

third quarter interim report | 2008



GALLEON ENERGY

Letter to Shareholders

HIGHLIGHTS FOR THE THIRD QUARTER OF 2008 INCLUDE:

- Galleon drilled 33 wells and cased 31 wells (29 net) for production; a success rate of 94%. Eleven wells (9.5 net) were cased for light oil and 19 wells (18.6 net) were cased for natural gas. One well (1.0 net) was cased as a water injector;
- Daily production during third quarter 2008 averaged 17,200 BOE, an increase of 6% from Q2 2008 and an increase of 25% from Q3 2007;
- Funds from operations for the three months ending September 30, 2008 were \$58.3 million (\$0.80 per basic share), an increase of 79% from Q3 2007;
- Earnings for the three months ending September 30, 2008 were \$38.1 million (\$0.52 per basic share) compared to \$1.6 million (\$0.03 per basic share) in Q3 2007;
- An average operating netback of \$44.42/BOE was recorded in Q3 2008, an increase of 71% from Q3 2007;
- Operating expenses decreased by \$0.76/BOE to \$11.95/BOE in Q3 2008 from \$12.71/BOE in Q2 2008;
- Invested \$88.8 million on exploration and development activities;
- At September 30, 2008, \$227.3 million was drawn on available credit facilities of \$310 million. Net debt including capital lease obligations was \$261.0 million; and
- Current production is approximately 18,800 BOE/d based on current field report estimates. Fourth quarter 2008 average production is expected to range between 18,800 and 19,600 BOE/d.

2009 BUDGET AND FINANCIAL CAPACITY

The 2009 capital expenditure program has been approved by the Board of Directors and is expected to be between \$170 million and \$190 million. The 2009 capital expenditure program will be funded from cash flow. Production is expected to average 20,400 BOE/d in 2009. Galleon plans to drill up to 43 light oil wells and 55 natural gas wells in 2009.

Should commodity prices continue to weaken further, Galleon is prepared to cut budgeted capital expenditures to match the reduced funds from operations resulting from the weaker commodity prices. Galleon has access to credit facilities of \$310 million of which \$60 million is estimated to be unused at December 31, 2008.

2009 catalysts to growth and value — low risk and low cost projects that are repeatable, predictable and with size:

EASTERN MONTNEY RESOURCE PROJECT

- Large potential resource with a drilling inventory of over 300 horizontal locations
- Low cost production and reserves with strong economics
- Current production of over 4,000 BOE/d net reflects a consistent drilling success exceeding 90%

CENTRAL AND WESTERN MONTNEY RESOURCE PROJECT

- Discovered three large resource pools with aggregate current production of over 5 Mmcf/d net with approximately 6 Mmcf/d net of natural gas and 200 Bbl/d net of liquids behind pipe waiting on facility completion (on stream in late Q4 2008/early Q1 2009)

LIGHT OIL PROJECTS

- Discovered one light oil resource pool
- Consistent drilling success in our projects at Eaglesham, Puskwa, McLeans Creek and Kimiwan/Culp have delivered production growth which will generate substantial cash flow for reinvestment in the resource projects
- Current inventory of over 200 locations

EASTERN MONTNEY PROJECT UPDATE

To date in 2008, 22 horizontal wells have been drilled of which 18 have been completed in the Eastern Montney resource project. Up to three more horizontal wells are planned before the end of 2008. All horizontal wells have been completed with multi staged fractures.

The horizontal drilling results to date have been very positive. Fourteen wells are currently producing an aggregate of approximately 15.0 Mmcf/d net and 250 BOE/d net of liquids (2,750 BOE/d net). Two wells are waiting on equipping and four wells are waiting on completion. Two wells are waiting to be recompleted. On wells drilled to date, a success rate exceeding 90% using the horizontal multi staged fractures has been demonstrated.

The economics of the Eastern Montney resource project are robust. The average cost to drill, complete and tie-in each horizontal well is approximately \$1.3 million. On average, pay out of the capital costs of each horizontal well is under one year based on current market commodity prices, royalty rates and operating costs.

The Eastern Montney resource pool has been delineated during the last three years through vertical well control over an extensive area of 35 miles by 12 miles. A drilling inventory in excess of 300 horizontal locations has been identified. The current aggregate production has reached over 4,000 BOE/d net (22 Mmcf/d of natural gas and 350 Bbl/d). Current natural gas plant capacity is 33 Mmcf/d with a new 10 Mmcf/d gas plant scheduled to be on stream in Q2 2009.

CENTRAL MONTNEY PROJECT UPDATE

The Central Montney area has delivered strong production growth and is expected to result in considerable reserve volume being added in 2008. A number of large pools have been identified based on 3D seismic and well control.

Production from one of these pools, delineated through wells drilled in early Q3 2008, is currently 4 Mmcf/d net from one horizontal well and two vertical wells. This pool is planned to be developed with a combination of vertical and horizontal wells.

A second pool has been recently confirmed through successful drilling results and is estimated to be 10 sections in size. Current production from the second pool is approximately 1 Mmcf/d net.

In addition, tested production of approximately 5 Mmcf/d net of natural gas is behind pipe awaiting completion of Galleon's natural gas plant expansion. This gas plant expansion to 15 Mmcf/d is expected to be on stream in late Q4 2008/early Q1 2009.

In total, five new central Montney resource plays have been identified which are expected to deliver important production and reserves growth to Galleon over the next three years.

WESTERN MONTNEY PROJECT UPDATE

In Q3 2008, Galleon drilled its first Montney horizontal with multi staged fractures in BC. The well (77% interest) tested at 370 BOE/d (200 Bbl/d and 1 Mmcf/d of natural gas) over a three day period and confirmed the economic viability of a significant new Mid Montney turbidite trend. The trend is definable on 3D seismic and is over six miles in length and approximately one mile wide. The well is currently being tied in to a Galleon owned facility in order to conserve the gas and is expected to be on stream during Q1 2009. A second horizontal well was drilled into the fairway and is currently being evaluated. In Q2 2009, Galleon plans to drill up to two horizontal wells on this trend. A vertical well to test an upper Montney play at Two Rivers is also planned.

LIGHT OIL PROJECT UPDATE

The light oil projects continue to contribute steady cash flow to Galleon. Recent drilling has focused on the Culp/Kimiwan and McLeans Creek areas in Alberta. These areas have delivered an average 80% drilling success rate in part due to the extensive 3D seismic data base owned by Galleon. Production from Culp/Kimiwan and McLeans Creek has grown to approximately 1,500 BOE/d net in Q3 2008, a 65% increase over Q3 2007.

Over 140 locations have been identified on the existing 3D seismic in the light oil project areas. Additional locations are expected to be added to the inventory upon completion of a new 275 square km 3D seismic program which is currently being shot. The drilling locations in these areas target single well pools. These pools are eligible for a \$1 million royalty holiday under the new Alberta royalty framework. Up to four light oil targets are planned to be drilled at Eaglesham during Q4 2008.

Puskwa continues to be a strong producer with average production of 2,390 BOE/d net in Q3 2008. Applications for an expansion of the water flood program and down spacing have been submitted for regulatory approval. Based on down spacing, up to 60 additional locations have been identified.

Recently, Galleon has discovered one light oil resource pool and plans to further delineate the pool over the next 12 months.



Glenn R. Carley
Executive Chairman
November 13, 2008



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 months ended September 30, 2008 with comparisons to the three and nine months ended September 30, 2007 and as at December 31, 2007. The MD&A has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the unaudited interim financial statements as at and for the three and nine month periods ended September 30, 2008 and 2007, and the audited financial statements and MD&A for the year ended December 31, 2007.

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

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

This MD&A is based on information available as of, and is dated, November 13, 2008.

NON-GAAP MEASUREMENTS

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

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

FORWARD-LOOKING STATEMENTS

Statements that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, growth expectations within the Corporation, expected production and production increases, expected general and administrative expenses and operating expenses in 2008, drilling and completion plans and the timing thereof, facilities to be constructed or expanded and the timing thereof, availability under credit facilities, capital expenditures, and the method of funding thereof. These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Corporation's objectives, goals or future plans are forward-looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation,

loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, Galleon's actual results may differ materially from those expressed in, or implied by, the forward-looking statements.

Forward looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although the Corporation believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Corporation can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Corporation has an interest in to operate the field in a safe, efficient and effective manor; the ability of the Corporation to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; and the ability of the Corporation to successfully market its oil and natural gas products.

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

THIRD QUARTER 2008 HIGHLIGHTS

- Daily production for the quarter averaged 17,200 BOE, an increase of 6% from Q2 2008 and an increase of 25% from Q3 2007;
- Funds from operations for the three months ending September 30, 2008 were \$58.3 million (\$0.80 per basic share), an increase of 79% from Q3 2007;
- Earnings for the three months ending September 30, 2008 were \$38.1 million (\$0.52 per basic share) compared to \$1.6 million (\$0.03 per basic share) in Q3 2007;
- Received an average operating netback of \$44.42/BOE, an increase of 71% from Q3 2007;
- Drilled 33 wells and cased 31 wells (29 net) for production; a success rate of 94%;
- Spent \$88.8 million on exploration and development activities during the quarter; and
- At September 30, 2008, bank drawings were \$227.3 million, and net debt including capital lease obligations was \$261.0 million with available credit facilities of \$310 million.

Galleon completed the acquisition of Adamant Energy Inc ("Adamant") in Q2 2008, and the acquisition of ExAlta Energy Inc. ("ExAlta") in Q1 2008.

RESULTS OF OPERATIONS

Comparative financial results are as follows:

Three months ended September 30	2008		2007	
		1,582,369 BOE \$/BOE		1,262,772 BOE \$/BOE
(\$000s)				
Revenues	115,835	73.20	60,156	47.64
Other income	105	0.07	–	–
Royalties	(24,485)	(15.48)	(12,608)	(9.98)
GCA ¹	3,711	2.35	1,988	1.57
Transportation costs	(2,140)	(1.35)	(1,430)	(1.13)
Operating costs	(18,917)	(11.95)	(10,547)	(8.35)
Net	74,109	46.84	37,559	29.75
G&A	(3,238)	(2.05)	(1,507)	(1.19)
Interest costs	(2,759)	(1.74)	(2,707)	(2.14)
Capital and other taxes	(284)	(0.18)	(229)	(0.18)
Realized loss on financial derivative	(9,497)	(6.00)	(551)	(0.44)
Funds from operations²	58,331	36.87	32,565	25.80

Nine months ended September 30	2008		2007	
		4,603,259 BOE \$/BOE		3,549,542 BOE \$/BOE
(\$000s)				
Revenues	337,953	73.42	173,864	48.98
Other income	333	0.07	–	–
Royalties	(72,308)	(15.71)	(37,233)	(10.49)
GCA ¹	12,231	2.66	7,225	2.04
Transportation costs	(6,171)	(1.34)	(4,424)	(1.25)
Operating costs	(55,103)	(11.97)	(30,533)	(8.60)
Net	216,935	47.13	108,899	30.68
G&A	(9,307)	(2.02)	(4,568)	(1.29)
Interest costs	(8,539)	(1.85)	(7,634)	(2.15)
Capital and other taxes	(981)	(0.21)	(951)	(0.27)
Realized loss on financial derivative	(23,175)	(5.03)	(178)	(0.05)
Funds from operations²	174,933	38.02	95,568	26.92

¹ GCA means Gas Cost Allowance

² See "Non-GAAP Measurements"

PETROLEUM AND NATURAL GAS REVENUES

Three months ended September 30		2008		2007	
(\$000s)		%		%	
Light oil	55,872	48	24,569	41	
Heavy oil	11,417	10	7,315	12	
NGLs	3,362	3	1,398	2	
Natural gas	44,967	39	26,491	44	
Royalty income	217	–	383	1	
Total	115,835	100	60,156	100	

Nine months ended September 30		2008		2007	
(\$000s)		%		%	
Light oil	154,520	46	64,274	37	
Heavy oil	42,134	12	21,726	13	
NGLs	9,058	3	3,839	2	
Natural gas	131,685	39	83,281	48	
Royalty income	556	–	744	–	
Total	337,953	100	173,864	100	

Revenues for the three months ended September 30, 2008 increased by 93% to \$115.8 million from \$60.2 million for the same period of the prior year due to much higher commodity prices as well as a 25% increase in daily average production volumes.

In the third quarter of 2008, on a revenue basis, oil and liquids generated 61% of revenues from 40% of the volumes sold. This compares to 55% of revenues from 41% of volumes sold in the same period of the prior year.

PRODUCTION

	Three months ended September 30				Nine months ended September 30			
	2008		2007		2008		2007	
		%		%		%		%
Light oil (Bbls/d)	5,222	30	3,375	25	5,084	30	3,273	25
Heavy oil (Bbls/d)	1,257	7	1,949	14	1,902	11	2,092	16
NGLs (Bbls/d)	499	3	237	2	481	3	233	2
Natural gas (Mcf/d)	61,329	60	48,989	59	56,001	56	44,421	57
BOE/d (6:1)	17,200	100	13,726	100	16,800	100	13,002	100

Average production volumes of 17,200 BOE/d for the third quarter of 2008 were 25% greater than the average of 13,726 BOE/d in third quarter 2007. By product, production volumes increased from Q3 2007 as follows: light oil volumes by 55%, natural gas volumes by 25% and natural gas liquids volumes by 111%. Heavy oil volumes decreased by 36%.

COMMODITY PRICING AND MARKETING

Petroleum products are sold to major Canadian marketers at spot reference prices based on US WTI for crude oil and AECO for natural gas. As a means of managing the risk of commodity price volatility, Galleon entered into one term natural gas contract and six crude oil financial contracts. The natural gas contract for 10,000 GJ/day was put in place on January 8, 2008 and has a term from February 1 to December 31, 2008 with pricing subject to a costless collar of \$6.00/GJ and \$8.00/GJ Canadian.

An additional natural gas contract was acquired with Adamant. This second contract is for 8,500 GJ/day and was put in place from January 1, 2008 through December 31, 2008 with pricing subject to a costless collar of \$6.00/GJ to \$7.00/GJ Canadian. At the date of acquisition, this contract represented a \$5.3 million liability which will be amortized into income over the remaining life of the contract. At September 30, 2008, the balance of this liability was \$2.3 million. For the three and nine months ended September 30, 2008, the natural gas contracts had realized gains of \$2,117 and realized losses of \$2,867,802 respectively.

Galleon has six crude oil costless collar contracts:

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

For the three and nine months ended September 30, 2008, the crude oil contracts resulted in realized losses of \$9.5 million and \$23.2 million, respectively. Unrealized losses of \$3.3 million were recorded as a liability based on the mark to market value at September 30, 2008 of these financial contracts. The contracts will protect base line revenues if the WTI crude oil benchmark falls below the floor prices. The contracts will be settled monthly based on the average USD and CDN WTI benchmark prices. Galleon will receive payments on the contracts if the benchmark USD and CDN WTI prices fall below the set floor prices and will be required to make payments if the prices rise above the set ceiling prices. Galleon has recognized these financial instruments on its balance sheet at fair value, and is accounting for these instruments using mark to market accounting.

PRICES (NET OF TRANSPORTATION)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Light oil (\$/Bbl)	115.20	78.43	109.68	71.33
Heavy oil (\$/Bbl)	98.51	40.04	80.45	37.41
Total oil including financial derivative contracts (\$/Bbl)	96.03	63.25	89.61	57.98
Total oil without financial derivative contracts (\$/Bbl)	111.96	64.38	101.72	58.10
NGLs (\$/Bbl)	73.16	64.05	68.78	60.29
Natural gas (\$/Mcf)	7.73	5.73	8.34	6.68

Light oil prices increased by 47% to \$115.20/Bbl, excluding the loss incurred from the crude oil costless collars. Average heavy oil prices of \$98.51/Bbl increased by 146% from the same period of the prior year. Average natural gas prices of \$7.73/Mcf increased by 35% from the third quarter of 2007. The average gas price calculated includes the impact of the two natural gas contracts.

PERFORMANCE BY PROPERTY

	Three months ended September 30			2007			2008
	Average Production		Operating netbacks/ BOE ¹	Average Production		Operating netbacks/ BOE ¹	Funds from operations ²
	BOE/d	%	\$	BOE/d	%	\$	%
East Montney	3,627	21	34.14	3,936	29	19.72	16
Eaglesham	3,118	18	38.77	1,909	14	23.63	16
Puskwa	2,390	14	75.24	2,058	15	55.41	24
North Peace River Arch	1,891	11	25.69	–	–	–	6
Alexis / St. Anne	1,297	8	43.34	–	–	–	7
Edam	902	5	32.29	1,787	13	9.20	4
Culp / Kimiwan	851	5	76.09	792	6	40.70	8
McLeans Creek	638	4	87.39	112	1	56.49	7
Kakut	471	3	27.38	378	3	23.48	2
Western Montney	278	2	45.12	214	2	27.98	2
Eaglesham ExAlta	171	1	36.91	–	–	–	1
Other	1,566	8	34.07	2,540	17	19.87	7
Total	17,200	100	44.42	13,726	100	26.02	100

	Nine months ended September 30			2007			2008
	Average Production		Operating netbacks/ BOE ¹	Average Production		Operating netbacks/ BOE ¹	Funds from operations ²
	BOE/d	%	\$	BOE/d	%	\$	%
East Montney	3,583	21	36.45	3,561	27	25.75	17
Eaglesham	2,907	17	47.85	1,795	14	28.71	18
Puskwa	2,495	15	65.67	1,909	15	51.82	22
North Peace River Arch	1,221	7	29.15	–	–	–	5
Alexis / St. Anne	1,213	7	40.90	–	–	–	7
Edam	1,350	8	29.71	1,932	15	10.12	5
Culp / Kimiwan	797	5	70.72	810	6	35.33	7
McLeans Creek	617	4	91.08	65	–	44.22	7
Kakut	432	3	34.06	201	2	24.13	2
Western Montney	263	2	37.31	214	2	25.51	1
Eaglesham ExAlta	201	1	41.66	–	–	–	1
Other	1,721	10	30.20	2,515	19	22.44	8
Total	16,800	100	45.02	13,002	100	27.68	100

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

² See "Non-GAAP Measurements".

Daily production for the quarter averaged 17,200 BOE, an increase of 6% from Q2 2008 and an increase of 25% from Q3 2007. Volume growth in Q3 2008 compared to the same period in 2007 was led by light oil production and included production from the ExAlta and Adamant acquisitions. Within the last year, Galleon's drilling program has been focused on the Montney resource and light oil projects. At Puskwa, Eaglesham, Culp/Kimiwan and McLeans Creek, Alberta, light oil volumes were 39% higher in Q3 2008 than in Q3 2007. At Eaglesham 3.6 Mmcf/d of Montney resource gas was brought on production in third quarter 2008. Significant production additions were also seen from Eastern Montney horizontal drilling in Q3 2008.

The Eastern Montney natural gas pool represents a significant resource to Galleon and is currently the largest producing area contributing 16% to total funds from operating activities in Q3 2008 based on 21% of production volumes.

The operating netback of \$34.14/BOE has improved by 73% from third quarter 2007 as a result of stronger 2008 natural gas prices. Production averaged 3,627 BOE/d (91% natural gas and 9% oil and liquids) during third quarter 2008 compared to 3,936 BOE/d in third quarter 2007. This decrease is a result of reduced activity on this project in the form of fewer vertical Montney gas wells being drilled in the second half of 2007 and Q1 2008. Also, some existing production was backed out of the pipelines due to the stronger pressures of the horizontal producers drilled in 2008. This production will be recaptured as the pool continues to be optimized.

Eastern Montney production in third quarter 2008 increased by 12% compared to Q2 2008. This recent production growth is primarily due to horizontal drilling technology and advancement in completion methods. Galleon's first horizontal well was drilled in Q1 2008 and commenced production in the latter part of June 2008. In third quarter 2008, six Montney horizontal wells (100% interest) were drilled. Five of these wells have been completed with multi staged fractures and are now on production. One well is waiting completion. The production data suggests that horizontal wells have a higher production profile (2 to 5 times better) and lower initial production decline rates than the vertical wells. To date, the economics of the horizontal wells have proven to be better than the vertical wells on a rate of return and reserve optimization basis. Galleon plans to drill up to 24 Montney horizontal wells in 2008, of which 10 wells have been drilled to September 30, 2008. Up to fourteen wells will be drilled in Q4 2008.

Currently, in the Eastern Montney project, Galleon owns a 30 Mmcf/d gas plant (100% interest) and an expansion to 33 Mmcf/d (100% interest) is planned for Q4 2008. A new 10 Mmcf/d gas plant (100% interest) is planned in Q1 2009 and is scheduled to be operational in early Q2 2009 increasing gas processing capacity to 43 Mmcf/d in this project. To date Galleon has drilled over 80 vertical wells and 10 horizontal wells in this project. The wells are located throughout an area covering 35 miles in length and 12 miles in width. Galleon has access to approximately 313,000 gross acres of land with Montney potential in this fairway. Galleon will test at least 2 new Montney plays along trend in Q4 2008.

Production at Eaglesham in the third quarter of 2008 averaged 3,118 BOE/day making it Galleon's second largest producing property. Production is comprised of 78% natural gas and 22% oil and liquids. Average production was 63% higher in the third quarter of 2008 compared to 1,909 BOE/d during third quarter 2007. This increase has come from success in Wabamun light oil and Montney resource gas drilling. Eaglesham contributed 16% of the third quarter 2008 funds from operations from 18% of production volumes. The operating netback of \$38.77/BOE has improved 64% from third quarter 2007 as result of stronger commodity prices in 2008. Galleon plans to drill three Wabamun wells in Q4 2008.

Puskwa production increased by 16% during third quarter 2008 compared to the same period in 2007. The operating netback was \$75.24/BOE, an improvement of 36% from third quarter 2007. These strong operating netbacks were driven by average light oil prices (net of transportation) in Q3 2008 of \$115.20/Bbl. During Q3 2008, Puskwa contributed 24% of funds from operations from 14% of the production volumes. Average production volumes at Puskwa during third quarter 2008 were comprised of 87% oil and 13% associated gas.

The Puskwa project has moved into the development stage with the implementation of two enhanced recovery schemes. Currently, wells drilled to date have confirmed that the Beaverhill Lake fairway extends over nine miles in length. The focus has been on increasing water injection capacity so as to maintain a one to one injection to production ratio. One well was drilled for this purpose in Q3 2008. Wells such as this provide a low risk method of increasing production by allowing an incremental increase of oil production for every barrel of water injected. In Q3 2008 the gas plant and oil battery were modified to increase liquids recovery from the natural gas produced and to make the waterflood operation more efficient. Galleon will continue to pursue optimization at Puskwa in Q4 2008.

No wells are planned, but work is continuing on applications for an expanded water flood and down spacing through the regulatory process. Galleon plans to drill additional wells for oil targets as well as for injection purposes in 2009.

Galleon's North Peace River Arch lands were purchased in the first half of 2008 through two corporate acquisitions: ExAlta and Adamant. This area represented 6% of funds from operating activities generated from 11% of production in third quarter 2008. Average production of 1,891 BOE/d increased by 33% in the third quarter of 2008 compared to second quarter 2008 primarily as a function of adding Adamant production to existing ExAlta production. In the third quarter of 2008, activities included re-entering old wellbores and fracturing Montney wells that had previously only been perforated. In the fourth quarter of 2008 one Montney horizontal with multi staged fractures is planned. Based on successful results, at least five follow up locations have been identified.

The Alexis and St. Anne properties were acquired in the first half of 2008. A key focus in this area will be facility consolidation and optimization. The level of drilling activity will be dictated by commodity prices.

In Q3 2008, the heavy oil wells located at Edam, Saskatchewan generated 4% of funds from operations from 5% of total production. Operating netbacks of \$32.29/BOE increased by 251% due to the increase in heavy oil prices in the third quarter 2008. Edam production was impacted during spring breakup in Q2 2008 and remains stable, but at significantly lower levels.

Culp/Kimiwan light oil has contributed 8% of funds from operations in third quarter 2008 based on 5% of production volumes. The operating netbacks of \$76.09/BOE in Q3 2008 are a result of high oil prices.

McLeans Creek has grown significantly in 2008. Production in Q3 2008 has increased by 470% compared to the same period of 2007. High netbacks and a strong drilling success rate have bolstered this project. Galleon has over 290 square kms of 3D seismic in this area and is in the process of shooting 275 square kms of new 3D seismic. Access to this 3D seismic will fuel drilling activity for many years. McLeans Creek contributed 7% of funds from operations based on 4% of the production volumes. The high netback of \$87.39/BOE in Q3 2008 is attributable to high oil prices received and a royalty holiday period. This deep oil property commenced production in December 2007.

Kakut production increased by 25% during third quarter 2008 compared to the same period in 2007. The operating netback was \$27.38/BOE in Q3 2008, an improvement of 17% from third quarter 2007. In the third quarter of 2008, six wells were drilled in the new growth area of Kakut. Five wells were cased for lower Cretaceous gas production; one was abandoned after encountering a deep over pressured gas zone. This well was cemented prior to running casing but will be redrilled as the well confirmed a high deliverability gas zone. The Kakut drilling program was focused on confirming threshold reserves for the expansion of Galleon's natural gas plant in the area. These reserves have been delineated and the expansion of the Kakut gas plant to 15 Mmcf/d is underway and is scheduled for completion in November 2008. Currently, net capacity of approximately 430 BOE/d is behind pipe. One additional medium depth well is planned for Q4 2008.

ROYALTIES

Three months ended September 30	2008	2007
(\$000s, except as indicated)		
Crown	22,709	11,592
Freehold	369	252
GORR and other	1,407	764
Gross royalties	24,485	12,608
GCA	(3,711)	(1,988)
Net royalties	20,774	10,620
% of revenue	21.1	21.0
% of revenue net of GCA	17.9	17.7
Nine months ended September 30	2008	2007
(\$000s, except as indicated)		
Crown	66,279	34,050
Freehold	1,125	1,009
GORR and other	4,904	2,174
Gross royalties	72,308	37,233
GCA	(12,231)	(7,225)
Net royalties	60,077	30,008
% of revenue	21.4	21.4
% of revenue net of GCA	17.8	17.3

Gross royalties were 21.1% of revenues for the third quarter of 2008 compared to 21.0% for the same period in 2007.

By product, for the third quarter of 2008, gross royalties were 17.1% for light oil, 26.6% for natural gas, 20.8% for heavy oil, and 15.2% for liquids. For the third quarter of 2007, gross royalties were 19.0% for light oil, 21.2% for natural gas, 21.1% for heavy oil, and 28.1% for liquids.

OPERATING COSTS

	Three months ended September 30			2008			2007		
	Production %	Operating Costs %	Operating Costs \$/BOE	Production %	Operating Costs %	Operating Costs \$/BOE	Production %	Operating Costs %	Operating Costs \$/BOE
East Montney	21	10	5.68	29	17	4.81			
Eaglesham	18	12	8.03	14	10	6.05			
Puskwa	14	9	7.70	15	6	3.16			
North Peace River Arch	11	8	8.43	–	–	–			
Alexis / St. Anne	8	7	11.18	–	–	–			
Edam	5	17	38.83	13	34	21.64			
Culp / Kimiwan	5	11	26.25	6	12	17.02			
McLeans Creek	4	4	13.29	1	1	9.29			
Kakut	3	3	11.46	3	2	5.64			
Western Montney	2	1	8.37	2	1	4.93			
Eaglesham ExAlta	1	3	38.76	–	–	–			
Other	8	15	19.74	17	17	8.38			
Total	100	100	11.95	100	100	8.35			

	Nine months ended September 30			2008			2007		
	Production %	Operating Costs %	Operating Costs \$/BOE	Production %	Operating Costs %	Operating Costs \$/BOE	Production %	Operating Costs %	Operating Costs \$/BOE
East Montney	21	11	6.10	27	13	4.22			
Eaglesham	17	11	7.39	14	9	5.59			
Puskwa	15	11	8.72	15	6	3.25			
North Peace River Arch	7	5	8.99	–	–	–			
Alexis / St. Anne	7	6	9.77	–	–	–			
Edam	8	19	27.90	15	33	19.00			
Culp / Kimiwan	5	9	23.88	6	13	17.50			
McLeans Creek	4	4	12.53	–	1	15.96			
Kakut	3	2	10.13	2	1	6.14			
Western Montney	2	2	15.01	2	2	10.52			
Eaglesham ExAlta	1	3	31.46	–	–	–			
Other	10	17	19.83	19	22	10.00			
Total	100	100	11.97	100	100	8.60			

Operating costs decreased by 6% to \$11.95/BOE for the third quarter of 2008 compared to \$12.71/BOE for Q2 2008. Operating costs were \$10.5 million or \$8.35/BOE for the same period of the prior year. Galleon's operating costs per barrel of oil equivalent excluding heavy oil costs at Edam and Alexis / St. Anne was \$10.13/BOE for the third quarter of 2008.

Galleon has experienced higher costs associated with operating crude oil wells compared to the costs of operating natural gas wells. Some of the more significant costs of operating crude oil wells include trucking, artificial lift and maintenance costs.

In the Eastern Montney natural gas project, operating costs were \$5.68/BOE in Q3 2008 compared to \$4.81/BOE in the third quarter of 2007. Operating costs are expected to continue to average below \$6.00/BOE in 2008.

Eaglesham operating costs for the third quarter of 2008 were \$8.03/BOE compared to \$6.05/BOE in 2007 of which \$1.83/BOE were related to well service, workovers, and compressor maintenance. Operating costs are expected to average below \$8.00/BOE in 2008.

Operating costs at Puskwa were \$7.70/BOE in the third quarter of 2008 compared to \$3.16/BOE in 2007. Operating cost increases include \$0.47/BOE of annual lease maintenance and \$1.91/BOE of workovers and facility turnaround costs due to a greater percentage of pumping oil wells in 2008 compared to flowing wells in 2007. Operating costs for the remainder of the year are expected to continue to average below \$8.00/BOE at Puskwa.

GENERAL AND ADMINISTRATION EXPENSES

Three months ended September 30		2008		2007	
(\$000s)		\$/BOE		\$/BOE	
Gross	4,978	3.15	2,742	2.17	
Capitalized overhead	(1,306)	(0.83)	(949)	(0.75)	
Overhead recoveries	(434)	(0.27)	(286)	(0.23)	
	3,238	2.05	1,507	1.19	

Nine months ended September 30		2008		2007	
(\$000s)		\$/BOE		\$/BOE	
Gross	13,781	2.99	7,830	2.21	
Capitalized overhead	(3,348)	(0.73)	(2,470)	(0.70)	
Overhead recoveries	(1,126)	(0.24)	(792)	(0.22)	
	9,307	2.02	4,568	1.29	

Gross general and administrative expenses (G&A) have increased to \$3.15/BOE in third quarter 2008 compared to \$2.17/BOE in third quarter 2007. This increase is primarily due to an increase in staffing levels required to manage the growth of the company. Also, in April 2008, Galleon relocated to new and larger office space in order to accommodate the addition of employees and consultants. The office space was 150% greater in area with a rate increase of approximately 30% per square foot. The rate increase reflects current market rates compared to those in 2005. Net G&A expenses of \$2.05/BOE for the third quarter of 2008 increased by \$0.86/BOE compared to the same period of the previous year.

To September 30, 2008, gross G&A has increased by \$0.78/BOE and net G&A has increased by \$0.73/BOE compared to the same periods in 2007. Galleon expects that net G&A will average below \$2.20/BOE in 2008.

G&A by category	Three months		Nine months	
	ended September 30		ended September 30	
	2008	2007	2008	2007
	%	%	%	%
Salary and employee	53	51	50	51
Office	24	23	24	20
Consulting	9	10	9	9
Computer	6	6	6	6
Investor relations and communications	1	1	2	2
Audit, engineering and legal	4	4	5	8
Other	3	5	4	4
	100	100	100	100

INTEREST

Interest expense of \$2.8 million for the three months ended September 30, 2008 was slightly higher than \$2.7 million in the same period of the prior year due to increased average debt levels. At September 30, 2008 an amount of \$227.3 million was drawn against the Corporation's credit facility of \$310.0 million.

STOCK BASED COMPENSATION

Stock based compensation was a non-cash expense of \$1.3 million for the three month period ending September 30, 2008 compared to \$2.1 million in the same period of the prior year. During the third quarter of 2008, 570,000 stock options were granted to employees and new directors at an average exercise price of \$14.93 having fair values of between \$3.17 and \$4.17 per option.

At September 30, 2008, 6,026,984 stock options were outstanding at an average exercise price of \$13.30.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion and depreciation ("D&D") charges were \$34.4 million or \$21.74/BOE for the three months ended September 30, 2008 compared to \$32.4 million or \$22.01/BOE in second quarter 2008 and to \$25.4 million or \$20.13/BOE for the same period of the prior year. The D&D rate increase in the first and second quarters of 2008 was due to the ExAlta and Adamant acquisitions. The D&D rate decrease in third quarter 2008 was due to lower finding costs of reserves from the drilling program. Reserve additions for the nine months ended September 30, 2008 were estimated internally.

As at September 30, 2008, \$103.1 million (September 30, 2007 - \$87.4 million) of undeveloped land and seismic have been excluded from, and \$107.2 million (September 30, 2007 - \$83.9 million) in future development costs have been added into, the full cost pool for depletion purposes.

Accretion expense on the Corporation's asset retirement obligation was \$601,000 for the third quarter of 2008 compared to \$370,000 in the same quarter of the prior year. Accretion expense increased due to a greater asset retirement obligation which is driven by the number of wells and facilities in which Galleon has an interest.

CAPITAL AND FUTURE TAXES

The current tax provision of \$284,000 for the third quarter was comprised of Saskatchewan capital and resource taxes, as was the \$229,000 provision for the third quarter of 2007. The provision is calculated based on revenues earned in Saskatchewan. It is not expected that Galleon will pay any income taxes in 2008.

The provision for future income taxes was \$15.1 million for the third quarter of 2008 compared to \$1.2 million for the same period in the prior year. The increase in future taxes was a result of higher net earnings during the period.

CAPITAL EXPENDITURES

	(\$000s)
Property & equipment balance at December 31, 2007	739,643
Additions to property and equipment (including well abandonments)	194,984
Acquisition of property and equipment	9,511
Acquisition of ExAlta	92,345
Acquisition of Adamant	71,668
Asset retirement obligation acquired	7,834
Asset retirement obligation additions	3,229
Depletion and depreciation	(100,454)
Property & equipment balance at September 30, 2008	1,018,760

Three months ended September 30	2008		2007	
(\$000s)		%		%
Land	5,959	7	3,158	6
Geological and geophysical	1,668	2	3,925	7
Drilling and completion	62,138	70	36,971	68
Plant and facilities	18,881	21	10,116	19
Other assets	156	–	131	–
Exploration and Development Expenditures	88,802	100	54,301	100

Nine months ended September 30	2008		2007	
(\$000s)		%		%
Land	11,730	6	8,603	6
Geological and geophysical	9,744	5	10,055	7
Drilling and completion	125,539	64	92,764	67
Plant and facilities	46,801	24	28,164	20
Other assets	1,170	1	317	–
Exploration and Development Expenditures	194,984	100	139,903	100

Exploration and development expenditures during the third quarter of 2008 were \$88.8 million which included the drilling and completion of 31 gross (29 net) wells.

Facilities expenditures of \$18.9 million were incurred with land and seismic expenditures of \$6.0 million and \$1.7 million, respectively, in third quarter 2008.

LIQUIDITY AND CAPITAL RESOURCES

September 30	2008	2007
(\$000s)		
Bank debt	227,297	136,295
Capital leases – non current	1,932	–
Working capital deficiency	31,757	22,478
Total net debt	260,986	158,773

FUNDING OF CAPITAL PROGRAM

Three months ended September 30	2008	2007
(\$000s)		
Issuance of shares, net of costs	1,551	57,299
Funds from operations	58,331	32,565
Change in bank debt	3,735	(31,796)
Change in debt and working capital from acquisitions	289	–
Change in capital leases	(535)	–
Change in working capital and other	27,458	12,305
	90,829	70,373

Nine months ended September 30	2008	2007
(\$000s)		
Issuance of shares, net of costs	11,263	87,842
Funds from operations	174,933	95,568
Change in bank debt	63,919	13,298
Change in debt and working capital from acquisitions	(36,658)	–
Change in capital leases	(1,643)	–
Change in working capital and other	(604)	(6,580)
	211,210	190,128

Capital expenditures incurred to September 30, 2008 were funded by funds from operations, bank debt and working capital. Galleon expects to fund Q4 2008 capital expenditures through the same combination of available resources.

The capital intensive nature of the Corporation's activities generally results in creating a working capital deficiency position during periods of high levels of capital investment. Galleon maintains sufficient unused bank credit facilities to satisfy such working capital deficiencies.

At September 30, 2008, the Corporation has extendible revolving term credit facilities of \$310 million in place with a bank syndicate. The facilities bear interest at rates ranging from the bank's prime rate to prime plus 0.75% per annum on \$290 million and at rates ranging from the bank's prime rate plus 0.95% to prime plus 1.75% on \$20 million based on the Corporation's debt to cash flow ratio. The Corporation may also borrow at the prevailing Banker's Acceptance rate. Collateral for the facilities consists of a demand debenture for \$500 million collateralized by a first floating charge over all of the property and equipment of the Corporation. At September 30, 2008, an amount of \$227.3 million was drawn against the credit facilities (September 30, 2007 - \$136.3 million). A mid-year review is scheduled to be completed before November 30, 2008.

COMMITMENTS

Drilling Rig

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

Year Amount	(\$000s)
2009	3,145

Minimum Lease Payments

At September 30, 2008 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

Year	Amount	(\$000s)
2008		644
2009		2,514
2010		1,800

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

Vehicle and Equipment

At September 30, 2008 the Corporation committed to future minimum payments under leases for vehicles and compressors, under operating leases, as follows:

Year	Amount (\$000s)
2008	296
2009	541

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

Amount	(\$000s)
2008	615
2009	2,274
2010	1,605
Total minimum lease payments	4,494
Less interest included in payments	(284)
Principal portion of minimum lease payments	4,210
Less current portion	(2,278)
Capital lease obligation at September 30, 2008	1,932

Flow-through Shares

In connection with the Corporation's flow-through share offering in 2007, Galleon is obligated to spend \$60.0 million on qualifying exploration expenses prior to December 31, 2008. As at September 30, 2008, all of the required qualifying expenditures have been incurred.

FINANCIAL INSTRUMENTS

Refer to the "Commodity Pricing and Marketing" section.

BUSINESS RISKS

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

Galleon employs highly qualified people, uses sound operating and business practices, and evaluates all potential and existing wells using the latest applicable technology. Galleon complies with government regulations and has in place an up-to-date emergency response program.

Environment and safety policies and standards are adhered to. Asset retirement obligations are recognized upon acquisition, construction, development and/or normal use of the assets. Galleon maintains property and liability insurance coverage. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

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 six financial contracts with a Canadian chartered bank and two term natural gas contracts (see "Commodity Pricing and Marketing" for details). The Corporation also manages these risks by maintaining a healthy balance sheet with prudent levels of debt measured by debt to funds from operations and debt coverage ratios. This allows for strong financial capacity to maintain exploration and development activities in any downturn in commodity prices. 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.

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.

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008, Galleon adopted several new CICA standards, section 1400 "General Standards of Financial Statement Presentation", section 1535 "Capital Disclosures", section 3031 "Inventories", section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation".

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

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

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

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

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 previous fiscal year. Galleon is currently evaluating the impact of adopting IFRS.

CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

Galleon has established disclosure controls and procedures to provide reasonable assurance that material information relating to Galleon, including its consolidated subsidiaries, is made known to the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) by others within those entities, particularly during the period in which the annual and interim filings have been prepared. The CEO and the 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.

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 the Corporation’s most recent interim period that has materially affected, or are reasonably likely to materially affect, the Corporation’s internal controls over financial reporting.

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

SHARE INFORMATION

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

	2008	2007
Class A shares outstanding		
Basic	73,100,993	63,140,552
Diluted ¹	79,127,977	68,891,502
Class B shares outstanding	922,500	922,500
Class A shares issuable on conversion of Class B shares ²	984,525	602,154

¹ Includes total outstanding options of 6,026,984 (September 30, 2007 – 5,750,950).

² Assumes a conversion at the September 30, 2008 closing price of \$9.37 per Class A share (September 30, 2007 - \$15.32). The actual conversion rate varies based on a formula related to the trading price of the Class A shares.

At September 30, 2008, the market value of Galleon's class A and class B shares was \$693.7 million based on the September 30, 2008 closing price of \$9.37 per class A share and \$9.45 per class B share. As of November 13, 2008, the number of class A shares, class B shares, and options outstanding are 73,450,493, 922,500 and 5,767,485 respectively.

ADDITIONAL INFORMATION

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

OUTLOOK

Galleon has identified the catalysts to achieve growth and value in 2009. The business plan focuses on low risk and low costs projects that are repeatable, predictable and with size. The 2009 target is to grow both production and reserves per share by 10% to 20% above the 2008 levels.

Eastern Montney resource project

This project is a large potential resource with a drilling inventory of over 300 horizontal locations. Production and reserves can be added at a low cost. The economics of this project are strong. Current production is over 4,000 BOE/d which reflects a consistent drilling success exceeding 90%.

Central and Western Montney resource project

During 2008, Galleon discovered three large potential resource pools which are currently producing over 5 Mmcf/d. In addition, approximately 6 Mmcf/d of natural gas and 200 Bbl/d of liquids are behind pipe waiting on facility completion (on stream in late Q4 2008/early Q1 2009).

Light oil projects

Galleon has discovered one light oil resource pool and the current inventory exceeds 200 locations. Through consistent drilling success in our projects at Eaglesham, Puskwá, McLeans Creek and Kimiwan/Culp, production growth has generated and will continue to generate substantial cash flow for reinvestment in the resource projects.

Financial capacity

The 2009 capital expenditure program will be funded from cash flow generated from a solid production base. Should commodity prices continue to weaken further, Galleon is prepared to cut budgeted capital expenditures to match the reduced funds from operations resulting from the weaker commodity prices.

Galleon has access to credit facilities of \$310 million of which \$60 million is estimated to be unused at December 31, 2008.

Quarterly Highlights

	2008				2007		2006	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Production								
Light oil (Bbl/d)	5,222	4,629	4,871	4,419	3,375	3,317	3,127	2,419
Heavy oil (Bbl/d)	1,257	2,066	2,919	1,746	1,949	2,247	2,081	2,100
Natural Gas (Mcf/d)	61,329	53,971	52,644	49,486	48,989	45,314	38,845	36,733
Liquids (Bbl/d)	499	501	441	283	237	256	206	230
BOE/d	17,200	16,191	17,005	14,695	13,726	13,372	11,888	10,869
Total BOE produced	1,582,369	1,473,414	1,547,476	1,351,986	1,262,762	1,216,855	1,069,915	999,982
Daily BOE of production per million Class A shares – basic¹								
	236	229	254	232	229	226	206	191
Prices (net of transportation)								
Light oil (\$/Bbl)	115.20	120.68	94.79	83.38	78.43	70.12	63.24	63.03
Heavy oil (\$/Bbl)	98.51	88.93	63.52	37.32	40.04	35.89	36.55	31.16
Crude oil (\$/Bbl)	111.96	110.88	85.20	64.40	63.25	56.30	52.57	47.19
Natural Gas (\$/Mcf)	7.73	9.65	7.73	6.16	5.73	7.14	7.36	6.84
NGUs (\$/Bbl)	73.16	71.19	59.59	72.90	64.05	59.67	56.64	56.02
Per BOE (\$)								
Revenues	73.20	81.85	65.60	52.77	47.64	49.91	49.51	45.26
Royalties, net of ARTC and GCA	(13.13)	(14.29)	(11.79)	(8.55)	(8.41)	(9.04)	(7.84)	(6.02)
Transportation costs	(1.35)	(1.64)	(1.04)	(1.18)	(1.13)	(1.16)	(1.47)	(1.37)
Operating costs	(11.95)	(12.71)	(11.28)	(10.52)	(8.35)	(8.63)	(8.86)	(9.65)
Net	46.77	53.21	41.49	32.52	29.75	31.08	31.34	28.22
Other revenue	0.07	0.07	0.08	–	–	–	–	–
G&A	(2.05)	(2.51)	(1.53)	(2.00)	(1.19)	(1.48)	(1.18)	(2.67)
Interest	(1.74)	(2.02)	(1.81)	(1.83)	(2.14)	(2.20)	(2.10)	(1.49)
Capital and other taxes	(0.18)	(0.24)	(0.22)	0.05	(0.18)	(0.41)	(0.21)	(0.21)
Realized gain (loss) on financial derivative	(6.00)	(7.00)	(2.18)	(2.49)	(0.44)	–	0.35	–
Funds from operations¹	36.87	41.51	35.83	26.25	25.80	26.99	28.20	23.85

¹See “Non-GAAP Measurements”

Quarterly Highlights

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

(unaudited)	2007			2006
	Q3	Q2	Q1	Q4
Financial (\$000s)				
Revenues	60,156	60,734	52,974	45,264
Operating costs	(10,547)	(10,507)	(9,478)	(9,651)
General & Administrative expenses	(1,507)	(1,797)	(1,264)	(2,670)
Interest	(2,707)	(2,681)	(2,246)	(1,487)
Funds from operations¹	32,566	32,834	30,170	23,857
Per share, basic ¹	0.54	0.55	0.52	0.42
Per share, diluted ¹	0.53	0.54	0.50	0.40
Earnings	1,590	3,270	3,921	1,906
Per share, basic	0.03	0.06	0.07	0.03
Per share, diluted	0.03	0.05	0.07	0.03
Total assets	743,932	699,112	692,749	614,565
Weighted average outstanding Class A shares-basic	59,880,135	59,204,393	57,800,899	56,761,415
Weighted average outstanding Class A shares-diluted	61,724,550	61,175,217	59,947,494	59,234,229

¹ See "Non-GAAP Measurements".

Consolidated Balance Sheets

As at	September 30, 2008	December 31, 2007
(\$000s) (unaudited)		
ASSETS		
Current		
Accounts receivable	48,535	35,406
Deposits and prepaid expenses	10,655	5,459
	59,190	40,865
Goodwill (notes 3 and 4)	34,891	16,022
Equipment inventory	8,498	2,829
Property and equipment (notes 3, 4, 5, 6, 7 and 8)	1,018,760	739,643
	1,121,339	799,359
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	88,669	71,044
Gas contract (note 5)	2,289	–
Capital leases (notes 4 and 9)	2,278	–
Bank loan (note 8)	227,297	163,378
Fair value of financial derivatives (note 13)	3,308	9,075
	323,841	243,497
Asset retirement obligation (note 7)	36,049	25,535
Capital leases (notes 4 and 9)	1,932	–
Future income taxes (note 11)	98,167	52,299
	459,989	321,331
SHAREHOLDERS' EQUITY		
Share capital (note 10)	545,432	419,011
Contributed surplus (note 10)	21,814	19,064
Retained earnings	94,104	39,953
	661,350	478,028
	1,121,339	799,359

See accompanying notes

Consolidated Statements of Earnings

COMPREHENSIVE INCOME AND RETAINED EARNINGS

(\$000s, except per share amounts) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
REVENUE				
Petroleum and natural gas revenue	115,835	60,156	337,953	173,864
Royalties, net of GCA	(20,774)	(10,620)	(60,077)	(30,008)
Gain on gas contract (note 5)	2,288	–	3,051	–
Other income	105	–	333	–
	97,454	49,536	281,260	143,856
EXPENSES				
Operating	18,917	10,547	55,103	30,533
Transportation	2,140	1,430	6,171	4,424
General and administration	3,238	1,507	9,307	4,568
Interest	2,759	2,707	8,539	7,634
Stock-based compensation (note 10)	1,302	2,083	6,344	6,137
Accretion	601	370	1,633	1,043
Depletion and depreciation	34,402	25,414	100,454	72,416
Realized loss on financial derivative (note 13)	9,497	551	23,175	178
Unrealized loss (gain) on financial derivative (note 13)	(28,872)	1,930	(5,767)	1,477
	43,984	46,539	204,959	128,410
EARNINGS BEFORE TAXES	53,470	2,997	76,301	15,446
Income taxes (note 11)				
Capital and other taxes	284	229	981	951
Future income taxes	15,125	1,177	21,169	5,713
	15,409	1,406	22,150	6,664
NET EARNINGS AND COMPREHENSIVE INCOME	38,061	1,591	54,151	8,782
RETAINED EARNINGS, BEGINNING OF PERIOD	56,043	38,858	39,953	31,667
RETAINED EARNINGS, END OF PERIOD	94,104	40,449	94,104	40,449
NET EARNINGS AND COMPREHENSIVE INCOME PER SHARE (note 10)				
Basic	0.52	0.03	0.77	0.15
Diluted	0.51	0.03	0.76	0.14
Weighted average Class A shares – basic	72,938,357	59,880,135	70,231,232	58,969,425
– diluted	73,955,365	61,724,550	71,473,655	60,845,685

See accompanying notes

Consolidated Statements of Cash Flows

(\$000s) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings	38,061	1,591	54,151	8,782
Items not requiring cash:				
Future income taxes	15,125	1,177	21,169	5,713
Depletion and depreciation	34,402	25,414	100,454	72,416
Accretion	601	370	1,633	1,043
Stock-based compensation	1,302	2,083	6,344	6,137
Unrealized loss (gain) on financial derivative	(28,872)	1,930	(5,767)	1,477
Gain on gas contract	(2,288)	–	(3,051)	–
Abandonment costs	(988)	(386)	(2,182)	(842)
Change in non-cash working capital	9,819	2,689	(7,751)	(993)
	67,162	34,868	165,000	93,733
FINANCING ACTIVITIES				
Issue of common shares	1,551	60,578	11,444	92,757
Share issue costs	–	(3,279)	(181)	(4,915)
Capital lease payment	(535)	–	(1,643)	–
Working capital assumed on acquisition of ExAlta (note 4)	–	–	(44,966)	–
Working capital assumed on acquisition of Adamant (note 5)	289	–	8,308	–
Bank loan	3,735	(31,796)	63,919	13,298
	5,040	25,503	36,881	101,140
INVESTING ACTIVITIES				
(Additions to) disposal of equipment inventory	(1,804)	(385)	(4,371)	68
Additions to oil and gas properties	(88,802)	(54,301)	(194,984)	(139,903)
Acquisition of oil and gas properties (note 3, 4, 5 and 6)	(223)	(15,687)	(11,855)	(50,293)
Change in non-cash working capital	18,627	10,002	9,329	(4,745)
	(72,202)	(60,371)	(201,881)	(194,873)
CHANGE IN CASH	–	–	–	–
CASH, BEGINNING AND END OF PERIOD	–	–	–	–
SUPPLEMENTARY INFORMATION				
Cash interest paid	3,158	2,357	8,933	7,524
Cash taxes paid	277	265	915	542

See accompanying notes

Notes to the Consolidated Financial Statements

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

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

1. ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

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

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and follow the same accounting policies as the financial statements for the year ended December 31, 2007, except as noted below.

These notes do not include all disclosures required in annual financial statements and are incremental to, and should be read in conjunction with the audited financial statements for the year ended December 31, 2007.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

As of January 1, 2008, Galleon adopted several new CICA standards, section 1400 "General Standards of Financial Statement Presentation", section 1535 "Capital Disclosures", section 3031 "Inventories", section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation".

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

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

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

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

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 previous fiscal year. Galleon is currently evaluating the impact of adopting IFRS.

Accounting for Leases

The Corporation's leases are classified as either capital or operating. Assets under capital lease are initially recorded at the present value of the minimum lease payments at inception of the lease. Payments under operating leases are expensed as incurred.

3. ACQUISITION OF PARTNERSHIP

On February 1, 2007, the Corporation closed a transaction resulting in an acquisition of an interest in a partnership and the minority partnership's holdings resulting in a 100% consolidated interest. The partnership held oil and gas assets within Galleon's core area of Dawson, Alberta. The total consideration of \$28.7 million was paid in cash. The business combination has been accounted for as a purchase as at the closing date of the transaction, with the purchase price allocated to assets and liabilities as follows:

Allocation of Purchase Price	\$
Property and equipment	30,874
Goodwill	5,883
Asset retirement obligation	(980)
Future income taxes	(7,045)
	<u>28,732</u>
Calculation of Purchase Price	
Cash for purchase of interest	28,664
Transaction costs	68
	<u>28,732</u>

4. ACQUISITION OF EXALTA ENERGY INC.

On January 16, 2008, the Corporation acquired all of the outstanding common shares of ExAlta Energy Inc. ("ExAlta"). The ExAlta acquisition was accounted for by the purchase method and shares were acquired for an aggregate of \$62.5 million by the issuance of 4,334,856 Class A shares of Galleon at a value of \$14.42 per share plus the assumption of \$48.5 million of net debt including capital leases. The acquisition has been accounted for as a purchase as at the closing date of the transaction, with the purchase price allocated on a preliminary basis to assets and liabilities as follows:

Allocation of Purchase Price	\$
Property and equipment	95,748
Equipment inventory	1,027
Goodwill	18,869
Future income taxes	582
Bank debt and working capital assumed (including bank debt of \$43.1 million)	(44,966)
Asset retirement obligation	(3,403)
Capital lease	(3,575)
	64,282

Calculation of Purchase Price

Fair value of shares issued	62,509
Transaction costs	1,773
	64,282

5. ACQUISITION OF ADAMANT ENERGY INC

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

Allocation of Purchase Price	\$
Property and equipment	76,099
Equipment inventory	271
Working capital assumed (including cash of \$2.4 million)	8,308
Future income taxes	(9,130)
Asset retirement obligation	(4,431)
Gas contract	(5,340)
	65,777

Calculation of Purchase Price

Fair value of shares issued	65,206
Transaction costs	571
	65,777

The gas contract will be amortized over the term of the contract which expires December 31, 2008.

6. PROPERTY AND EQUIPMENT

On July 3, 2007 the Corporation purchased oil and gas properties in the Eaglesham/Kakut area of Alberta for cash of \$15.7 million. An asset retirement obligation of \$436,367 was recorded.

On June 29, 2007 the Corporation purchased oil and gas properties in the Shadow area of Alberta for cash of \$5.1 million. An asset retirement obligation of \$65,750 was recorded.

As at September 30, 2008, \$103.1 million (September 30, 2007 - \$87.4 million) of undeveloped land and seismic have been excluded from and \$107.2 million (September 30, 2007 - \$83.9 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, 2008, \$329,088 and \$898,810, respectively (September 30, 2007 - \$261,749 and \$612,123 respectively) of exploration salaries have been capitalized.

As at September 30, 2008

	Cost	Accumulated depletion	Net book value
	\$	\$	\$
Petroleum and natural gas properties & equipment	1,449,044	(437,865)	1,011,179
Equipment under capital lease	10,601	(4,772)	5,829
Office furniture and equipment	3,030	(1,278)	1,752
	1,462,675	(443,915)	1,018,760

As at December 31, 2007

	Cost	Accumulated depletion	Net book value
	\$	\$	\$
Petroleum and natural gas properties & equipment	952,752	(213,401)	739,351
Equipment under capital lease	–	–	–
Office furniture and equipment	1,025	(733)	292
	953,777	(214,134)	739,643

7. ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately \$78.0 million, which will be incurred over the next 18 years. Credit adjusted risk free rates of 5% and 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

	Nine months ended September 30, 2008	Year ended December 31, 2007
	\$	\$
Balance, beginning of year	25,535	21,432
Accretion expense	1,633	1,949
Liabilities incurred	3,229	3,346
Liabilities acquired	7,834	980
Revision of liabilities	–	–
Settlement of liabilities	(2,182)	(2,172)
Balance, end of period	36,049	25,535

8. AVAILABLE CREDIT FACILITY

The Corporation has extendible revolving term credit facilities of \$310 million in place with a bank syndicate. The facilities bear interest at rates ranging from the bank's prime rate to prime plus 0.75% per annum on \$290 million and at rates ranging from the bank's prime rate plus 0.95% to prime plus 1.75% on \$20 million based on the Corporation's debt to cash flow ratio. The Corporation may also borrow at the prevailing Banker's Acceptance rate. Collateral for the facilities consists of a demand debenture for \$500 million collateralized by a first floating charge over all of the property and equipment of the Corporation. At September 30, 2008, an amount of \$227.3 million was drawn against the credit facilities (December 31, 2007 - \$163.4 million).

9. CAPITAL LEASE OBLIGATIONS

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

	\$
2008	615
2009	2,274
2010	1,605
Total minimum lease payments	4,494
Less interest included in payments	(284)
Principal portion of minimum lease payments	4,210
Less current portion	(2,278)
Capital lease obligation at September 30, 2008	1,932

Interest expense of \$0.1 million and \$0.2 million, respectively, was incurred on the capital leases during the three and nine month periods ending September 30, 2008 (September 30, 2007 – \$nil million and \$nil million, respectively).

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

End of lease term	Outstanding principal	Purchase price at end of lease	Interest rate
June 2009	\$164	\$142	2.2 percent above the 30-day bankers' acceptance rate
October 2009	\$262	–	2.1 percent above the 30-day banker's acceptance rate
December 2009	\$1,266	–	6.0 percent
September 2010	\$2,518	\$1,000	6.3 percent

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

10. 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, 2007 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.

	Number of Shares	Amount \$
Balance at December 31, 2006 (a)	57,712,077	334,662
Issued for cash (b)	1,869,200	30,001
Issue of flow-through shares for cash (b)	2,944,900	60,000
Issued for cash on exercise of stock options	689,375	3,256
Tax effect of flow through shares	-	(11,692)
Share issue costs, net of tax of \$1,431	-	(3,494)
Transfer from contributed surplus	-	1,071
Balance at December 31, 2007	63,215,552	413,804
Issued as consideration for shares in ExAlta Energy Inc. (b)	4,334,856	62,509
Issued for cash on exercise of stock options	247,866	1,838
Tax effect of flow through shares	-	(16,200)
Share issue costs, net of tax of \$25	-	(67)
Transfer from contributed surplus	-	599
Balance at March 31, 2008	67,798,274	462,483
Issued as consideration for shares in Adamant Energy Inc. (b)	4,193,288	65,206
Issued for cash on exercise of stock options	826,265	8,055
Share issue costs, net of tax of \$24	-	(65)
Transfer from contributed surplus	-	2,527
Balance at June 30, 2008	72,817,827	538,206
Issued for cash on exercise of stock options	283,166	1,551
Transfer from contributed surplus	-	468
Balance at September 30, 2008	73,100,933	540,225
Class B shares		
Balance at September 30, 2008 and December 31, 2007	922,500	5,207
Total share capital at September 30, 2008	74,023,493	545,432

- 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 May 9, 2008, the Corporation issued 4,193,288 Class A shares at \$15.55 per share as consideration for shares in Adamant Energy Inc. as described in Note 5.

On January 16, 2008, the Corporation issued 4,334,856 Class A shares at \$14.42 per share as consideration for shares in ExAlta Energy Inc. as described in Note 4.

On September 28, 2007, the Corporation issued 1,869,200 Class A shares at \$16.05 per share and 1,463,400 flow-through Class A shares at \$20.50 per share pursuant to a public offering for aggregate gross proceeds of \$60.0 million. As at September 30, 2008 all of the required qualifying expenditures have been incurred with respect to these issuances.

On April 19, 2007, the Corporation issued 1,481,500 flow-through Class A shares at \$20.25 per share by way of private placement for gross proceeds of \$30.0 million. As at September 30, 2008, all of the required qualifying expenditures have been incurred with respect to this issuance.

The tax effect of \$16.2 million related to the renouncement in January 2008 of the flow-through shares was recorded in Q1 2008.

The Corporation has a share option plan which was approved on May 19, 2005 and amended on August 25, 2005, June 19, 2007 and May 13, 2008. In 2008, 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 of the options vest immediately, and one third vest 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, 2008	Year ended December 31, 2007
	\$	\$
Contributed surplus, beginning of period	19,064	11,619
Stock based compensation expense	6,344	8,516
Transfer to share capital	(3,594)	(1,071)
Contributed surplus, end of period	21,814	19,064

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 2.00-4.51%; dividend yield of 0%; volatility factors of the market price of the Corporation's common shares of 37-46%; and, an average expected life of the options of 3 years.

	Number of Shares ¹	Weighted Average Exercise Price ¹ \$
Outstanding, December 31, 2006	5,310,325	10.28
Granted	1,720,000	15.51
Forfeited	(130,000)	(9.60)
Exercised	(689,375)	(4.72)
Outstanding, December 31, 2007	6,210,950	12.36
Granted	965,000	13.80
Forfeited	(131,667)	(19.58)
Exercised	(247,866)	(7.42)
Outstanding, March 31, 2008	6,796,417	12.64
Granted	430,000	18.18
Forfeited	(186,667)	(21.59)
Exercised	(826,265)	(9.75)
Outstanding, June 30, 2008	6,213,485	13.10
Granted	570,000	14.93
Forfeited	(473,335)	(17.32)
Exercised	(283,166)	(5.47)
Outstanding, September 30, 2008	6,026,984	13.30

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, 2008, 2,800,001 and 2,424,166 options, respectively have been excluded from the diluted earnings per share calculation as they are anti-dilutive (September 30, 2007 – 2,040,000 and 1,915,000, respectively). For the three and nine months ended September 30, 2008, the dilutive weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 74,599,119 and 72,059,369, respectively (September 30, 2007 – 62,292,072 and 61,403,761, respectively).

11. INCOME TAXES

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

	September 30, 2008	December 31, 2007
	\$	\$
Property and equipment	95,937	47,108
ACRI benefit	(870)	(870)
Share issue costs	(2,924)	(3,716)
Asset retirement obligation	(449)	(209)
Non-capital losses	(44,548)	(27,020)
Gas contract	(618)	–
Partnership income tax deferral	53,669	39,517
Capital leases	(1,137)	–
Financial derivative	(893)	(2,511)
Future income tax liability	98,167	52,299

12. COMMITMENTS

Drilling Rig

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

Year	Amount \$
2009	3,145

Minimum Lease Payments

At September 30, 2008 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

Year	Amount \$
2008	644
2009	2,514
2010	1,800

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

Vehicle and equipment

At September 30, 2008 the Corporation committed to future minimum payments under leases for vehicles and equipment, under operating leases, as follows:

Year	Amount \$
2008	296
2009	541

Litigation

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

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Fair value of financial assets

The Corporation's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable, bank loan and financial derivative ("financial instruments"). The carrying value of accounts receivable and accounts payable approximated their fair values at September 30, 2008 due to their short-term nature. The carrying value of the bank loan approximates fair value due to the floating interest rate on the facility. The fair value of the financial derivative is recognized on the balance sheet as described below.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A portion of the Corporation's production is currently sold through joint venture partners under normal industry sale and payment terms. As at September 30, 2008, approximately 56% of the accounts receivable balance is due from two customers, compared to 60% at September 30, 2007. These customers are considered to have high credit worthiness. The Corporation generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners. No provision has been made for past due receivables as of September 30, 2008 as the Corporation has assessed there are no impaired receivables.

As at September 30, the aging analysis of trade receivables is as follows:

	2008 \$
Current	42,683
30 – 60 days	227
60 – 90 days	1,794
greater than 90 days	3,831
Total	48,535

Liquidity risk

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

Interest rate risk

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

Market risk

Market risk is the risk of uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk and interest rate risk. It is estimated that annual cash flow would change approximately by \$2.0 million and by \$4.8 million, respectively, due to a \$1 USD WTI and a \$0.25/Mcf CDN change in oil and natural gas prices.

The Corporation has the following costless collar financial derivatives in place for crude oil as at September 30, 2008:

Crude Oil

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

Galleon has entered into the above financial derivative contracts for the purpose of protecting funds generated from operations from the volatility of crude oil prices. For the three and nine months ended September 30, 2008, the contracts had realized losses of \$9.5 million and \$23.2 million, respectively (September 30, 2007, \$0.6 million and \$0.2 million, respectively). The Corporation recognizes the fair value of its financial derivatives on the balance sheet each reporting period with the change in fair value recognized as an unrealized gain or loss on the statement of earnings. The fair value is based on quoted market prices. At September 30, 2008 the fair value was estimated to be a liability of \$3.3 million.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values can be determined by reference to prices for that instrument in active markets to which the Corporation has access. Fair value is determined using inputs that are quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. In determining fair values, the Corporation uses quoted prices for identically traded commodities obtained from active exchanges such as the New York Mercantile Exchange and the Natural Gas Exchange, or obtained directly from brokers, or other publicly available market data providers.

The Corporation has the following costless collar physical derivative contract in place for natural gas at September 30, 2008:

Natural Gas:

February 1, 2008 – December 31, 2008	10,000 GJ/day	CDN \$6.00 – \$8.00 GJ
January 1, 2008 – December 31, 2008	8,500 GJ/day	CDN \$6.00 – \$7.00 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.

14. CAPITAL STRUCTURE FINANCIAL POLICIES

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

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

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

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

At September 30 (\$000s)	Target Measure	2008 \$	2007 \$
Components of ratios			
Current assets (excluding fair value of financial derivative)		59,190	27,422
Current liabilities (including short term debt and excluding fair value of financial derivative and gas contract)		318,244	186,195
Short term debt (bank loan and current portion of capital lease)		229,575	136,295
Net debt (working capital and capital leases)		260,986	158,773
Total debt (bank loan and capital leases)		231,507	136,295
Shareholders' equity (share capital plus retained earnings)		639,536	458,801
Total capitalization (total debt plus shareholders' equity)		871,043	595,096
Funds from operations ¹ (nine months ended September 30 annualized)		233,244	127,424
Net debt/funds from operations	< 1.5 times	1.1	1.2
Total debt/total debt plus shareholders' equity	< 0.4 times	0.3	0.2

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

15. COMPARATIVE FIGURES

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

16. SUBSEQUENT EVENTS

Acquisition of properties in the Senex area

On October 22, 2008, Galleon completed a property acquisition in the Senex area of Alberta for consideration of \$6.0 million cash plus the issuance of 215,000 Galleon Class A shares.

Conversion of Class B Shares

Effective February 1, 2009, all Class B shares will be deemed to be converted to Class A shares. Galleon has elected to convert the Class B shares into Class A shares prior to December 31, 2008.

Corporate Information

HEAD OFFICE

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BOARD OF DIRECTORS

John A. Brussa⁴
Glenn R. Carley, *Executive Chairman*³
William L. Cooke^{1, 3, 4}
Lawrence Fenwick^{2, 3}
Daryl H. Gilbert^{1, 2}
Brad R. Munro^{1, 2}
Steve Sugianto

¹ Member of the Audit Committee

² Member of the Reserves Committee

³ Member of the Compensation Committee

⁴ Member of the Corporate Governance Committee

OFFICERS

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

AUDITOR

Ernst & Young LLP
Calgary, Alberta

BANK

The Bank of Nova Scotia
Calgary, Alberta

ATB Financial
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

Fortis Capital Canada Ltd.
Calgary, Alberta

Union Bank of California
Canada Branch
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

EVALUATION ENGINEERS

DeGolyer and MacNaughton
Canada Limited
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbols GO.A and GO.B

ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
Bbl	barrel	Mcf	thousand cubic feet
Bbls	barrels	MMcf	million cubic feet
Mbbls	thousand barrels	Mcf/d	thousand cubic feet per day
MMbbls	million barrels	MMcf/d	million cubic feet per day
Mstb	1,000 stock tank barrels	MMbtu	million British Thermal Units
Bbls/d	barrels per day	Bcf	billion cubic feet
NGLs	natural gas liquids	GJ	gigajoule
STB	standard tank barrels	MM	Million

Other

AECO	A natural gas storage facility located at Suffield, Alberta
API	American Petroleum Institute
°API	An indication of the specific gravity of crude oil measured on the API gravity scale.
ARTC	Alberta Royalty Tax Credit
BOE	Barrel of oil equivalent of natural gas and crude oil on the basis of 1 BOE for 6 Mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
BOE/d	barrel of oil equivalent per day
GCA	gas cost allowance
m³	cubic metres
MBOE	thousand barrels of oil equivalent
MMBOE	million barrels of oil equivalent
\$000s	thousands of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

COMPANY DEFINITION

Throughout the Quarterly Report, Galleon Energy Inc. is referred to as “Galleon”, or the “Corporation”.

VOLUME REPORTING

Barrel of oil equivalent (BOE) (6:1) figures for the periods presented throughout this document are expressed at a conversion rate of six thousand cubic feet of natural gas to one barrel of crude 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.

