GALLEON ENERGY INC.

Q3

INTERIM REPORT 2006

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Report to Shareholders

Solid financial and operating results were recorded in the third quarter of 2006 with average daily production of 9,420 Boe generating funds from operations of $21.2 million and earnings of $2.2 million.

The drilling program delivered significant results and advanced the development of the key projects: Puskwa light sweet oil, Dawson Montney gas and Eaglesham liquids rich natural gas. Thirty seven wells were drilled in the quarter with 35 cased for production including 24 (19.0 net) natural gas wells and 11 (9.5 net) oil wells. This success rate of 95% is attributable to our technical staff's expertise and to the quality of the projects.

PUSKWA LIGHT SWEET OIL

At Puskwa, a third major light sweet oil well was announced in September 2006. In early October, Galleon completed two additional major wells including the first horizontal re-entry well. To date, five major wells have been completed with net tested capacity exceeding 9,200 Boe/d.

Galleon has implemented two drilling technologies at Puskwa: horizontal drilling and horizontal re-entry drilling. These horizontal technologies are being used to increase productivity and to increase allowable production by up to two to three times the maximum allowable rate assigned by the EUB to a vertical well. Subsequent to the third quarter 2006, a second horizontal well was cased and a third horizontal well is currently drilling. Three additional horizontal wells and one vertical well are scheduled to be drilled in fourth quarter 2006.

Galleon's 2007 Puskwa drilling program has been designed to further delineate the boundaries of this large oil pool. A resource study is underway to evaluate the reserves in place and to identify optimum recovery methods. This study, further delineation drilling, and approval of Good Production Practice by the Alberta government will allow for maximization of value of this outstanding pool.

DAWSON MONTNEY GAS

To September 30, 2006, Galleon has drilled 48 wells in the Montney natural gas project with a 98% success rate. Forty-seven (42.0 net) wells have been cased with current production between 13 and 14 MMcf/d and approximately 8 MMcf/d of production capacity awaiting tie in. The existing natural gas plant is scheduled to be expanded to 30 MMcf/d before year end 2006. In the fourth quarter of 2006, up to 15 wells will be drilled.

Galleon has identified over 150 locations in eight separate large gas pools in the Montney project. Land access exceeds 385,000 gross acres (602 sections). The majority of the wells will payout within one year at current natural gas prices. An evaluation is in progress to determine probable and possible reserves and their value to Galleon.

EAGLESHAM LIQUIDS RICH NATURAL GAS

Two important multi zone discovery wells, one natural gas and one light oil, were announced at Eaglesham in third quarter 2006. The 10 MMcf/d natural gas plant came on stream in August 2006. This plant was further expanded to 15 MMcf/d in October 2006. Due to the continued success of the drilling program, three to five additional wells will be drilled in fourth quarter 2006 targeting the Dunvegan to Banff formations.

Exit 2006 production is targeted to be between 13,500 and 15,500 Boe/d. With Galleon's significant land position in the Peace River Arch and over 300 quality drilling locations, Galleon expects to exit 2007 with daily production ranging between 17,000 and 21,000 Boe/d.

In order to ensure that Galleon is well positioned financially to execute the business plan, further equity is necessary. Therefore in October 2006, Galleon announced an equity issuance of 1.8 million Class A shares, of which 0.8 million Class A shares will be issued on a flow through basis, for gross proceeds of $40 million with closing scheduled for November 16, 2006. In addition, Galleon's credit facilities have been increased to $170 million subject to completion of documentation.

We are extremely pleased with the results and looking forward to further reporting on our drilling program.

Glenn R. Carley
Executive Chairman
November 9, 2006

Steve Sugianto
President and Chief Executive Officer

Management's Discussion and Analysis

This Management's Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Galleon Energy Inc. ("Galleon" or the "Corporation") for the three and nine month periods ended September 30, 2006 with comparisons to the three and nine month periods ended September 30, 2005. The MD&A has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the unaudited interim financial statements as at and for the three and nine month periods ended September 30, 2006 and 2005 and the audited financial statements and MD&A for the year ended December 31, 2005.

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.

This MD&A is based on information available as of, and is dated, November 9, 2006.

Additional information relating to Galleon, including Galleon's Annual Information Form for the year ended December 31, 2005, may be found on the SEDAR website www.sedar.com or the Corporation's website www.galleonenergy.com

NON-GAAP MEASUREMENTS

The MD&A contains terms commonly used in the oil and gas industry, such as funds flow from operations, funds flow per share, funds flow netback, and operating netback. These terms are not defined by Canadian generally accepted accounting principles ("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 flow 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 flow may not be comparable to that reported by other companies. The reconciliation between net earnings and funds from operations can be found in the Statements of Cash Flow. The Corporation calculates funds flow per share by dividing funds from operations by the weighted average number of Class A shares outstanding.

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

FORWARD-LOOKING STATEMENTS

Statements that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, growth expectations within the Corporation, expected production and production increases, expected growth areas, operating costs, the timing of construction and completion of facilities, drilling plans and the timing thereof, and capital expenditures, the timing thereof and the method of funding thereof, expected payout periods for certain wells, and expected closing of the announced equity offering. 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.

Readers are cautioned that the foregoing list of factors 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.

THIRD QUARTER 2006 HIGHLIGHTS

During the third quarter 2006 Galleon accomplished the following:

- Drilling success during the quarter was 95%, resulting in 35 wells cased for production.
- Two 10 MMcf/d natural gas plants were completed and brought on stream.
- Average daily production of 9,420 Boe/d increased by 17% compared to Q3 2005 and 10% from the prior quarter.
- Exploration and development expenditures of $80.1 million.
- Galleon increased its 2006 exploration and development capital budget to $250 million as a result of its recent drilling success.
- Funds from operations of $21.2 million ($0.39 per share).
- In aggregate, tested capacity of the light oil Puskwa wells exceeded 9,200 Boe/d (net to Galleon). This includes Galleon's first horizontal re-entry well at 8-5-72-26W5 which tested in excess of 5,000 Boe/d (2,500 Boe/d net to Galleon).

Subsequent to September 30, 2006 Galleon announced a public offering of Class A and flow-through Class A shares for gross proceeds of $40.0 million. Galleon also received bank approval to increase its credit facilities to $170 million.

RESULTS OF OPERATIONS

Galleon has achieved significant growth in 2006 led by growth of 54% in production volumes compared to the same period in 2005. This has been accomplished through successful exploration and development drilling and the exploitation of assets acquired at Dawson, Alberta and Edam, Saskatchewan in 2005. To September 30, 2006, Galleon's revenues have grown by 36% to $112.7 million and funds from operations have grown by 27% to $61.3 million compared to 2005. Gas prices have decreased by 19% year over year.

Galleon's technical expertise and consistent drilling success has resulted in reserve and production additions with low finding and development costs. Although the magnitude of Galleon's light oil discovery at Puskwa, Alberta is only partially reflected in the 2006 quarterly financial results, significant reserves value has been added.

Comparative financial results for the quarter are as follows:

	Q3 2006 866,646 Boe		*Q3 2005 741,917 Boe*	
	$	*$/Boe*	*$*	*$/Boe*
Gross revenues	**39,920,718**	**46.06**	44,505,716	59.99
Royalties	**(7,638,042)**	**(8.81)**	(9,865,136)	(13.30)
ARTC and GCA	**1,396,825**	**1.61**	1,192,479	1.61
Transportation costs	**(1,079,361)**	**(1.25)**	(1,214,249)	(1.64)
Operating costs	**(9,242,769)**	**(10.66)**	(5,178,675)	(6.98)
Net	**23,357,371**	**26.95**	29,440,135	39.68
Other revenue	**2,454**	**–**	2,926	–
G&A	**(692,234)**	**(0.80)**	(1,170,638)	(1.58)
Interest costs	**(1,202,060)**	**(1.39)**	(668,167)	(0.90)
Capital and other taxes	**(287,364)**	**(0.33)**	(279,756)	(0.38)
Funds from operations	**21,178,167**	**24.43**	27,324,500	36.82

For the three months ended September 30, 2006 production increased 17% to 9,420 Boe/d compared to the same period of the prior year. Galleon realized lower royalty rates and lower general and administrative costs ("G&A") per barrel of oil equivalent in the quarter, compared with Q3 2005. Funds from operations of $21.2 million ($0.39 per share) decreased by 22% from $27.3 million ($0.57 per share) in Q3 2005 as a result of lower natural gas prices and higher operating costs per barrel of oil equivalent. The operating netback of $26.95/Boe is 32% lower than $39.68/Boe in the same period in 2005. Funds from operations of $24.43/Boe is 34% lower than $36.82/Boe in the same period of 2005.

	YTD 2006 2,420,216 Boe		YTD 2005 1,570,338 Boe	
	$	$/Boe	$	$/Boe
Gross revenues	112,667,235	46.55	83,060,609	52.89
Royalties	(23,479,044)	(9.70)	(19,436,686)	(12.38)
ARTC and GCA	5,967,020	2.47	1,885,677	1.20
Transportation costs	(3,134,993)	(1.30)	(2,395,298)	(1.52)
Operating costs	(24,024,221)	(9.93)	(9,493,789)	(6.05)
Net	67,995,997	28.09	53,620,513	34.14
Other revenue	3,027	–	25,298	0.02
G&A	(2,920,036)	(1.21)	(2,949,485)	(1.88)
Interest costs	(3,040,071)	(1.26)	(1,646,496)	(1.05)
Capital and other taxes	(744,812)	(0.31)	(632,046)	(0.40)
Funds from operations	61,294,105	25.31	48,417,784	30.83

For the nine months ended September 30, 2006 production increased 54% to 8,865 Boe/d compared to the same period of the prior year. Galleon realized lower royalty rates and lower G&A per barrel of oil equivalent compared to the same period in 2005. Funds from operations of $61.3 million ($1.17 per share) increased by 27% from $48.4 million ($1.14 per share) in the same period in 2005. The increase is attributed to production increases. The operating netback of $28.09/Boe is 18% lower than $34.14/Boe in 2005 due to lower natural gas prices and higher operating costs per barrel of oil equivalent. Funds from operations of $25.31/Boe is 18% lower than $30.83/Boe in the same period of 2005.

PETROLEUM AND NATURAL GAS REVENUES

	Q3 2006		Q3 2005	
	$	%	$	%
Light oil	**12,856,212**	**32**	15,424,049	35
Heavy oil	**8,644,350**	**22**	4,755,607	11
NGLs	**656,132**	**2**	370,682	1
Natural gas	**17,620,169**	**44**	23,762,432	53
Royalty income	**143,855**	**–**	192,946	–
Gross revenues	**39,920,718**	**100**	44,505,716	100

	YTD 2006		YTD 2005	
	$	%	$	%
Light oil	**36,200,179**	**32**	27,410,482	33
Heavy oil	**19,014,253**	**17**	6,977,330	8
NGLs	**1,735,672**	**2**	622,194	1
Natural gas	**55,247,075**	**49**	47,706,103	58
Royalty income	**470,056**	**–**	344,500	–
Gross revenues	**112,667,235**	**100**	83,060,609	100

Petroleum and natural gas revenues for the three months ended September 30, 2006 were $39.9 million, a decrease of 10% compared to $44.5 million in Q3 2005. The decrease is a result of lower natural gas prices. Natural gas prices decreased by 39% compared to the same period of the prior year. The overall price Galleon received per barrel of oil equivalent decreased to $46.06/Boe from $59.99/Boe in Q3 2005 as a result of lower natural gas prices. Galleon's revenues are most sensitive to changes in the price of natural gas as it comprises 59% of volumes sold and currently 44% of revenues.

Revenues for the nine months ended September 30, 2006 increased by 36% to $112.7 million from $83.1 million in the prior year due to a 54% increase in production volumes. Natural gas prices decreased by 19% year to date. The overall price Galleon received per barrel of oil equivalent decreased to $46.55/Boe from $52.89/Boe as a result of lower natural gas prices.

PRODUCT MIX ANALYSIS

	Q3 2006		Q3 2005		YTD 2006		YTD 2005	
	Boe/d	*%*	*Boe/d*	*%*	*Boe/d*	*%*	*Boe/d*	*%*
Light oil (Bbls/d)	**1,823**	**19**	2,214	27	**1,809**	**20**	1,431	25
Heavy oil (Bbls/d)	**1,984**	**21**	1,204	15	**1,760**	**20**	672	11
NGLs (Bbls/d)	**102**	**1**	71	1	**98**	**1**	43	1
Natural gas (Mcf/d)	**33,068**	**59**	27,452	57	**31,186**	**59**	21,636	63
Boe/d (6:1)	**9,420**	**100**	8,064	100	**8,865**	**100**	5,752	100

The 17% increase in production volumes for Q3 2006 compared to Q3 2005 is attributed to a 65% increase in heavy oil volumes and a 20% increase in natural gas volumes. The heavy oil production increases are a result of optimization techniques and minor workovers in the Saskatchewan area. The natural gas production increases are a result of Galleon's Montney gas drilling success in the Dawson area. During the quarter Galleon cased 18 (14.9 net) natural gas wells at Dawson. Galleon's 15 MMcf/d gas plant at Dawson is scheduled to be expanded to 30 MMcf/d in the fourth quarter of 2006 in anticipation of continued production growth in this area. Production of 9,420 Boe/d was less than expected in Q3 2006 as a result of unexpected shut-ins over a two week period by the national pipeline operator and delays in the completion of the two gas plants. Galleon's natural gas drilling success in other areas was brought on stream in mid-August with the completion of the Eaglesham and Puskwa 10 MMcf/d natural gas plants. Galleon's current production is on track with Q4 2006 guidance of 12,000 – 14,000 Boe/d. At Puskwa, Galleon is in the process of preparing its application for the removal of the EUB imposed production restrictions.

Production increased 54% for the nine months ended September 30, 2006 compared to the same period of the prior year as a result of a 162% increase in heavy oil production, a 44% increase in natural gas production, and a 26% increase in light oil production.

COMMODITY PRICING AND MARKETING

Prices (net of transportation costs)	*Q3 2006*	*Q3 2005*	*YTD 2006*	*YTD 2005*
Light oil ($/Bbl)	**75.65**	73.64	**72.27**	68.80
Heavy oil ($/Bbl)	**47.01**	48.19	**38.99**	36.04
Natural gas ($/Mcf)	**5.58**	9.13	**6.28**	7.79
NGLs ($/Bbl)	**69.83**	56.64	**64.63**	52.76

Petroleum products are sold to major Canadian marketers at spot reference prices based on US WTI for crude oil and AECO for natural gas. The Corporation had no hedge contracts in place during the quarter. Galleon has recently entered into a fixed price natural gas contract to deliver 5,000 GJ/d of natural gas at a price of CDN $7.51/GJ for the period November 1, 2006 to March 31, 2007.

Average natural gas prices of $5.58/Mcf received during the quarter were 39% lower than Q3 2005. For the nine months ended September 30, 2006 Galleon received average natural gas prices of $6.28/Mcf which is 19% lower than the comparative period of the prior year.

Galleon received average light oil prices during the quarter of $75.65/bbl, an increase of 5% compared to Q3 2005. For the nine months ended September 30, 2006 average light oil prices received of $72.27/bbl increased by 5% compared to the same period in 2005.

Average heavy oil prices of $47.01/bbl received during the quarter decreased 2% compared to Q3 2005. For the nine months ended September 30, 2006 Galleon received average heavy prices of $38.99/bbl, an increase of 8% compared to the same period in 2005.

PERFORMANCE BY PROPERTY

	Boe/d	%	*Q3 2006 Operating netbacks/ Boe [(1)]* $	Boe/d	%	*Q3 2005 Operating netbacks/ Boe [(1)]* $	*Q3 2006 Operating cash flow* %
Dawson	**5,235**	**56**	**26.32**	5,518	69	42.47	**58**
Calais	**1,747**	**18**	**37.11**	766	9	34.76	**27**
Saskatchewan (heavy oil)	**1,985**	**21**	**14.18**	1,092	14	19.41	**12**
Other	**453**	**5**	**17.55**	688	8	36.14	**3**
Boe/d	**9,420**	**100**	**25.34**	8,064	100	38.07	**100**

	Boe/d	%	*YTD 2006 Operating netbacks/ Boe [(1)]* $	Boe/d	%	*YTD 2005 Operating netbacks/ Boe [(1)]* $	*Q3 2006 Operating cash flow* %
Dawson	**4,992**	**57**	**27.61**	3,843	67	37.68	**61**
Calais	**1,632**	**18**	**37.46**	618	11	28.46	**27**
Saskatchewan (heavy oil)	**1,760**	**20**	**10.05**	564	10	13.77	**8**
Other	**481**	**5**	**21.37**	727	12	26.59	**4**
Boe/d	**8,865**	**100**	**25.62**	5,752	100	32.95	**100**

[(1)] Operating netbacks/Boe exclude ARTC and GCA and are calculated by subtracting royalties and operating costs from revenues.

During the quarter the Dawson area continued to be the largest contributor to Galleon's operating cash flow, contributing 58% of total operating cash flow from 5,235 Boe/d of production (78% natural gas). Operating netbacks at Dawson have decreased as a result of lower natural gas prices. The impact of lower natural gas prices on the operating net backs was $21.06/Boe in the quarter. Holding gas prices constant, Galleon would have realized a higher operating netback compared to the prior year. This is indicative of the efficiencies Galleon has gained over the year.

The Calais area contributed 27% of Q3 2006 operating cash flow from 18% of total production. Strong operating netbacks of $37.11/Boe were driven by high light oil prices, low royalty rates, and low operating costs. Galleon received average oil prices of $74.15/bbl (net of transportation), a royalty rate of 16.6%, and realized operating costs of $4.75/Boe during the quarter.

Due to the EUB imposed production restrictions on the Puskwa light sweet oil wells, production from the wells averaged 670 Bbl/d during the quarter while total tested production capability is currently over 9,200 Boe/d net to Galleon. Additional production will be brought on stream upon approval from the EUB. Galleon is currently in the processes of preparing its application for removal of the EUB imposed production restrictions. The expected timing of the approvals is not known at this time.

The heavy oil wells in Saskatchewan contributed 12% of Q3 2006 operating cash flow from 21% of total production. Operating netbacks of $14.18/Boe have decreased by 27% compared to Q3 2005 as a result of higher operating costs and lower heavy oil prices. Cost increases are attributed to trucking charges, well services and minor workovers, and equipment maintenance and repairs.

ROYALTIES

	Q3 2006 $	Q3 2005 $	YTD 2006 $	YTD 2005 $
Crown	**6,756,736**	9,038,679	**21,340,130**	18,123,117
Freehold	**405,496**	324,735	**862,480**	515,734
GORR and other	**475,810**	501,722	**1,276,434**	797,835
Subtotal	**7,638,042**	9,865,136	**23,479,044**	19,436,686
ARTC and GCA	**(1,396,825)**	(1,192,479)	**(5,967,020)**	(1,885,677)
Net royalties	**6,241,217**	8,672,657	**17,512,024**	17,551,009
% of gross revenue	**19.1 %**	22.1 %	**20.8 %**	23.4 %
% of gross revenue net of ARTC and GCA	**15.6 %**	19.5 %	**15.5 %**	21.1 %

Royalty expenses were 19.1% of gross revenues (16.9% Crown, 1.0% freehold, and 1.2% other) in the third quarter of 2006 compared to 22.1% (20.3% crown, 0.7% freehold and 1.1% other) in the third quarter of 2005. The decrease in average royalty rate is attributed to royalty holidays on several of Galleon's light oil wells. Net of ARTC and GCA, the royalty rate in the third quarter of 2006 was 15.6% and 19.5% in the third quarter of 2005. The decrease in the net royalty rate is a result of higher GCA and custom processing credits from the Crown. The GCA credits are related to additional operated natural gas facilities in 2005 and 2006.

For the nine months ended September 30, 2006 Galleon's average gross royalty rate was 20.8% (18.9% Crown, 0.8% freehold, and 1.1% other) compared to 23.4% (21.8% Crown, 0.6% freehold, and 1.0% other) for the comparative period of the prior year. Net of ARTC and GCA, the royalty rate for the nine months ended September 30, 2006 was 15.5% compared to 21.1% for the same period of the prior year.

OPERATING COSTS

		Q3 2006	
	Production	*Operating costs*	*Operating costs*
	%	*%*	*$/Boe*
Dawson	56	40	7.66
Calais	18	8	4.75
Saskatchewan (heavy oil)	21	45	22.87
Other	5	7	14.70
	100	100	10.66

		YTD 2006	
	Production	*Operating costs*	*Operating costs*
	%	*%*	*$/Boe*
Dawson	57	43	7.55
Calais	18	8	4.54
Saskatchewan (heavy oil)	20	42	21.09
Other	5	7	12.47
	100	100	9.93

Operating costs were $9.2 million or $10.66/Boe for the three months ended September 30, 2006 compared to $5.2 million or $6.98/Boe for the three months ended September 30, 2005. The rise in costs is attributed to the heavy oil assets in Saskatchewan. Operating costs in Saskatchewan increased from $16.76/Boe in Q3 2005 to $22.87/Boe in Q3 2006. The non-operated heavy oil facility that processed Galleon's production was destroyed by fire. Galleon was therefore required to truck its heavy oil to a facility that was farther from its producing wells. This resulted in an increase in trucking costs of $3.94/Boe in Q3 2006 compared to Q3 2005.

Other cost increases in Saskatchewan relate to a greater number of well services and minor workovers necessary to maintain current production volumes. Galleon is considering alternatives to lower its operating costs in Saskatchewan so as to reduce overall corporate operating costs. Galleon's operating costs per barrel of oil equivalent excluding the Saskatchewan properties is $7.40/Boe. In other properties, higher operating costs were realized for well services and minor workovers, property taxes, and utilities.

For the nine months ended September 30, 2006, operating costs were $24.0 million or $9.93/Boe compared to $9.5 million or $6.05/Boe for the comparative period of the prior year.

GENERAL AND ADMINISTRATION COSTS ("G&A")

	Q3 2006		Q3 2005	
	$	$/Boe	$	$/Boe
Gross	1,993,712	2.30	1,642,596	2.21
Capitalized overhead	(132,500)	(0.15)	–	–
Overhead recoveries	(1,168,978)	(1.35)	(471,958)	(0.63)
	692,234	0.80	1,170,638	1.58

	YTD 2006		YTD 2005	
	$	$/Boe	$	$/Boe
Gross	5,905,105	2.44	4,017,542	2.56
Capitalized overhead	(379,250)	(0.16)	–	–
Overhead recoveries	(2,605,819)	(1.07)	(1,068,057)	(0.68)
	2,920,036	1.21	2,949,485	1.88

Net G&A costs of $0.80/Boe and $1.21/Boe for the three and nine months ended September 30, 2006 respectively have decreased compared to the same period in the prior year as a result of increases in capital and operating overhead recoveries. The higher recoveries are a function of increases in capital spending and operating activity. Galleon's strategy of growth through asset acquisitions and drilling has enabled it to add production without significant increases to administrative costs. While gross general and administrative costs have increased 21% with the growth of the Corporation, G&A costs per barrel of oil equivalent have only increased by 4%. This is indicative of the efficiencies gained through production growth.

For the nine months ended September 30, 2006 G&A costs by category are: salary and employee – 49%, office – 17%, corporate – 13%, audit, engineering and legal – 6%, consulting – 9%, and computer – 6%.

For the nine months ended September 30, 2005 G&A costs by category are: salary and employee – 47%, office – 14%, corporate – 12%, audit, engineering and legal – 13%, consulting – 10%, and computer – 4%.

INTEREST

Interest expense of $1.2 million for the three months ended September 30, 2006 is higher compared to $0.7 million for the same period in 2005 due to increased average debt levels related to the growth of the Corporation. Outstanding bank debt will decrease with the closing of the $40.0 million equity financing announced on October 20, 2006 (see note 9 to the financial statements). For the nine months ended September 30, 2006 interest expense of $3.0 million is higher compared to $1.6 million for the same period in 2005 also as a result of higher average debt levels.

STOCK BASED COMPENSATION

Stock based compensation is a non-cash expense of $6.0 million for the nine months ended September 30, 2006 compared to $3.0 million in the corresponding period of 2005. The increase is due to the addition of new employees and an increase in the fair value of options granted. As calculated by the Black-Scholes Option Pricing Model, all other factors being equal, an increase in Galleon's share price results in a higher option fair value. During the nine months ended September 30, 2006 1,477,500 stock options were granted at an average exercise price of $19.36 and had fair values of between $4.38 and $7.41 per option.

At September 30, 2006, 5,169,325 stock options are outstanding at an average exercise price of $10.06 per Class A share.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion and depreciation ("D&D") charges were $14.9 million or $17.16/Boe for the three months ended September 30, 2006 compared to $12.1 million or $16.36/Boe for the corresponding period in 2005. The increase in D&D charges is a result of $30.7 million of investments during the quarter for production facilities for which the benefits to Galleon will be realized over a number of years. For the nine months ended September 30, 2006 D&D charges were $41.0 million or $16.96/Boe compared to $27.6 million or $17.56/Boe for the same period in 2005. The reduction in D&D charges year to date is a result of lower finding and development costs in 2006 attributed to larger oil and gas pool discoveries.

Reserve additions for 2006 were estimated internally. Capital expenditures of $64.6 million ($29.2 million – September 30, 2005) related to undeveloped land, seismic costs, and facilities under construction have been excluded from the depletion and depreciation calculation and $49.1 million ($41.4 million – September 30, 2005) of future costs have been added.

Accretion expense on the Corporation's asset retirement obligation was $464,224 for the nine months ended September 30, 2006 compared to $230,090 for the nine months ended September 30, 2005. The increase is related to an increase in the Corporation's 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 $287,364 for the three months ended September 30, 2006 is comprised of Saskatchewan capital and resource taxes ($279,756 in Q3 2005). For the nine months ended September 30, 2006, the capital and other tax provision of $744,812 is greater than the $632,046 provision for the same period in the prior year. The increase relates to higher Saskatchewan taxes due to higher revenue from Saskatchewan in 2006 compared to 2005.

The provision for future income taxes is $1.9 million for the three months ended September 30, 2006 compared to $5.0 million for the same period in 2005. The decrease in future taxes is a result of lower net earnings for the quarter and a decrease in both the federal and provincial income tax rates. The year over year decrease in the future tax provision for the nine months ended September 30, 2006 is also due to lower net earnings and a decrease in federal and provincial income tax rates.

Galleon has estimated tax pools of $382.9 million as at September 30, 2006.

NET EARNINGS

Third quarter 2006 net earnings of $2.2 million or $0.04 per basic share has decreased over the same period in the prior year due to decreased funds from operations driven by a decline in the price of natural gas and increases in operating expenses. Higher production volumes have also increased the Corporation's depletion and depreciation expenses. As at September 30, 2006, the Corporation had retained earnings of $29.8 million.

CAPITAL EXPENDITURES

	$
Property & equipment balance at December 31, 2005	318,285,343
Additions to equipment inventory	1,614,698
Additions to property and equipment	203,961,376
Acquisition of property and equipment	25,420,692
Asset retirement obligation	2,115,340
Depletion and depreciation	(41,038,799)
Property & equipment balance at September 30, 2006	510,358,650

Exploration and Development Expenditures

	Q3 2006 $	YTD 2006 $	%
Land	3,424,825	15,654,266	7
Geological and geophysical	929,318	17,999,770	9
Drilling and completion	45,027,968	97,412,292	48
Plant and facilities	30,652,301	72,952,622	36
Other assets	27,996	(57,574)	–
	80,062,408	203,961,376	100

During the quarter Galleon spent $3.4 million on land to expand the number of drilling locations for its Montney gas and high impact Puskwa light oil projects. Galleon has access to over one million gross acres of land. This quarter Galleon completed one of its most active and successful drilling programs. Galleon achieved a 95% success rate with the drill bit and spent $45.0 million on drilling and completions activity resulting in 35 successful wells (28.5 net). Wells cased for production include 8 light oil (6.5 net), 24 natural gas (19.0 net) and 3 heavy oil (3.0 net) wells. Plant and facility additions included the completion of two 100% owned and operated 10 MMcf/day natural gas plants at Eaglesham and Puskwa. In the Dawson area a further 15 MMcf/d capacity expansion is planned to be complete prior to the end of the year.

LIQUIDITY AND CAPITAL RESOURCES

Debt and working capital

	September 30, 2006 $	*December 31, 2005* $
Bank debt	**92,451,573**	75,301,382
Working capital deficiency	**41,146,067**	18,482,697
Total net debt	**133,597,640**	93,784,079

Funding of Capital Program

	Q3 2006 $	*Q3 2005* $	*YTD 2006* $	*YTD 2005* $
Issuance of shares, net of costs	**76,077,665**	135,354	**130,306,378**	96,879,201
Funds provided by operations	**21,178,167**	27,324,500	**61,294,105**	48,417,784
Change in bank debt	**(29,174,324)**	2,909,517	**17,150,191**	22,838,376
Change in cash and working capital	**9,712,605**	(2,822,986)	**22,246,092**	(7,493,947)
	77,794,113	27,546,385	**230,996,766**	160,641,414

During the third quarter of 2006, net proceeds of $76.1 million from an equity offering and funds from operations of $21.2 million were used to pay down the bank debt and fund $77.8 million of acquisition and exploration and development expenditures. For the nine months ended September 30, 2006, net proceeds of $130.3 million from equity offerings, funds from operations of $61.3 million, and bank debt were used to fund $231.0 million of acquisition and exploration and development expenditures.

Subsequent to September 30, 2006 Galleon announced an equity offering for $40.0 million. The proceeds will initially be used to reduce outstanding bank debt. The available credit facility will subsequently be drawn upon to fund Galleon's 2007 capital expenditure program. Galleon's capital budget for 2006 is $250 million. It is expected the remainder of the budget will be financed from funds from operations, the recently announced equity offering and bank debt.

At September 30, 2006, the Corporation has a $130 million extendible revolving term credit facility with a syndicate of Canadian chartered banks and a $20 million extendible revolving term credit facility with a Canadian chartered bank. The facilities are secured by a first floating charge demand debenture in the amount of $500 million over property and equipment of the Corporation. Subsequent to September 30, 2006 the banks approved an increase in the term credit facility to $170 million. At September 30, 2006, $92.5 million was drawn on the credit facilities. Subsequent to September 30, 2006 outstanding bank debt will be reduced by the net proceeds from the equity offering.

SHARE INFORMATION

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

	2006	*2005*[(1)]
Class A shares outstanding		
Basic	**55,857,377**	47,658,065
Diluted[(2)]	**61,026,702**	52,219,190
Class B shares outstanding	**922,500**	922,500
Class A shares issuable on conversion of Class B shares[(3)]	**521,186**	604,126

(1) *Restated to reflect a three-for-two Class A share split in June 2006.*

(2) *Includes outstanding options of 5,169,325 (September 30, 2005 – 4,561,125).*

(3) *Assumes a conversion at the September 30, 2006 closing price of $17.70 per Class A share (September 30, 2005 – $15.27). The actual conversion rate varies based on a formula related to the trading price of the Class A shares.*

At September 30, 2006, the market value of Galleon's class A and class B shares was $996.3 million based on the September 30, 2006 closing price of $17.70 per class A share and $8.29 per class B share. As of November 9, 2006, the number of class A shares and options outstanding as is 55,857,377 and 5,319,325 respectively.

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 is expected to commence January 31, 2007. Future minimum payments under this contract are as follows:

Year	*Amount $*
2007	4,554,000
2008	4,554,000

Equipment

The Corporation has made installment payments of $7.5 million related to equipment which will be delivered in the fourth quarter of 2006. The installment payments have been recorded as additions to property and equipment. Additional future commitments for this equipment are $3.7 million.

Minimum Lease Payments

At September 30, 2006 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

Year	*Amount $*
2006	121,509
2007	471,544
2008	279,749

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

Flow-through Shares

The Corporation is committed to spend $20,046,000 on expenditures qualifying as Canadian exploration expenses prior to December 2007.

OUTLOOK

Exit 2006 production is targeted to be between 13,500 and 15,500 Boe/d. With Galleon's significant land position in the Peace River Arch and over 300 quality drilling locations, Galleon expects to exit 2007 with daily production ranging between 17,000 and 21,000 Boe/d.

In order to ensure that Galleon is well positioned financially to execute the business plan, further equity is necessary. Therefore in October 2006, Galleon announced an equity issuance of 1.8 million Class A shares, of which 0.8 million Class A shares will be issued on a flow through basis, for gross proceeds of $40 million with closing scheduled for November 16, 2006. In addition, Galleon's credit facilities have been increased to $170 million subject to completion of documentation.

Highlights

	3rd Qtr 2006	2nd Qtr 2006	1st Qtr 2006	4th Qtr 2005	3rd Qtr 2005	2nd Qtr 2005	1st Qtr 2005	4th Qtr 2004
PRODUCTION								
Light oil (Bbl/d)	**1,823**	1,753	1,859	2,271	2,213	1,393	670	329
Heavy oil (Bbl/d)	**1,984**	1,705	1,580	1,135	1,205	594	206	249
Natural Gas (Mcf/d)	**33,068**	30,014	30,445	32,212	27.452	21,813	15,511	10,343
Liquids (Bbl/d)	**102**	100	93	99	71	21	37	21
Boe/d at 6:1 gas	**9,420**	8,560	8,606	8,874	8,064	5,643	3,499	2,324
Total Boe produced	**866,646**	778,992	774,578	816,420	741,917	513,535	314,887	213,762
Daily Boe of production per million Class A shares – basic [(1)]	**172**	165	173	186	169	130	96	73
PRICES (NET OF TRANSPORTATION)								
Light oil ($/Bbl)	**75.65**	75.63	65.66	67.44	73.64	65.35	59.72	51.18
Heavy oil ($/Bbl)	**47.01**	42.69	24.71	29.31	48.19	32.21	26.45	28.98
Crude oil ($/Bbl)	**60.71**	59.39	46.78	54.73	62.54	54.86	51.91	38.49
Natural Gas ($/Mcf)	**5.58**	5.97	7.36	11.16	9.13	6.99	6.51	6.15
NGLs ($/Bbl)	**69.83**	65.71	57.62	58.84	56.64	53.94	44.75	40.36
PER BOE ($)								
Gross revenues	**46.06**	46.88	46.77	63.68	59.99	48.18	43.86	39.13
Royalties, net of ARTC & GCA	**(7.20)**	(4.34)	(10.18)	(15.01)	(11.69)	(11.11)	(10.08)	(8.33)
Transportation costs	**(1.25)**	(1.22)	(1.43)	(1.48)	(1.64)	(1.37)	(1.51)	(1.76)
Operating costs	**(10.66)**	(9.91)	(9.12)	(7.73)	(6.98)	(5.31)	(5.04)	(5.93)
Net	**26.95**	31.41	26.04	39.46	39.68	30.39	27.23	23.11
Other revenue	–	–	–	–	–	0.03	0.02	0.04
G&A	**(0.80)**	(1.37)	(1.50)	(1.82)	(1.58)	(2.01)	(2.38)	(2.93)
Interest – cash	**(1.39)**	(1.41)	(0.95)	(0.91)	(0.90)	(1.09)	(1.33)	(1.25)
Capital and other taxes – cash	**(0.33)**	(0.30)	(0.29)	(0.40)	(0.38)	(0.49)	(0.32)	(0.79)
Funds from operations	**24.43**	28.33	23.30	36.33	36.82	26.83	23.22	18.18

(1) *Restated to reflect a three-for-two Class A share split in June 2006.*

Highlights

	3rd Qtr 2006	*2nd Qtr 2006*	*1st Qtr 2006*	*4th Qtr 2005*
FINANCIAL ($)				
Gross revenues	**39,920,718**	36,516,885	36,229,632	51,989,353
Royalties, net of ARTC & GCA	**(6,241,217)**	(3,384,750)	(7,886,057)	(12,254,361)
Transportation costs	**(1,079,361)**	(949,880)	(1,105,752)	(1,205,808)
Operating costs	**(9,242,769)**	(7,716,321)	(7,065,131)	(6,311,089)
Other revenue	**2,454**	–	573	604
G&A	**(692,234)**	(1,068,189)	(1,159,615)	(1,488,789)
Interest – cash	**(1,202,060)**	(1,097,994)	(740,017)	(742,346)
Capital and other tax – cash	**(287,364)**	(230,943)	(226,504)	(325,890)
FUNDS FROM OPERATIONS	**21,178,167**	22,068,808	18,047,129	29,661,674
Depletion, depreciation & accretion	**(15,042,530)**	(13,556,324)	(12,904,167)	(13,471,178)
Stock-based compensation	**(2,006,572)**	(2,718,744)	(1,292,142)	(936,322)
Future tax (expense) recovery	**(1,932,989)**	2,190,808	(2,110,618)	(5,930,290)
EARNINGS	**2,196,076**	7,984,548	1,740,202	9,323,884
Total assets	**540,980,168**	477,967,268	399,269,431	352,618,764
Weighted average outstanding Class A shares-basic [(1)]	**54,854,334**	52,003,462	49,661,598	47,698,056
Funds flow $ per share – basic [(1)]	**0.39**	0.42	0.36	0.62
Earnings $ per share – basic [(1)]	**0.04**	0.15	0.04	0.20
Weighted average outstanding Class A shares – diluted [(1)]	**57,447,555**	54,838,259	52,220,178	50,599,782
Funds flow $ per share – diluted [(1)]	**0.37**	0.40	0.35	0.59
Earnings $ per share – diluted [(1)]	**0.04**	0.15	0.03	0.18

[(1)] *Restated to reflect a three-for-two Class A share split in June 2006.*

	3rd Qtr 2005	*2nd Qtr 2005*	*1st Qtr 2005*	*4th Qtr 2004*
FINANCIAL ($)				
Gross revenues	44,505,716	24,742,760	13,812,133	8,363,559
Royalties, net of ARTC & GCA	(8,672,657)	(5,704,783)	(3,173,569)	(1,780,386)
Transportation costs	(1,214,249)	(706,374)	(474,675)	(375,407)
Operating costs	(5,178,675)	(2,726,825)	(1,588,289)	(1,266,631)
Other revenue	2,926	16,619	5,753	8,604
G&A	(1,170,638)	(1,030,455)	(748,392)	(626,502)
Interest – cash	(668,167)	(558,040)	(420,289)	(267,156)
Capital tax – cash	(279,756)	(251,013)	(101,277)	(168,166)
FUNDS FROM OPERATIONS	**27,324,500**	13,781,889	7,311,395	3,887,915
Depletion, depreciation & accretion	(12,234,184)	(9,708,120)	(5,869,527)	(4,310,939)
Stock-based compensation	(998,964)	(1,669,417)	(345,181)	(731,797)
Future tax expense	(4,978,896)	(1,715,040)	(602,039)	96,896
EARNINGS	**9,112,456**	689,312	494,648	(1,057,925)
Total assets	312,523,346	290,882,760	180,363,456	160,892,258
Weighted average outstanding Class A shares – basic (1)	47,640,620	43,467,068	36,560,286	31,937,706
Funds flow $ per share – basic (1)	0.57	0.32	0.20	0.12
Earnings $ per share – basic (1)	0.19	0.02	0.01	(0.03)
Weighted average outstanding Class A shares – diluted (1)	50,268,840	45,474,116	38,072,111	33,695,414
Funds flow $ per share – diluted (1)	0.54	0.30	0.20	0.12
Earnings $ per share – diluted (1)	0.18	0.02	0.01	(0.03)

(1) *Restated to reflect a three-for-two Class A share split in June 2006.*

Balance Sheets

(unaudited)

	September 30, 2006 $	December 31, 2005 $
ASSETS		
Current		
Accounts receivable	**19,236,344**	23,233,779
Deposits and prepaid expenses	**1,246,198**	960,666
	20,482,542	24,194,445
Goodwill	**10,138,976**	10,138,976
Property and equipment *(notes 2 and 4)*	**510,358,650**	318,285,343
	540,980,168	352,618,764
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**61,628,609**	42,677,142
Bank loan *(note 4)*	**92,451,573**	75,301,382
	154,080,182	117,978,524
Asset retirement obligation *(note 3)*	**13,348,189**	11,185,906
Future income taxes *(note 6)*	**32,563,217**	26,394,082
	199,991,588	155,558,512
Commitments *(note 7)*		
SHAREHOLDERS' EQUITY		
Share capital *(note 5)*	**301,246,412**	174,463,341
Contributed surplus *(note 5)*	**9,980,411**	4,755,980
Retained earnings	**29,761,757**	17,840,931
	340,988,580	197,060,252
	540,980,168	352,618,764

See accompanying notes

Statements of Operations and Retained Earnings (Deficit)
(unaudited)

		Three months ended September 30		Nine months ended September 30	
		2006	2005	2006	2005
		$	$	$	$
REVENUE					
Petroleum and natural gas		**39,920,718**	44,505,716	**112,667,235**	83,060,609
Royalties, net of ARTC and GCA		**(6,241,217)**	(8,672,657)	**(17,512,024)**	(17,551,009)
Other income		**2,454**	2,926	**3,027**	25,298
		33,681,955	35,835,985	**95,158,238**	65,534,898
EXPENSES					
Operating		**9,242,769**	5,178,675	**24,024,221**	9,493,789
Transportation		**1,079,361**	1,241,249	**3,134,993**	2,395,298
General and administration		**692,234**	1,170,638	**2,920,036**	2,949,485
Interest		**1,202,060**	668,167	**3,040,071**	1,646,496
Stock-based compensation *(note 5)*		**2,006,572**	998,964	**6,017,458**	3,013,562
Accretion		**167,609**	92,916	**464,223**	230,090
Depletion and depreciation		**14,874,921**	12,141,268	**41,038,799**	27,581,741
		29,265,526	21,464,877	**80,639,801**	47,310,461
Earnings before taxes		**4,416,429**	14,371,108	**14,518,437**	18,224,437
Capital and other taxes		**287,364**	279,756	**744,812**	632,046
Future income taxes		**1,932,989**	4,978,896	**1,852,799**	7,295,975
		2,220,353	5,258,652	**2,597,611**	7,928,021
NET EARNINGS		**2,196,076**	9,112,456	**11,920,826**	10,296,416
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD		**27,565,681**	(595,409)	**17,840,931**	(1,779,369)
RETAINED EARNINGS, END OF PERIOD		**29,761,757**	8,517,047	**29,761,757**	8,517,047
NET EARNINGS PER SHARE *(note 5)*					
Basic		**0.04**	0.19	**0.23**	0.24
Diluted		**0.04**	0.18	**0.22**	0.23
Weighted average Class A shares	– basic	**54,854,334**	47,640,620	**52,192,152**	42,596,579
	– diluted	**57,447,555**	50,268,840	**54,783,056**	44,872,874

See accompanying notes

Statements of Cash Flow

(unaudited)

	Three months ended September 30 2006 $	Three months ended September 30 2005 $	Nine months ended September 30 2006 $	Nine months ended September 30 2005 $
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings	**2,196,076**	9,112,456	**11,920,826**	10,296,416
Add items not requiring cash:				
Future income taxes	**1,932,989**	4,978,896	**1,852,799**	7,295,975
Depletion and depreciation	**14,874,921**	12,141,268	**41,038,799**	27,581,741
Accretion	**167,609**	92,916	**464,223**	230,090
Stock-based compensation	**2,006,572**	998,964	**6,017,458**	3,013,562
FUNDS FROM OPERATIONS	**21,178,167**	27,324,500	**61,294,105**	48,417,784
Abandonment costs	**(226,887)**	–	**(417,280)**	–
Change in non-cash working capital	**1,048,074**	(4,749,998)	**6,886,788**	(3,314,106)
	21,999,354	22,574,502	**67,763,613**	45,103,678
FINANCING ACTIVITIES				
Issue of common shares	**80,436,844**	148,263	**138,124,119**	103,301,195
Share issue costs	**(4,359,179)**	(12,909)	**(7,817,741)**	(6,421,994)
Bank loan	**(29,174,324)**	2,909,517	**17,150,191**	22,838,376
	46,903,341	3,044,871	**147,456,569**	119,717,577
INVESTING ACTIVITIES				
Transfers from (additions to) equipment inventory	**1,833,402**	258,704	**(1,614,698)**	(78,375)
Additions to oil and gas properties	**(80,062,408)**	(27,486,906)	**(203,961,376)**	(61,734,895)
Acquisition of oil and gas properties	**434,893**	(318,183)	**(25,420,692)**	(98,828,144)
Change in non-cash working capital	**8,540,969**	1,927,012	**15,776,584**	(4,179,841)
	(69,253,144)	(25,619,373)	**(215,220,182)**	(164,821,255)
CHANGE IN CASH	**(350,449)**	–	–	–
CASH, BEGINNING OF PERIOD	**350,449**		–	
CASH, END OF PERIOD	–	–	–	–
SUPPLEMENTARY INFORMATION				
Cash interest paid	**1,079,240**	668,167	**3,070,869**	1,646,496
Cash taxes paid	**167,303**	279,756	**932,272**	632,046

See accompanying notes

Notes to the Interim Financial Statements

For the three and nine month periods ended September 30, 2006 and 2005
(unaudited)

1. ACCOUNTING POLICIES

These unaudited interim 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, 2005. 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, 2005.

2. PROPERTY AND EQUIPMENT

As at September 30, 2006, $67.3 million (September 30, 2005 – $29.2 million) of undeveloped land, seismic, facilities under construction, and equipment inventory have been excluded from and $49.1 million (September 30, 2005 – $41.4 million) in future development costs have been added into the full cost pool for depletion purposes. For the three and nine months ended September 30, 2006, $132,500 and $379,250 respectively (September 30, 2005 – nil) of exploration salaries have been capitalized.

	September 30 2006 $	*December 31 2005 $*
Petroleum and natural gas properties & equipment	**601,067,816**	369,512,834
Equipment inventory	**2,722,545**	1,107,847
Office furniture and equipment	**481,443**	539,017
	604,271,804	371,159,698
Accumulated depletion & depreciation	**(93,913,154)**	(52,874,355)
Net book value	**510,358,650**	318,285,343

3. 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 $21.3 million, which will be incurred over the next 14 years. A credit adjusted risk free rate of 5% and an inflation rate of 1.5% were used to calculate the fair value of the asset retirement obligation.

	Nine months ended September 30 2006 $	*Year ended December 31 2005 $*
Balance, beginning of period	**11,185,906**	3,998,345
Accretion expense	**464,223**	362,612
Liabilities incurred	**1,775,604**	820,689
Liabilities acquired	**339,736**	6,004,260
Settlement of liabilities	**(417,280)**	–
Balance, end of period	**13,348,189**	11,185,906

4. AVAILABLE CREDIT FACILITY

The Corporation has a $150 million extendible revolving term credit facility in place with a bank syndicate. The facility bears interest at rates ranging from the bank's prime rate to prime plus 0.75% per annum based on the Corporation's debt to cash flow ratio. The Corporation may also borrow at the prevailing Banker's Acceptance rate. The borrowing base is subject to semi-annual review, the next review date being November 30, 2006. Collateral for the facilities consists of a demand debenture for $500 million secured by a first floating charge over all of the property and equipment of the Corporation. At September 30, 2006, an amount of $92.5 million was drawn against the credit facilities (December 31, 2005 – $75.3 million).

5. 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, convertible (at the option of the Corporation) at any time after December 31, 2006 and before December 31, 2008, into Class A shares. The conversion factor is calculated by dividing $10 by the greater of $1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December 31, 2008, the Class B shares become convertible (at the option of the shareholder) into Class A shares on the same basis. Effective February 1, 2009, all remaining Class B shares will be deemed to be converted to Class A shares.

Issued and outstanding	*Number of Shares*	*Amount $*
CLASS A SHARES		
Balance at December 31, 2005 [(a)]	47,740,326	169,256,097
Issued for cash [(b)]	3,405,000	55,047,500
Tax effect of flow through shares [(c)]	–	(6,800,000)
Share issue costs, net of tax of $1,175,912 [(b)]	–	(2,282,650)
Issued for cash on exercise of stock options	729,501	1,897,715
Transfer from contributed surplus [(d)]	–	510,102
Balance at March 31, 2006	51,874,827	217,628,764
Issued for cash on exercise of stock options	173,550	742,060
Transfer from contributed surplus [(d)]	–	207,978
Balance at June 30, 2006	52,048,377	218,578,802
Issued for cash [(e)]	3,765,000	80,193,750
Issued for cash on exercise of stock options	44,000	243,093
Share issue costs, net of tax of $1,307,754 [(e)]	–	(3,051,424)
Transfer from contributed surplus [(d)]	–	74,947
Balance at September 30, 2006	**55,857,377**	**296,039,168**
CLASS B SHARES		
Balance at September 30, 2006 and December 31, 2005	922,500	5,207,244
Total share capital - September 30, 2006	**56,779,877**	**301,246,412**

a) On June 7, 2006, the shareholders of the Corporation approved a three-for-two Class A share split. The number of Class A shares above has been restated to reflect the share split.

b) On February 14, 2006, the Corporation issued 3,405,000 Class A shares for gross proceeds of $55 million by way of private placement.

c) On May 12, 2005, the Corporation issued 2,400,000 Class A shares on a flow through basis for gross proceeds of $20 million. In January 2006, the Corporation renounced expenditures of $20 million to the shareholders effective December 31, 2005

d) For the three and nine months ended September 30, 2006 the Corporation reclassified stock based compensation recorded in contributed surplus related to share options exercised of $74,947 and $793,027 respectively (three and nine months ended September 30, 2005 $44,461 and $150,600 respectively).

e) On July 25, 2006, the Corporation issued 3,765,000 Class A shares for gross proceeds of $80.2 million pursuant to a public offering.

Share options

The Corporation has a share option plan which was approved on May 19, 2005 and amended on August 25, 2005. The exercise price of each option equals the market price of the Corporation's Class A shares on the date of the grant. Compensation expense is recognized as the options vest (one third immediately and one third on each of the first and second 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 and Class B 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 and Class B shares. Class A shares have been reserved for all options granted.

	Nine months ended September 30 2006 $	*Year ended December 31 2005 $*
Contributed surplus, beginning of period	**4,755,980**	1,129,044
Stock based compensation expense	**6,017,458**	3,949,884
Transfer to share capital	**(793,027)**	(322,948)
Contributed surplus, end of period	**9,980,411**	4,755,980

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 2.00 – 3.28%; dividend yield of 0%; volatility factors of the market price of the Corporation's common shares of 40-46%; and, an average expected life of the options of 3 years. At September 30, 2006, 3,064,325 share options have vested and are exercisable at prices ranging from $0.23 to $22.83 per Class A share.

	Number of Shares[1]	*Weighted Average Exercise Price*[1] *$*
Outstanding, December 31, 2005	4,638,876	5.63
Granted	360,000	15.27
Exercised	(729,501)	(2.60)
Outstanding, March 31, 2006	4,269,375	6.96
Granted	817,500	20.68
Exercised	(173,550)	4.28
Outstanding, June 30, 2006	4,913,325	9.33
Granted	300,000	20.65
Exercised	(44,000)	5.52
Outstanding, September 30, 2006	5,169,325	10.06

[1] *Restated to reflect the three-for-two Class A share split in June 2006.*

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. For the three and nine months ended September 30, 2006 997,500 options have been excluded from the diluted earnings per share calculation as they are anti-dilutive. For the three and nine months ended September 30, 2006 the diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 57,915,512 and 55,251,701 respectively (September 30, 2005 - 51,113,807 and 45,958,575 respectively). The prior year amounts have been restated to reflect the three-for-two Class A share split in June 2006.

6. INCOME TAXES

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

	September 30 2006 $	December 31 2005 $
Property and equipment	**37,588,073**	30,285,615
ACRI benefit	**(840,053)**	(832,189)
Share issue costs	**(3,882,039)**	(2,730,817)
Asset retirement obligation	**(302,764)**	(328,527)
Future income tax liability	**32,563,217**	26,394,082

7. 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 is expected to commence January 31, 2007. Future minimum payments under this contract are as follows:

Year	Amount $
2007	4,554,000
2008	4,554,000

Equipment:

The Corporation has made installment payments of $7.5 million related to equipment which will be delivered in the fourth quarter of 2006. The installment payments have been recorded as additions to property and equipment. Additional future commitments for this equipment are $3.7 million.

Minimum Lease Payments:

At September 30, 2006 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

Year	Amount $
2006	121,509
2007	471,544
2008	279,749

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

Flow-through Shares:

The Corporation is committed to spend $20,046,000 on expenditures qualifying as Canadian exploration expenses prior to December 2007.

8. RISK MANAGEMENT

The Corporation has the following fixed price physical contract in place:

Natural Gas		
Nov. 1, 2006 - Mar. 31, 2007	5,000 GJ/day	CDN $7.51 GJ

9. SUBSEQUENT EVENTS

On October 20, 2006 the Corporation announced a public offering of 1,025,700 Class A shares at a price of $19.50 per share and 800,000 flow-through Class A shares at a price of $25.00 per share for total proceeds of $40,001,150. The offering is expected to close on November 16, 2006. Galleon will be obligated to spend $20,000,000 on qualifying exploration expenses prior to December 2007. Galleon will recognize the associated future income tax liability upon renunciation of the exploration expenses.

Galleon's credit facilities have been increased to $170 million subject to completion of documentation

10. COMPARATIVE FIGURES

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

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Fred C. Coles [1 2]

William L. Cooke [1 3]

Brad R. Munro [1]

Steve Sugianto

[1] *Member of the Audit and Reserves Committee*
[2] *Member of the Compensation Committee*
[3] *Member of the Corporate Governance Committee*

Officers

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President and Chief Executive Officer

Glenn R. Carley
Executive Chairman

Shivon M. Crabtree
VP Finance & Chief Financial Officer

Tom Greschner
VP Production

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