells and 14 (13.5 net) oil wells. 3.0 (2.6 net) wells were drilled and abandoned.
- Net debt fell 20% to \$226.9 million at December 31, 2009 from \$282.4 million at December 31, 2008;
- Equity proceeds of \$36.0 million were received in June 2009 from the issuance of 7.5 million shares at \$4.80 per share;
- Equity proceeds of \$17.2 million were received in November 2009 from the issuance of 2.2 million flow-through shares at \$7.80 per share;

Annual Information

| (\$000s) | 2009 | 2008 | 2007 |
|---------------------------------------|-----------|-----------|---------|
| Revenues | 213,144 | 418,233 | 245,203 |
| Funds from Operations ¹ | 97,393 | 241,298 | 131,052 |
| Per share, basic ¹ | 1.22 | 3.39 | 2.18 |
| Per share, diluted ¹ | 1.22 | 3.35 | 2.12 |
| Net Earnings (Loss) | (34,572) | 79,264 | 8,286 |
| Per share, basic | (0.43) | 1.11 | 0.14 |
| Per share, diluted | (0.43) | 1.10 | 0.13 |
| Total Assets | 1,136,732 | 1,181,003 | 799,359 |
| Net debt | 226,859 | 282,446 | 193,557 |
| Bank debt | 217,243 | 249,015 | 163,378 |
| Total Long-term Financial Liabilities | - | - | - |

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

The decrease in revenues, funds from operations and net earnings in 2009 compared to 2008 was primarily due to lower commodity prices and decreased production volumes. Commodity prices received by the Corporation fell significantly in 2009. The average price per Mcf received for natural gas decreased by 49% to \$4.16 from \$8.14 in 2008. The average price realized on crude oil in 2009 dropped by 36% to \$59.01/Bbl from \$91.89/Bbl. As the 2009 capital program was funded primarily from cash flow from operations, capital spending levels in 2009 were greatly reduced from 2008 levels.

Despite the decrease in production, the Corporation was able to reduce operating costs by 19%. Operating costs averaged \$9.73/BOE in 2009, down from \$12.03/BOE in 2008.

The Corporation raised \$53.2 million in gross equity proceeds during 2009. The Corporation is obligated to incur qualifying expenditures of \$17.2 million prior to December 31, 2010.

Net debt at December 31, 2009 was \$226.9 million, a \$55.5 million reduction (or 20%) from the \$282.4 million outstanding at the end of 2008.

Results of Operations

| Year ended December 31 | 2009 | | 2008 | |
|--|----------------|--------------|----------------|--------------|
| | 5,831,086 BOE | | 6,300,970 BOE | |
| (\$000s) | | \$/BOE | | \$/BOE |
| Revenues | 213,144 | 36.55 | 418,233 | 66.38 |
| Gain on financial derivative | 6,651 | 1.14 | 3,621 | 0.57 |
| Other income | 752 | 0.13 | 438 | 0.07 |
| Royalties | (55,032) | (9.44) | (86,717) | (13.76) |
| GCA ¹ | 22,320 | 3.83 | 15,595 | 2.48 |
| Transportation costs | (8,165) | (1.40) | (8,537) | (1.35) |
| Operating costs | (56,714) | (9.73) | (75,807) | (12.03) |
| | 122,956 | 21.08 | 266,826 | 42.36 |
| General and administration | (15,911) | (2.73) | (13,326) | (2.11) |
| Interest costs | (9,226) | (1.58) | (11,138) | (1.77) |
| Capital and other taxes | (426) | (0.07) | (1,064) | (0.17) |
| Funds from operations² | 97,393 | 16.70 | 241,298 | 38.31 |

¹ GCA means Gas Cost Allowance

² See "Non-GAAP Measurements"

Petroleum and Natural Gas Revenues

| Year ended December 31 | 2009 | | 2008 | |
|------------------------|----------------|------------|----------------|------------|
| | | % | | % |
| (\$000s) | | | | |
| Light oil | 87,854 | 41 | 181,691 | 43 |
| Heavy oil | 22,961 | 11 | 49,247 | 12 |
| NGLs | 8,731 | 4 | 11,434 | 3 |
| Natural gas | 93,261 | 44 | 175,122 | 42 |
| Royalty income | 337 | - | 739 | - |
| Total | 213,144 | 100 | 418,233 | 100 |

Revenues for the year ended December 31, 2009 decreased by 49% to \$213.1 million from \$418.2 million in the prior year. The decrease was primarily due to a 36% decrease in oil prices and a 49% decrease in natural gas prices. On a revenue basis, crude oil sales generated 52% of revenues in 2009 as compared to 55% in 2008.

Production

| Year ended December 31 | 2009 | | 2008 | |
|------------------------|---------------|------------|---------------|------------|
| | BOE/d | % | BOE/d | % |
| Light oil (Bbls/d) | 3,924 | 25 | 5,044 | 29 |
| Heavy oil (Bbls/d) | 1,229 | 8 | 1,829 | 11 |
| NGLs (Bbls/d) | 575 | 3 | 512 | 3 |
| Natural gas (Mcf/d) | 61,487 | 64 | 58,986 | 57 |
| BOE/d (6:1) | 15,976 | 100 | 17,216 | 100 |

Production volumes averaged 15,976 BOE/d in 2009, a 7% decrease from 17,216 BOE/d in 2008. By product, light oil volumes decreased by 22%, natural gas volumes increased by 4% and heavy oil volumes decreased by 33%.

The Corporation's production volumes in 2009 were impacted greatly by reduced drilling. There were 44 (41.2 net) wells drilled in 2009, compared to 107 (100.7 net) wells in 2008. Capital spending on exploration and development in 2009 decreased by 61% or \$167.5 million from 2008. The target of matching net expenditures to cash flow was achieved.

Natural gas volumes increased in 2009 compared to 2008 as a result of both the continued success of the Eastern Montney gas horizontal drilling program and the large expansion of the Kakut field facilities. Oil volumes decreased from 2008 to 2009, largely because of the shift away from drilling deeper, higher risk oil plays. Light oil was once again the focus due to the successful expansion of the Kakut Doig oil project in late 2009 and early 2010.

Commodity Pricing and Marketing

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

The Corporation had the following financial contracts in place as at December 31, 2009:

| Natural Gas: | | |
|--|---|-----------------------------|
| March 1, 2009 – March 31, 2010 | 5,000 GJ/d | CDN \$5.96/GJ |
| March 1, 2009 – March 31, 2010 | 5,000 GJ/d | CDN \$6.01/GJ |
| January 1, 2010 to December 31, 2011 | 5,000 GJ/d | CDN \$5.85/GJ |
| January 1, 2010 to December 31, 2011 | 5,000 GJ/d | CDN \$5.75/GJ |
| January 1, 2010 to December 31, 2011 | 5,000 GJ/d | CDN \$5.75/GJ |
| Crude Oil: | | |
| Fixed Price: | | |
| 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 \$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 \$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 \$77.00/Bbl |
| January 1, 2011 – December 31, 2011 | 500 Bbl/d | WTI CDN \$92.00/Bbl |
| January 1, 2011 – December 31, 2011 | 1,000 Bbl/d | WTI CDN \$92.20/Bbl |
| January 1, 2011 – December 31, 2011 | 500 Bbl/d | WTI CDN \$92.00/Bbl |
| Costless Collars: | | |
| January 1, 2010 – December 31, 2010 | 500 Bbl/d | WTI CDN \$75.00-\$94.00/Bbl |
| January 1, 2010 – December 31, 2010 | 500 Bbl/d | WTI CDN \$75.00-\$95.00/Bbl |
| Interest Rate Swap: | | |
| Notional Amount CAD \$100 million | Term: January 20, 2009 – January 20, 2011 | |
| Fixed rate 1.1% - Floating rate is reset against CAD--CDOR on each 3 month anniversary | | |

During the year, the Corporation realized gains of \$6.7 million on financial contracts, which included a loss of \$0.4 million on the interest rate swap. This compared to a \$3.6 million gain realized in 2008. Based on the mark to market value at December 31, 2009, an unrealized loss on financial contracts of \$10.8

million was recorded in 2009, compared to an unrealized gain of \$10.3 million in 2008. If the contracts were unwound at December 31, 2009, the Corporation would be obligated to pay \$9.6 million.

Subsequent to December 31, 2009, a fiscal 2011 crude oil financial commodity contract for 1,000 Bbls/d at CDN \$92.20 per Bbl was unwound for net proceeds of \$1.4 million. The Corporation also entered into a natural gas financial commodity contract subsequent to December 31, 2009 for 5,000 GJ/d for the period April 1, 2010 to March 31, 2011 at \$5.76 CAD/GJ.

The Corporation had the following costless collar physical derivative contracts in place for natural gas at December 31, 2009:

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

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

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

| Year ended December 31 | 2009 | 2008 |
|------------------------|-------|-------|
| Light oil (\$/Bbl) | 61.42 | 98.51 |
| Heavy oil (\$/Bbl) | 51.29 | 73.62 |
| NGLs (\$/Bbl) | 41.60 | 61.06 |
| Natural gas (\$/Mcf) | 4.16 | 8.14 |

During 2009, as compared to 2008, the light oil price decreased by 38%, the heavy oil price decreased by 30%, and the natural gas price decreased by 49%.

Crude Oil Prices

| Year ended December 31 | 2009 | | 2008 | |
|------------------------------|---------|--------|---------|--------|
| | \$000s | \$/Bbl | \$000s | \$/Bbl |
| Crude oil | 110,978 | 59.01 | 231,149 | 91.89 |
| Realized financial contracts | (6,750) | (3.59) | 3,621 | 1.44 |
| Transportation | (1,954) | (1.04) | (2,832) | (1.13) |
| Net crude oil | 102,274 | 54.38 | 231,938 | 92.20 |

Natural Gas Prices

| Year ended December 31 | 2009 | | 2008 | |
|------------------------------|---------|--------|---------|--------|
| | \$000s | \$/Mcf | \$000s | \$/Mcf |
| Natural gas | 93,435 | 4.16 | 175,650 | 8.14 |
| Realized financial contracts | 13,814 | 0.62 | - | - |
| Transportation | (6,132) | (0.27) | (5,705) | (0.27) |
| Net natural gas | 101,117 | 4.51 | 169,945 | 7.87 |

Performance by Property

Year ended December 31

| | 2009 | | | 2008 | | | 2009 Funds from operations ² |
|-------------------|-----------------------|--|--------------|-----------------------|--|--------------|--|
| | Average Production | Operating netbacks/ BOE ^{1,2} | | Average Production | Operating netbacks/ BOE ^{1,2} | | |
| | BOE/d | % | \$ | BOE/d | % | \$ | % |
| Eastern Montney | 4,012 | 25 | 14.33 | 3,818 | 22 | 33.60 | 23 |
| Kakut | 2,590 | 16 | 17.49 | 697 | 4 | 31.43 | 18 |
| Eaglesham | 2,308 | 14 | 15.93 | 3,334 | 19 | 41.59 | 14 |
| Puskwa | 1,996 | 13 | 28.11 | 2,573 | 15 | 57.71 | 22 |
| Alexis / St. Anne | 1,084 | 7 | 11.62 | 1,198 | 7 | 35.45 | 5 |
| Culp / Kimiwan | 695 | 4 | 24.72 | 803 | 5 | 60.09 | 7 |
| Edam | 577 | 4 | 19.02 | 1,174 | 7 | 24.73 | 4 |
| Other | 2,714 | 17 | 7.23 | 3,619 | 21 | 34.68 | 7 |
| Total | 15,976 | 100 | 16.03 | 17,216 | 100 | 39.65 | 100 |

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

² See "Non-GAAP Measurements".

Daily production for the year averaged 15,976 BOE/d, a decrease of 7% compared to 17,216 BOE/d in 2008. This drop in production volumes was due to a dramatically reduced capital spending program in 2009 of \$97.6 million (net of dispositions) as compared to \$291.1 million in 2008 (including property acquisitions) in response to the global recession and reduced commodity pricing. The majority of spending in 2009 was focused on resource projects that have repeatability, predictability and size. Galleon had its best development year ever, adding production at an estimated average cost of \$25,000/BOE. Operating netbacks in 2009 were lower on all properties primarily because of lower commodity prices.

Even with the reduced drilling budget Galleon was able to advance its Eastern and Central Montney resource projects, as well as identify and test a number of light oil resource plays. Of particular mention is the Doig light oil play. During 2009 Galleon successfully drilled 5 Doig horizontal wells with multi-staged fractures. Galleon's current acreage position is 53 sections (average 83% interest) within the mapped fairway.

The Eastern Montney natural gas project continues to represent a significant resource to Galleon and is still the largest producing area, contributing 23% to total funds from operating activities in 2009 based on 25% of production volumes. Production averaged 4,012 BOE/d (89% natural gas and 11% oil and liquids) during 2009 compared to 3,818 BOE/d in 2008.

Galleon followed up its first successful year of Eastern Montney horizontal wells in 2008 (24 (23.6 net) wells) by drilling another 15 (14.6 net) horizontal multi-fractured wells in 2009. Production data continues to show that the horizontal wells have much higher initial rates than the early vertical wells, making them much more cost efficient and economic. In Q4 2009, Galleon also completed the installation of its first field booster compression facility, enabling the removal of liquids from the gathering system and lowering well flowing pressures significantly. This has optimized and increased production from the existing producing wells in the gathering system, as well as opened up further capacity in the pipelines for future horizontal drilling. Based on the success of this project approximately 2 Mmcf/d of backed out production has been placed back on production. Galleon plans to evaluate a second booster compression facility in 2010 to continue to optimize this extensive gas fairway.

The Kakut property was Galleon's largest growth area in 2009, averaging 2,590 BOE/d compared to 697 BOE/d in 2008, an increase in volumes of 272%. Galleon has expanded the Kakut gas plant capacity twice in the past two years in anticipation of continued growth. The development activity in this property is essentially divided into two main groups: the Central Montney gas fairway and the emerging Doig light oil resource play.

In 2009 Galleon has successfully proven up a new light (39 API gravity) sweet oil resource that targets the Doig formation. The Doig is a laterally continuous sandstone with thickness and reservoir characteristics very similar to the Cardium and Bakken formations. Galleon drilled its first Doig horizontal oil well in November 2008. This well has produced approximately 20,000 BOE to date. Galleon has further delineated this resource with five horizontal wells in 2009 and four in Q1 2010. This first well was a short horizontal in that the lateral was only 400 meters in length. The well had stabilized production of 50 BOE/d over the year. Three of the wells drilled were step-out delineation wells designed to confirm the size of the pool. These wells, also short laterals to minimize cost, performed similar to the first well. The other three wells had longer laterals and much better performance.

The optimal length appears to be 1,100 to 1,200 meters with 11 to 12 stages of fractures. Galleon has drilled two wells of this type. Both wells had production rates of over 1,000 BOE/d in the initial 48 hour flow back period, but are expected to stabilize in the 150 BOE/d range. Two wells are shut-in awaiting tie-in and the other four wells are producing at a combined rate of approximately 420 BOE/d.

The Doig fairway is a "subcrop" play similar to the Pekisko and has significant aerial extent. Galleon's horizontal drilling to date has confirmed production from an area 4 miles wide by 8 miles long. However, over 40 old vertical wells with by passed pay in them confirm the regional trend to be greater than 40 miles long. Galleon has tied up 53 sections (average 83% interest) and will attempt to add to this number through Crown sales and farm-ins. Over 200 horizontal drilling locations have been identified (assuming 4 wells per section). Based on the significant production upside estimated for this resource, Galleon plans to expand the capacity of its current oil battery to handle up to 5,000 BOE/d. Up to 30 Doig horizontal wells are planned for 2010.

Production at Eaglesham averaged 2,308 BOE/d, down 31% from 3,334 BOE/d in 2008. Production is comprised of 74% natural gas and 26% oil and liquids. This decrease in volumes was due to high decline rates from water influx on the deep Wabamun oil wells and a shallow Cretaceous gas pool. These factors, coupled with a reduced capital budget for these types of prospects in 2009, did not allow the replacement of the production decline in Eaglesham. Eaglesham contributed 14% of the 2009 funds from operations from 14% of production volumes.

The development of the Montney play in Eaglesham will continue to be the main focus in this area. Currently over 5 Mmcf/d is being produced from 3 different Montney horizons, while a further two zones have been tested and are planned to be brought on production upon re-licensing of the Eaglesham gas plant to higher sulphur emissions in early 2010. Up to 2 horizontal Montney wells are planned in 2010.

Puskwa production averaged 1,996 BOE/d in 2009, a decrease of 22% compared to 2008. The decline can be attributed to a number of factors, including the conversion of oil wells to water injection, a reduced capital budget with only three new wells drilled, and natural decline from the existing producers. During 2009, Puskwa contributed 22% of funds from operations from 13% of the production volumes, due to the strength of its strong netback for light sweet crude. Average production volumes at Puskwa during 2009 were comprised of 86% oil and 14% associated gas.

The Puskwa project continues to be in the development stage with the operation of two enhanced recovery schemes. Galleon plans to continue to optimize these schemes in 2010, and has immediate plans to convert three more wells to water injection. Over 425 BOE/d of production has been added from two recently drilled wells. Approval for down spacing to 2 wells per quarter section has been

received on 6 sections, and the pace of drilling and development will be largely dictated by commodity prices in 2010.

The Alexis / St. Anne properties generated 5% of funds from operations from 7% of total production for the year. A key focus in 2009 in this area was optimization of operations. Galleon plans to continue to work with area partners to increase the volume of injected water into the Alexis pool which is anticipated to enhance the existing waterflood. The level of drilling activity will be dictated by commodity prices.

The Culp/Kimiwan light oil properties contributed 7% of funds from operations in 2009 based on 4% of production volumes due to high netbacks on this property.

The Edam area average production of 577 BOE/d decreased by 51% in 2009 from 2008. The heavy oil wells located at Edam, Saskatchewan generated 4% of funds from operations from 4% of total production. Minimal amounts of capital were invested in 2009 at Edam. Current production levels remain stable at approximately 550 BOE/d.

Production from the North Peace River Arch area, included in Other in the above table, averaged 1,030 BOE/d in 2009. This area represented 2% of funds from operations in 2009 based on 6% of production. In 2009, development activities were largely limited to re-completions of existing wellbores, but further drilling in 2010 is planned in a number of different properties within this area to test some exciting new play concepts.

Royalties

| Year ended December 31 | 2009 | 2008 |
|-------------------------------|---------------|---------------|
| (\$000s, except as indicated) | | |
| Crown | 48,504 | 79,072 |
| Freehold | 2,299 | 1,600 |
| GORR and other | 4,229 | 6,045 |
| Gross royalties | 55,032 | 86,717 |
| GCA | (22,320) | (15,595) |
| Net royalties | 32,712 | 71,122 |
| % of revenue | 25.8 | 20.7 |
| % of revenue net of GCA | 15.3 | 17.0 |

Gross royalties were 25.8% of revenues for the year ended December 31, 2009, compared to 20.7% in 2008. By product, for the year ended December 31, 2009, gross royalties were 27.7% for light oil, 23.9% for natural gas, 21.7% for heavy oil, and 35.5% for liquids. For the year ended December 31, 2008, gross royalties were 16.9% for light oil, 23.7% for natural gas, 21.5% for heavy oil, and 29.6% for liquids.

The royalty rates for light oil and liquids increased during 2009 mainly due to the implementation of the New Royalty Framework (“NRF”) in Alberta on January 1, 2009. The Corporation also saw a reduction in the number of light oil wells qualifying for a royalty holiday. The \$6.7 million increase in GCA in 2009 relates primarily to adjustments from the 2008 production year.

Under the Drilling Royalty Credit (“DRC”) incentive program the Alberta Government will apply up to \$200 per meter for wells spud during the period April 1, 2009 to March 31, 2011 against net crown royalties payable. As at December 31, 2010, the Corporation had recorded drilling credits of \$11.5 million as a reduction of property and equipment.

Operating Costs

Year ended December 31

| | 2009 | | | 2008 | | |
|-------------------|------------|-----------------|-------------|------------|-----------------|--------------|
| | Production | Operating Costs | | Production | Operating Costs | |
| | % | % | \$/BOE | % | % | \$/BOE |
| Eastern Montney | 25 | 18 | 6.95 | 22 | 12 | 6.49 |
| Kakut | 16 | 5 | 3.10 | 4 | 3 | 9.38 |
| Eaglesham | 14 | 11 | 7.50 | 19 | 14 | 8.40 |
| Puskwa | 13 | 7 | 5.36 | 15 | 10 | 8.08 |
| Alexis / St. Anne | 7 | 11 | 15.96 | 7 | 6 | 10.47 |
| Culp / Kimiwan | 4 | 8 | 18.41 | 5 | 9 | 24.05 |
| Edam | 4 | 7 | 19.38 | 7 | 16 | 28.72 |
| Other | 17 | 33 | 18.50 | 21 | 30 | 16.97 |
| Total | 100 | 100 | 9.73 | 100 | 100 | 12.03 |

Operating costs decreased by 19% to \$9.73/BOE in 2009 from \$12.03/BOE for 2008. Galleon's operating costs per barrel of oil equivalent excluding operating costs from the heavy oil properties were \$8.63/BOE in 2009. Operating expenses on Galleon's four major properties averaged \$5.86/BOE in 2009, comprising 68% of total production.

In the Eastern Montney natural gas project, operating costs were \$6.95/BOE in 2009 compared to \$6.49 in 2008. Due to increased production in 2009, capacity was limited for this area for third party production resulting in reduced facility income. Operating cost increases for this area were related to higher property taxes, fluid handling and equipment rentals. Eastern Montney continues to be one of the Corporation's low cost producing properties.

Galleon expanded the Kakut gas plant capacity twice in the past two years. The initial expansion was completed in Q4 2008 and the second expansion was completed in Q3 2009. These expansions allowed behind pipe volumes to be brought on production. The increase in production volumes significantly lowered operating costs per BOE.

The decrease in operating costs in 2009 at Eaglesham was mainly due to lower equipment rentals and fuel costs, resulting from the electrification of the plant and wellsites. On a per BOE basis, the reduction in costs was partially offset with the reduction in production volumes.

Operating costs at Puskwa were \$2.70 /BOE lower in 2009 as compared to 2008. Operating expenses were higher in the first half of 2008 due to the expansion of waterflood operations which resulted in higher water trucking, pump equipment, maintenance and rentals. These costs were largely eliminated in mid 2008 with the installation of an injection skid at the plant and upgrading water pipeline capacity. An increase in third party production in 2009 resulted in a 175% increase in facility income therefore reducing net operating costs for 2009. Monthly operating costs were stable in 2009 and are expected to remain stable in 2010.

General and Administration Expenses

| Year ended December 31 | 2009 | | 2008 | |
|------------------------|---------------|-------------|---------------|-------------|
| (\$000s) | | \$/BOE | | \$/BOE |
| Gross | 20,616 | 3.54 | 19,838 | 3.15 |
| Capitalized overhead | (3,046) | (0.52) | (4,792) | (0.76) |
| Overhead recoveries | (1,659) | (0.29) | (1,720) | (0.27) |
| | 15,911 | 2.73 | 13,326 | 2.12 |

Gross general and administrative expenses (“G&A”) increased by \$0.8 million in 2009. The increase relates primarily to higher salary and employee expenses, reflecting a full year of higher staffing levels which had increased during 2008 in order to manage the growth of the Corporation. Capitalized overhead was \$0.24 per BOE lower in 2009 due to reduced capital spending in 2009 compared to 2008.

| G&A by category | Year ended December 31 | |
|------------------------------|-------------------------------|-------------|
| | 2009 | 2008 |
| | % | % |
| Salary and employee | 52 | 48 |
| Office | 21 | 24 |
| Consulting | 7 | 9 |
| Computer | 7 | 6 |
| Audit, engineering and legal | 9 | 8 |
| Other | 4 | 5 |
| | 100 | 100 |

Interest

Interest expense was \$9.2 million in 2009, compared to \$11.1 million in 2008. The \$1.9 million decrease resulted from lower interest rates. The effective interest rate during 2009 was 3.8% (2008 – 4.8%). As at December 31, 2009 an amount of \$217.2 million was drawn against the Corporation’s credit facilities compared to \$249.0 million at December 31, 2008.

Stock Based Compensation

Stock based compensation was a non-cash expense of \$6.1 million in 2009 compared to \$7.7 million in 2008, a \$1.6 million decrease. The expense decreased due to vesting period expiries and the November 2008 change to the share option plan vesting. These reductions were partially offset by the expense booked on the surrender of share options for cancellation in 2009.

During the year 5.5 million stock options, granted at an average exercise price of \$6.26 per share, had fair values between \$1.18 and \$2.61 per option. In the third quarter of 2009, 5.1 million share options were surrendered to the Corporation for cancellation.

At December 31, 2009 6,733,834 stock options were outstanding at an average exercise price of \$6.08 per share.

Depletion, Depreciation and Accretion

Depletion and depreciation (“D&D”) charges were \$127.9 million or \$21.94/BOE for the year ended December 31, 2009 compared to \$137.2 million or \$21.77/BOE in the prior year. Reserve additions for 2009 were estimated by an independent third party qualified reserves evaluator. Gross proved reserves were unchanged from 2008.

Capital expenditures of \$86.6 million (\$108.4 million – December 31, 2008) related to undeveloped land, seismic and equipment under construction have been excluded from the depletion and depreciation calculation and \$199.7 million (\$173.1 million – December 31, 2008) of future development costs have been added.

Accretion expense on the Corporation’s asset retirement obligation of \$2.7 million for the year increased from an expense of \$2.3 million in the prior year.

Capital and Future Taxes

The current tax provision of \$0.4 million (2008 - \$1.1 million) was related to Saskatchewan capital and resource tax and was based upon revenues earned in Saskatchewan. A future income tax recovery of \$15.5 million was recorded in 2009 on a loss before tax of \$49.7 million. An income tax expense of \$30.6 million recorded in 2008 on earnings before tax of \$110.9 million. Galleon has estimated tax deductions of approximately \$625.0 million available at December 31, 2009.

Capital Expenditures

| | (\$000s) |
|--|------------------|
| Property & equipment balance at December 31, 2008 | 1,071,150 |
| Additions to property and equipment | 106,095 |
| Disposition of property and equipment | (8,801) |
| Acquisitions of property and equipment | 350 |
| Asset retirement obligation additions | 1,909 |
| Asset retirement obligation dispositions | (1,685) |
| Depletion, depreciation and other | (127,878) |
| Property & equipment balance at December 31, 2009 | 1,041,140 |

| Year ended December 31 | 2009 | | 2008 | |
|---|----------------|------------|----------------|------------|
| (\$000s) | | % | | % |
| Land | 5,080 | 5 | 13,688 | 5 |
| Geological and geophysical | 2,688 | 3 | 11,827 | 4 |
| Drilling and completion | 60,067 | 56 | 177,123 | 65 |
| Plant and facilities | 38,199 | 36 | 69,764 | 26 |
| Other assets | 61 | - | 1,196 | - |
| Exploration and Development Expenditures | 106,095 | 100 | 273,598 | 100 |

Exploration and development expenditures during 2009 were \$106.1 million. During the year the Corporation drilled 44 (41.2 net) wells, resulting in 27 (25.1 net) gas wells, 14 (13.5 net) oil wells, and 3 (2.6 net) D&A wells, for a success rate of 93%.

Facilities expenditures of \$38.2 million were incurred in 2009. Land and seismic expenditures totaled \$5.1 million and \$2.7 million, respectively, in 2009. In November 2009, management established an exploration and development capital budget of approximately \$160 million for 2010 depending upon levels of cash flow. The Corporation expects to substantially fund the 2010 capital program with cash flow and not with incremental bank debt.

Liquidity and Capital Resources

| December 31 | 2009 | 2008 |
|--|----------------|----------------|
| (\$000s) | | |
| Bank debt | 217,243 | 249,015 |
| Capital leases – long term | - | 1,541 |
| Working capital deficiency (excluding future income taxes and fair value of financial derivatives) | 9,616 | 31,890 |
| Total net debt | 226,859 | 282,446 |

Funding of Capital Program, Inventory and Cash Portion of Acquisitions

| Year ended December 31 | 2009 | 2008 |
|--|---------------|----------------|
| (\$000s) | | |
| Issuance of shares, net of costs | 51,086 | 11,644 |
| Funds from operations | 97,393 | 241,298 |
| Change in bank debt | (31,772) | 85,637 |
| Change in debt and working capital from acquisitions | - | (36,658) |
| Change in capital leases | (2,106) | (2,034) |
| Change in working capital and other | (22,990) | (675) |
| | 91,611 | 299,212 |

The Corporation has \$310 million in credit facilities available, consisting of a \$270 million extendible 364 day revolving term facility and a \$40 million non-revolving facility. The \$40 million facility is available subject to mutual approval of the banking syndicate and Galleon, including repayment terms. Collateral for the facilities consists of a demand debenture for \$500 million collateralized by a first floating charge over all of the property and equipment of the Corporation, excluding the capital lease. At December 31, 2009 an amount of \$217.2 million was drawn against the credit facilities (December 31, 2008 - \$249.0 million).

The facilities bear interest at the bank's prime or banker's acceptance rates plus a rate margin. The margins range from 2.0% per annum to 6.0% per annum, based upon the Corporation's debt to cash flow ratio. For the year ended December 31, 2009 the effective interest rate was 3.8% (December 31, 2008 - 4.8%).

An annual review is scheduled to occur on or before May 27, 2010. The level of the borrowing base will be determined by the bank syndicate based upon their review of, among other things, 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.

As at December 31, 2009, the Corporation is in compliance with all covenants, obligations and conditions of its Credit Agreement.

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

Sensitivity Analysis

The following table shows sensitivities to funds from operations as a result of fluctuations to product prices, production volumes and other market factors. The table is based on the base case budgeted 2010 prices and forecast 2010 average production volumes.

| Change to annual funds from operations | Change | \$000s | \$/share² |
|--|---------------|---------------|-----------------------------|
| Price per barrel of oil (US\$ WTI) ¹ | \$1.00 | 1,600 | 0.02 |
| Price per Mcf of natural gas (C\$ AEEO) ¹ | \$0.25 | 4,000 | 0.05 |
| Oil production volumes | 100 Bbl/d | 1,500 | 0.02 |
| Gas production volumes | 1 Mmcf/d | 700 | 0.01 |
| Exchange rate (US/Canadian) | \$0.01 | 1,200 | 0.01 |
| Interest rate on debt (\$220 Million) | 1% | 2,200 | 0.03 |

¹ After adjustment for estimated royalties.

² Based on basic shares outstanding at December 31, 2009.

Commitments

Minimum Lease Payments:

At December 31, 2009 the Corporation is committed to \$1.8 million in future minimum payments under operating leases for office space in 2010.

The Corporation has an equipment lease financing arrangement with annual minimum lease payments of \$1.6 million in 2010. The lease has an interest rate of 6.3 percent and the equipment purchase price at the end of the lease is \$1.0 million. A general security agreement and a first charge against the equipment have been provided as collateral.

Flow-through Shares:

In connection with the Corporation's flow-through share offering in 2009, Galleon is obligated to spend \$17,160,000 on qualifying exploration expenses prior to December 31, 2010. As at December 31, 2009 \$1.8 million of the required qualifying expenditures have been incurred.

Financial Instruments

Refer to the "Commodity Pricing and Marketing" section.

Fourth Quarter Results

| Three months ended December 31 | 2009 | | 2008 | |
|---|---------------|--------------|---------------|--------------|
| | 1,351,338 BOE | | 1,697,711 BOE | |
| (\$000s) | \$ | \$/BOE | \$ | \$/BOE |
| Revenues | 56,287 | 41.65 | 80,280 | 47.29 |
| Realized gain (loss) on financial derivatives | (2,159) | (1.60) | 26,796 | 15.78 |
| Other revenue | - | - | 105 | 0.06 |
| Royalties | (14,406) | (10.66) | (14,409) | (10.68) |
| GCA ¹ | 5,069 | 3.75 | 3,364 | 4.17 |
| Transportation costs | (1,797) | (1.33) | (2,366) | (1.39) |
| Operating costs | (12,582) | (9.31) | (20,704) | (12.20) |
| | 30,412 | 22.50 | 73,066 | 43.03 |
| General and administration | (4,430) | (3.28) | (4,019) | (2.37) |
| Interest costs | (3,063) | (2.27) | (2,599) | (1.53) |
| Capital and other taxes | (99) | (0.07) | (83) | (0.05) |
| Funds from operations² | 22,820 | 16.88 | 66,365 | 39.08 |

¹ GCA means Gas Cost Allowance

² See "Non-GAAP Measurements"

For the three months ended December 31, 2009 production decreased by 20% to 14,688 BOE/d from 18,453 BOE/d in the same period of the prior year. Revenues were 30% lower primarily due to the reduced production volumes and a lower gas price during the period.

Average production volumes for Q4 2009 were: light oil – 3,364 Bbl/d; heavy oil – 1,210 Bbl/d; natural gas – 57,752 Mcf/d; and NGLs – 489 Bbl/d. Excluding transportation and financial derivative contracts, natural gas prices averaged \$4.60/Mcf in Q4 2009, 34% lower than the \$6.97/Mcf received in Q4 2008. Excluding transportation and financial derivative contracts, oil prices averaged \$70.06/Bbl in Q4 2009, 23% higher than the \$57.12/Bbl realized in Q4 2008. The average light oil price received in Q4 2009 rose 18% to \$72.88/Bbl from \$61.69 /Bbl in the prior year. The average heavy oil price in Q4 2009 of \$62.23/Bbl was 58% higher than the \$39.36/Bbl received in the prior year.

In Q4 2009 certain properties were reclassified from light to heavy oil. Total 2009 production, reclassified in Q4, was 125,900 BOE (345 BOE/d). The 2008 production volumes similarly reclassified were 143 BOE/d.

The royalty rates for light oil and liquids increased in 2009 mainly due to the implementation of the NRF in Alberta on January 1, 2009. The Corporation also saw a reduction in the number of light oil wells qualifying for a royalty holiday. During Q4 2009, \$1.3 million was reclassified from royalties to GCA.

Operating costs were \$12.6 million or \$9.31/BOE for Q4 2009 compared to \$20.7 million or \$12.20/BOE for the prior year. This represents a decrease of 24% on a per unit basis. Galleon's

operating costs per barrel of oil equivalent, excluding the heavy oil operating costs were \$8.58/BOE for Q4 2009 and \$10.84/BOE in Q4 2008.

Net G&A expenses of \$4.4 million in Q4 2009 were 10% higher than Q4 2008. In Q4 2009 net G&A expenses were \$3.28/BOE, an increase of 38% compared to \$2.37/BOE in Q4 2008. Lower capital spending in Q4 2009 as compared to Q4 2008 resulted in reduced capitalized overhead.

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 continued 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. While the Corporation completed two equity financings in 2009, 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 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 sum of the discounted cash flows expected from the production of proved and probable reserves 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.

Section 3862, "Financial Instruments - Disclosures" was amended for annual financial statements relating to fiscal years ending after September 30, 2009. The amendment requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The new disclosure required by section 3862 concerning the nature and extent of the risks associated with the financial instruments, and how those risks are managed, is presented in note 12 of the financial statements.

Future Accounting Policies

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

The Corporation has commenced the conversion project which consists of the following phases: 1) initial diagnostic and planning, 2) impact analysis and evaluation, and 3) implementation and review. The Corporation has completed the initial diagnostic and planning phase which included identifying major differences between current Canadian GAAP and IFRS. The impact analysis and evaluation is in progress.

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

In July 2009, the International Accounting Standards Board (IASB) issued an amendment to IFRS 1 "First Time Adoption of International Reporting Standards." The amendment allows full cost accounting corporations to elect, at the time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP. The amendment will also permit full cost accounting corporations to measure, at the time of adoption, oil and gas assets in the development or production phases, by using the total value determined under the entity's previous GAAP and allocating values at the unit of account level based on the Corporation's reserve volumes or reserve values as of the date of conversion. This exemption will relieve the Corporation from retrospective application of IFRS

for its oil and gas assets. The Corporation currently anticipates that this exemption will be used, however, this will not be determined until the impact analysis and evaluation phase of the conversion project is complete.

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

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

Controls and Procedures

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

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

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

Share Information

The following table summarizes the outstanding shares of Galleon as of December 31:

| | 2009 | 2008 |
|----------------------------|------------|------------|
| Class A shares outstanding | | |
| Basic | 85,090,883 | 75,170,733 |
| Diluted ¹ | 85,090,883 | 76,747,483 |

¹ Includes no options at December 31, 2009 (December 31, 2008 – 1,576,750).

At December 31, 2009, the market value of Galleon's Class A shares was \$448.4 million based on the December 31, 2009 closing price of \$5.27 per Class A share. As of March 10, 2010, the number of Class A shares and options outstanding are 85,099,883 and 7,291,834 respectively.

The Toronto Stock Exchange has accepted Galleon's Notice of Intention (the 'Notice') to commence a Normal Course Issuer Bid (the 'Bid') to purchase in the open market for cancellation from time to time as Galleon considers advisable, up to 1,000,000 Class A Shares of Galleon. The Bid commenced on December 1, 2009 and will terminate on November 30, 2010 or such earlier time as the Bid is completed or terminated at the option of Galleon. Copies of the Notice are available to shareholders of Galleon from Galleon upon request and with charge.

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

After a review of the extensive depth of its 1,000 well prospect inventory, the spending required to advance these projects and its cost of capital, among other matters, the Corporation's board of directors has initiated a process to identify and consider strategic alternatives with a view to enhancing shareholder value. Strategic alternatives may include, but are not limited to, sale of the corporation, merger or other business combination, a sale of a material portion of Galleon's assets, farmin or farmout or acquisition, among other alternatives.

Galleon continues to trade at a substantial discount to its net asset value despite having a major land position in the heart of the prolific Peace River area of northwest Alberta, ample resource play drilling opportunities for light oil and Montney gas and ownership of extensive gathering and processing infrastructure. The board of directors has determined that it is an appropriate time to assess strategic options.

The strategic review process was initiated to review alternatives to enhance value for shareholders. The high cost of capital due to a stock price well below net asset value has limited the speed Galleon can develop and enhance its current assets. While a significant producing and exploration company has been created, continued access to capital markets at a competitive cost is required to realize value in a timely manner on captured opportunities.

Galleon's initial public offering was in October 2003 with an equity issuance of \$10.25 million, and over the last six years, we have assembled in excess of 1 million gross acres of land, a drilling inventory of 1,000 locations primarily located in the Peace River area of Alberta. Proven plus probable reserves of 84.6 million BOE, with a reserve life of 15.8 years based on Q4 2009 production, have been booked. Owned facilities with capacity of approximately 150 Mmcf/d and 35,000 BOE/d have been built. Large resource plays, the Doig and the Montney, have been captured.

Production levels in the first years grew through exploration and conventional assets. Approximately 80% of this production growth was delivered through the drilling program. The transition to resource play assets, having low decline, large size, predictable, multi-year drilling, is in progress.

Now we have reached a fork in the road and may elect to move the Corporation's high quality asset base over to a company which is better positioned to realize on them, we may pursue another type of transaction or we may go forward as a stand alone vehicle.

Quarterly Highlights

| | 2009 | | | | 2008 | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Production | | | | | | | | |
| Light oil (Bbl/d) | 3,364 | 3,872 | 4,024 | 4,447 | 5,199 | 4,861 | 4,665 | 5,452 |
| Heavy oil (Bbl/d) | 1,210 | 1,281 | 1,198 | 1,227 | 1,338 | 1,618 | 2,030 | 2,338 |
| Natural Gas (Mcf/d) | 57,752 | 57,012 | 61,733 | 69,632 | 67,875 | 61,329 | 53,971 | 52,644 |
| Liquids (Bbl/d) | 489 | 561 | 565 | 687 | 604 | 499 | 501 | 441 |
| BOE/d | 14,688 | 15,216 | 16,076 | 17,965 | 18,453 | 17,200 | 16,191 | 17,005 |
| Total BOE produced | 1,351,338 | 1,399,847 | 1,462,922 | 1,616,979 | 1,697,711 | 1,582,369 | 1,473,414 | 1,547,476 |
| Daily BOE of production per million Class A shares – basic | 174 | 184 | 211 | 239 | 250 | 236 | 229 | 254 |
| Prices (prior to realized gains or losses on financial contracts and prior to transportation) | | | | | | | | |
| Light oil (\$/Bbl) | 72.88 | 67.12 | 61.39 | 47.53 | 61.69 | 118.51 | 122.87 | 95.15 |
| Heavy oil (\$/Bbl) | 62.23 | 57.27 | 51.54 | 33.65 | 39.36 | 96.48 | 89.39 | 63.76 |
| Crude oil (\$/Bbl) | 70.06 | 64.67 | 59.13 | 44.53 | 57.12 | 113.01 | 112.64 | 85.79 |
| Natural Gas (\$/Mcf) | 4.60 | 3.16 | 3.61 | 5.13 | 6.97 | 8.00 | 9.92 | 7.98 |
| NGLs (\$/Bbl) | 52.06 | 43.87 | 39.23 | 34.07 | 42.76 | 73.16 | 71.19 | 61.02 |
| Per BOE (\$) | | | | | | | | |
| Revenues | 41.65 | 35.36 | 34.43 | 35.24 | 47.29 | 73.20 | 81.85 | 65.60 |
| Royalties, net of ARTC and GCA | (6.91) | (7.10) | (2.11) | (6.40) | (6.51) | (13.13) | (14.29) | (11.79) |
| Transportation costs | (1.33) | (1.41) | (1.41) | (1.45) | (1.39) | (1.35) | (1.64) | (1.04) |
| Operating costs | (9.31) | (9.32) | (9.43) | (10.70) | (12.20) | (11.95) | (12.71) | (11.28) |
| Net | 24.10 | 17.53 | 21.48 | 16.69 | 27.19 | 46.77 | 53.21 | 41.49 |
| Other revenue | - | - | 0.05 | 0.42 | 0.06 | 0.07 | 0.07 | 0.08 |
| G&A | (3.28) | (2.47) | (2.62) | (2.60) | (2.37) | (2.05) | (2.51) | (1.53) |
| Interest | (2.27) | (2.05) | (1.16) | (0.98) | (1.53) | (1.74) | (2.02) | (1.81) |
| Capital and other taxes | (0.07) | (0.07) | (0.11) | (0.04) | (0.05) | (0.18) | (0.24) | (0.22) |
| Realized gain (loss) on financial derivative | (1.60) | 0.50 | 2.58 | 2.68 | 15.78 | (6.00) | (7.00) | (2.18) |
| Funds from operations¹ | 16.88 | 13.44 | 20.22 | 16.17 | 39.08 | 36.87 | 41.51 | 35.83 |

¹See "Non-GAAP Measurements"

| Quarterly Highlights | 2009 | | | |
|---|------------------|------------------|------------------|------------------|
| | Q4 | Q3 | Q2 | Q1 |
| Financial (\$000s) | | | | |
| Revenues | 56,287 | 49,497 | 50,373 | 56,987 |
| Operating costs | (12,582) | (13,045) | (13,790) | (17,297) |
| General & Administrative expenses | (4,430) | (3,453) | (3,827) | (4,201) |
| Interest expense | (3,063) | (2,876) | (1,702) | (1,585) |
| Funds from operations¹ | 22,820 | 18,818 | 29,605 | 26,150 |
| Per share, basic ¹ | 0.27 | 0.23 | 0.39 | 0.35 |
| Per share, diluted ¹ | 0.27 | 0.23 | 0.39 | 0.35 |
| Earnings (loss) | (5,654) | (1,815) | (22,012) | (5,091) |
| Per share, basic | (0.07) | (0.02) | (0.29) | (0.07) |
| Per share, diluted | (0.07) | (0.02) | (0.29) | (0.07) |
| Total assets | 1,136,732 | 1,127,665 | 1,141,506 | 1,158,329 |
| Weighted average outstanding Class A shares-basic | 84,325,666 | 82,890,883 | 76,040,581 | 75,231,828 |
| Weighted average outstanding Class A shares-diluted | 84,325,666 | 82,890,883 | 76,040,581 | 75,231,828 |

| Quarterly Highlights | 2008 | | | |
|---|------------------|------------------|------------------|----------------|
| | Q4 | Q3 | Q2 | Q1 |
| Financial (\$000s) | | | | |
| Revenues | 80,280 | 115,835 | 120,602 | 101,516 |
| Operating costs | (20,704) | (18,917) | (18,726) | (17,460) |
| General & Administrative expenses | (4,019) | (3,238) | (3,698) | (2,371) |
| Interest expense | (2,599) | (2,759) | (2,977) | (2,803) |
| Funds from operations¹ | 66,365 | 58,331 | 61,157 | 55,445 |
| Per share, basic ¹ | 0.90 | 0.80 | 0.86 | 0.83 |
| Per share, diluted ¹ | 0.90 | 0.79 | 0.84 | 0.81 |
| Earnings | 25,113 | 38,061 | 5,673 | 10,417 |
| Per share, basic | 0.34 | 0.52 | 0.08 | 0.16 |
| Per share, diluted | 0.34 | 0.51 | 0.08 | 0.15 |
| Total assets | 1,181,003 | 1,121,339 | 1,070,765 | 975,911 |
| Weighted average outstanding Class A shares-basic | 73,710,516 | 72,938,357 | 70,741,901 | 67,034,895 |
| Weighted average outstanding Class A shares-diluted | 74,032,935 | 73,955,365 | 72,575,607 | 68,630,474 |

¹See "Non-GAAP Measurements".