

SECOND
QUARTER
INTERIM
REPORT
2005

GALLEON ENERGY INC.

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Report to Shareholders

Strong operating and financial results in the second quarter of 2005:

- Increased average production to 5,643 Boe/d – a 61% increase over the first quarter 2005 production and a 35% increase on a per share basis. Year over year production per share has increased by 135%.
- Increased funds from operations to \$13.8 million – an 88% increase over the first quarter 2005 and a 60% increase on a per share basis. Year over year cash flow per share has increased by 243%.
- Recorded operating costs of \$5.31/Boe in second quarter 2005 and \$5.21/Boe year to date 2005.
- Reduced general and administrative expenses to \$2.01/Boe in second quarter 2005 from \$4.07/Boe in second quarter 2004.
- Drilled 13 wells in the second quarter 2005 with 7 cased for natural gas production and 3 cased for light sweet oil production.
- On May 18, 2005, Galleon completed a strategic asset acquisition in the core area of Dawson, Alberta. The acquisition offers new exploration and development projects, significant infrastructure and land.
- Bank credit facilities increased to \$80 million Cdn from \$45 million Cdn.
- On May 12, 2005, completed a \$20 million flow-through financing at \$12.50 per share.
- On May 18, 2005, closed a \$37.94 million share financing at \$10.00 per share upon the close of the Dawson property acquisition.

Subsequent to the second quarter of 2005, Galleon:

- Current production is approximately 7,600 Boe/d, an increase of 35% over second quarter 2005 and a 23% increase on a per share basis. Approximately 900 Boe/d of production is behind pipe awaiting tie-in.
- Galleon has increased the Q3 and Q4 2005 drilling program to 32-38 locations (8-10 deep light sweet oil, 4-6 deep gas and 20-22 multi-zone gas locations) and has a drilling inventory of 110 locations and access to 709,000 gross acres of undeveloped land for future growth.
- Galleon has submitted a listing application to the Toronto Stock Exchange and expects to become listed for trading on the TSX in the next few weeks.

[signed]

Glenn R. Carley
Executive Chairman
August 11, 2005

[signed]

Steve Sugianto
*President and Chief
Executive Officer*

Highlights

AS AT JUNE 30, 2005

	<i>2nd Qtr 2005</i>	<i>1st Qtr 2005</i>	<i>4th Qtr 2004</i>	<i>3rd Qtr 2004</i>
Production				
Light oil (Bbl/d)	1,393	670	329	92
Heavy/medium oil (Bbl/d)	594	206	249	297
Natural Gas (Mcf/d)	21,813	15,511	10,343	8,272
Liquids (Bbl/d)	21	37	21	13
Boe/d at 6:1 gas	5,643	3,499	2,324	1,781
Total Boe produced	513,535	314,887	213,762	163,812
Daily Boe of production per million Class A shares	195	144	109	90
Prices				
Light oil (\$/Bbl)	65.35	59.72	51.18	55.69
Heavy/medium oil (\$/Bbl)	32.21	26.45	28.98	35.30
Crude oil with hedge (\$/Bbl)	54.86	51.91	38.49	35.87
Natural Gas (\$/Mcf)	6.99	6.51	6.15	5.83
NGLs (\$/Bbl)	53.94	44.75	40.36	47.92
Per Boe (\$)				
Gross revenues (net of hedges and transportation costs)	46.81	42.35	37.37	35.27
Royalties, net of ARTC and GCA	(11.11)	(10.08)	(8.33)	(7.79)
Operating costs	(5.31)	(5.04)	(5.93)	(5.77)
Operating netback	30.39	27.23	23.11	21.71
Other revenue	0.03	0.02	0.04	0.03
G&A	(2.01)	(2.38)	(2.93)	(2.96)
Interest – cash	(1.09)	(1.33)	(1.25)	(0.18)
Current tax – cash	(0.49)	(0.32)	(0.79)	(0.28)
Funds from operations	26.83	23.22	18.18	18.32

Highlights

AS AT JUNE 30, 2005

	<i>2nd Qtr 2004</i>	<i>1st Qtr 2004</i>	<i>4th Qtr 2003</i>	<i>3rd Qtr 2003</i>
Production				
Light oil (Bbl/d)	84	56	–	–
Heavy/medium oil (Bbl/d)	274	265	152	–
Natural Gas (Mcf/d)	6,328	2,841	42	–
Liquids (Bbl/d)	1	1	–	–
Boe/d at 6:1 gas	1,414	796	159	–
Total Boe produced	128,667	72,378	14,615	–
Daily Boe of production per million Class A shares	83	55	19	–
Prices				
Light oil (\$/Bbl)	49.40	45.26	–	–
Heavy/medium oil (\$/Bbl)	29.70	27.56	24.61	–
Crude oil with hedge (\$/Bbl)	28.57	26.48	23.79	–
Natural Gas (\$/Mcf)	6.67	5.71	6.41	–
NGLs (\$/Bbl)	34.78	42.88	–	–
Per Boe (\$)				
Gross revenues (net of hedges and transportation costs)	37.10	31.13	24.43	–
Royalties, net of ARTC and GCA	(8.10)	(6.56)	(5.41)	–
Operating costs	(5.43)	(7.08)	(11.65)	–
Operating netback	23.57	17.49	7.37	–
Other revenue	0.03	0.13	5.80	–
G&A	(4.07)	(4.61)	(14.12)	–
Interest – cash	(0.28)	(0.07)	–	–
Current tax – cash	(0.58)	–	–	–
Funds from (used in) operations	18.67	12.94	(0.95)	–

Highlights

AS AT JUNE 30, 2005

	<i>2nd Qtr 2005</i>	<i>1st Qtr 2005</i>	<i>4th Qtr 2004</i>	<i>3rd Qtr 2004</i>
Financial (\$)				
Gross revenues (net of hedges and transportation costs)	24,036,386	13,337,458	7,988,152	5,778,082
Royalties, net of ARTC & GCA	(5,704,783)	(3,173,569)	(1,780,386)	(1,275,588)
Operating costs	(2,726,825)	(1,588,289)	(1,266,631)	(945,635)
Other revenue	16,619	5,753	8,604	4,708
G&A	(1,030,455)	(748,392)	(626,502)	(484,804)
Interest – cash	(558,040)	(420,289)	(267,156)	(30,245)
Current tax – cash	(251,013)	(101,277)	(168,166)	(46,190)
Funds from operations	13,781,889	7,311,395	3,887,915	3,000,328
Depletion, depreciation & accretion	(9,708,120)	(5,869,527)	(4,310,939)	(2,276,487)
Future tax (expense) recovery	(1,715,040)	(602,039)	96,896	(229,437)
Stock-based compensation	(1,669,417)	(345,181)	(731,797)	(187,289)
Earnings (loss)	689,312	494,648	(1,057,925)	307,115
Total assets	290,882,760	180,363,456	160,892,258	90,698,030
Long term financial liabilities	–	–	–	–
Weighted average outstanding Class A shares-basic	28,978,045	24,373,524	21,291,804	19,733,778
Cash flow \$ per share-basic	0.48	0.30	0.18	0.15
Earnings (loss) \$ per share-basic	0.02	0.02	(0.05)	0.02

Highlights

AS AT JUNE 30, 2005

	<i>2nd Qtr 2004</i>	<i>1st Qtr 2004</i>	<i>4th Qtr 2003</i>	<i>3rd Qtr 2003</i>
Financial (\$)				
Gross revenues (net of hedges and transportation costs)	4,773,723	2,253,149	357,090	–
Royalties, net of ARTC & GCA	(1,042,773)	(474,615)	(79,087)	–
Operating costs	(699,145)	(512,095)	(170,317)	–
Other revenue	4,706	9,373	84,836	31,181
G&A	(523,263)	(333,500)	(206,481)	(112,842)
Interest – cash	(35,681)	(5,599)	–	–
Current tax – cash	(75,111)	–	–	–
Funds from (used in) operations	2,402,456	936,713	(13,959)	(81,661)
Depletion, depreciation & accretion	(1,335,956)	(763,207)	(170,472)	(39,016)
Future tax (expense) recovery	(484,515)	37,394	94,008	–
Stock-based compensation	(122,238)	(87,720)	–	–
Earnings (loss)	459,747	123,180	(90,423)	(120,677)
Total assets	60,289,729	47,029,699	15,075,622	10,471,707
Long term financial liabilities	–	–	–	–
Weighted average outstanding Class A shares-basic	17,607,394	14,580,107	8,300,001	4,063,610
Cash flow \$ per share-basic	0.14	0.06	–	–
Earnings (loss) \$ per share-basic	0.03	0.01	(0.01)	(0.03)

Management's Discussion and Analysis

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") for the three and six month periods ended June 30, 2005 with comparisons to the three and six month periods ended June 30, 2004. 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 six month periods ended June 30, 2005 and 2004 and the audited consolidated financial statements for the year ended December 31, 2004.

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.

This MD&A is based on information available as of August 11, 2005.

Additional information may be found on the SEDAR website www.sedar.com or the Corporation's website www.galleonenergy.com

Non-GAAP Measurements

The MD&A contains the terms "cash flow" and "funds from operations" which should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net earnings as determined in accordance with Canadian GAAP as an indicator of Galleon's performance. Galleon's determination of cash flow and funds from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and funds from operations can be found in the Statements of Cash Flow. The Corporation also presents "cash flow per share" whereby funds from operations are divided by the weighted average number of shares outstanding to determine per share amounts.

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 throughout this interim report that are not historical facts may be considered "forward looking statements." 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. Actual results could differ materially from those currently anticipated due to any number of factors, including such variables as new information regarding recoverable reserves, changes in demand for, and commodity prices of crude oil and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Corporation operates and other factors discussed in this interim report.

Second Quarter 2005 Highlights

- Average daily production of 5,643 Boe; natural gas – 21.8 Mmcf and liquids – 2,008 Bbl
- Cash flow from operations of \$13.8 million, an 88% increase from first quarter 2005
- Operating netback of \$30.39/Boe
- Drilled 13 gross wells resulting in 7 gross (5.3 net capital interest) natural gas wells and 3 gross (3 net capital interest) light sweet oil wells
- Exploration and development capital expenditures of \$14.9 million
- Acquisition of properties at Dawson, Alberta for \$89.8 million net of closing adjustments
- Acquisition of properties at Edam, Saskatchewan for \$7.2 million net of closing adjustments
- Issuance of 3.794 million Class A shares at \$10.00 per share for gross proceeds of \$37.94 million and issuance of 1.6 million Class A shares at \$12.50 per share on a flow-through basis for gross proceeds of \$20 million

Petroleum and natural gas revenues

Revenues net of transportation expenses reached \$24.0 million in second quarter 2005 and \$37.4 million to June 30, 2005. During second quarter 2005, revenues increased by 80% from first quarter 2005 due to revenues from new wells and property acquisitions. Revenues from the Dawson property acquisition are included from May 18, 2005 and revenues from the property acquisition at Edam, Saskatchewan are included from May 1, 2005.

Second quarter 2005 revenues were 384% higher than revenues in second quarter 2004. Year to date 2005 revenues were 409% higher than revenues for the same period in 2004. Year over year, the growth is mainly attributable to an increase in volumes plus the contribution of strong commodity prices.

NETBACKS

	<i>Q2 2005</i>		<i>Q2 2004</i>	
	<i>513,535 Boe</i>		<i>128,667 Boe</i>	
	\$	\$/Boe	\$	\$/Boe
Gross revenues, net of transportation	24,036,386	46.81	4,961,979	38.56
Hedges	-	-	(188,256)	(1.46)
Royalties, net of ARTC & GCA	(5,704,783)	(11.11)	(1,042,773)	(8.10)
Subtotal	18,331,603	35.70	3,730,950	29.00
Operating costs	(2,726,825)	(5.31)	(699,145)	(5.43)
Operating netback	15,604,778	30.39	3,031,805	23.57
Other revenue	16,619	0.03	4,706	0.03
G&A	(1,030,455)	(2.01)	(523,263)	(4.07)
Interest costs	(558,040)	(1.09)	(35,681)	(0.28)
Current taxes	(251,013)	(0.49)	(75,111)	(0.58)
Funds from operations	13,781,889	26.83	2,402,456	18.67

NETBACKS

	<i>YTD 2005</i>		<i>YTD 2004</i>	
	<i>828,422 Boe</i>		<i>201,045 Boe</i>	
	\$	\$/Boe	\$	\$/Boe
Gross revenues, net of transportation	37,373,844	45.11	7,337,206	36.50
Hedges	–	–	(310,334)	(1.55)
Royalties, net of ARTC & GCA	(8,878,352)	(10.71)	(1,517,388)	(7.55)
Subtotal	28,495,492	34.40	5,509,484	27.40
Operating costs	(4,315,114)	(5.21)	(1,211,240)	(6.02)
Operating netback	24,180,348	29.19	4,298,244	21.38
Other revenue	22,372	0.03	14,079	0.07
G&A	(1,778,847)	(2.15)	(856,763)	(4.26)
Interest costs	(978,329)	(1.18)	(41,280)	(0.21)
Current taxes	(352,290)	(0.43)	(75,111)	(0.37)
Funds from operations	21,093,284	25.46	3,339,169	16.61

REVENUE CONTRIBUTION ANALYSIS

	<i>Q2 2005</i>		<i>Q2 2004</i>	
	\$	%	\$	%
Oil	9,919,687	41	1,119,103	23
NGLs	100,811	–	2,991	–
Natural gas	13,876,327	58	3,839,885	77
Royalty income	139,561	1	–	–
Gross revenues, net of transportation	24,036,386	100	4,961,979	100

During second quarter 2005, crude oil revenues were 41% of total revenues based on 35% of volumes sold. In comparison, during

second quarter 2004, crude oil revenues were 23% of total revenues based on 25% of volumes sold.

REVENUE CONTRIBUTION ANALYSIS

	<i>YTD 2005</i>		<i>YTD 2004</i>	
	\$	%	\$	%
Oil	14,012,339	37	2,014,680	27
NGLs	251,533	1	7,093	1
Natural gas	22,958,438	61	5,315,433	72
Royalty income	151,534	1	–	–
Gross revenues, net of transportation	37,373,844	100	7,337,206	100

To June 30, 2005, natural gas revenues were 61% of total revenues based on 68% of volumes sold on a boe basis. To June 30,

2004, natural gas revenues were 72% of total revenues based on 69% of volumes sold on a boe basis.

PRODUCT MIX ANALYSIS

	<i>Q2 2005</i>		<i>Q2 2004</i>	
Oil (Bbls/d)	1,987	35	358	25
NGLs (Bbls/d)	21	1	1	–
Natural gas (Mcf/d)	21,813	64	6,328	75
Boe/d (6:1)	5,643	100	1,414	100

Volumes averaged 5,643 Boe/d in second quarter 2005 compared to 1,414 Boe/d in second quarter 2004, an increase of 299%. This

growth was comprised of a 459% increase in crude oil and liquids volumes and a 245% increase in natural gas volumes.

PRODUCT MIX ANALYSIS

	<i>YTD 2005</i>		<i>YTD 2004</i>	
Oil (Bbls/d)	1,435	31	340	31
NGLs (Bbls/d)	29	1	1	–
Natural gas (Mcf/d)	18,679	68	4,585	69
Boe/d (6:1)	4,577	100	1,105	100

Year over year, volume growth of 314% was comprised of a 307% increase in natural gas volumes and a 329% increase in crude oil and liquids volumes. The 2005 drilling program is balanced between

light sweet crude oil and natural gas targets with future growth in volumes expected from both products.

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-C for natural gas. The Corporation had two hedge contracts in place during the second quarter 2004 and a cost of \$188,256 was recorded. The Corporation currently has no hedge contracts in place.

Light oil prices received by the Corporation in second quarter 2005 increased to \$65.35/Bbl or 32% from second quarter 2004. Although heavy oil prices have been 2-8% higher in 2005 than 2004, heavy oil differentials have widened year over year. Heavy oil prices realized in 2005 were 45-50% of light oil prices in 2005 compared to approximately 60% of light oil prices in 2004.

The mix of crude oil has changed: light oil – 70% and heavy/medium oil – 30% in second quarter 2005; compared to light oil – 23% and heavy/medium oil 77% in second quarter 2004. This has a significant impact on prices realized by the Corporation.

Natural gas prices remained strong: \$6.99/Mcf in second quarter 2005 compared to \$6.51/Mcf in first quarter 2005 and \$6.67/Mcf in second quarter 2004.

PRICES

	<i>Q2 2005</i>	<i>Q2 2004</i>	<i>YTD 2005</i>	<i>YTD 2004</i>
Light oil (\$/Bbl)	65.35	49.40	63.53	47.74
Heavy/medium oil (\$/Bbl)	32.21	29.70	29.16	28.65
Hedge impact (\$/Bbl)	–	(5.76)	–	(5.01)
Net crude oil (\$/Bbl)	54.86	28.57	53.96	27.59
Natural gas (\$/Mcf)	6.99	6.67	6.79	6.37
NGLs (\$/Bbl)	53.94	34.78	47.93	39.05

PERFORMANCE BY PROPERTY

	<i>Q2 2005</i>			<i>Q2 2004</i>			<i>Q2 2005</i>
	<i>Production Boe/day</i>	<i>%</i>	<i>Operating netbacks/Boe \$</i>	<i>Production Boe/day</i>	<i>%</i>	<i>Operating netbacks/Boe \$</i>	<i>operating cash flow %</i>
Dawson	3,981	71	34.61	333	24	22.33	83
Calais	488	9	23.21	279	20	27.71	7
Wymark	215	4	31.26	316	22	28.58	4
Flatrock/Two Rivers	209	4	21.06	–	–	–	3
Lloydminster/Edam	595	10	4.91	274	19	13.12	2
Other	155	2	22.24	212	15	27.12	1
Boe/day	5,643	100	29.52	1,414	100	23.65	100

* Operating netbacks/Boe exclude ARTC, GCA and hedge costs

PERFORMANCE BY PROPERTY

	YTD 2005			YTD 2004			YTD 2005 operating cash flow
	Production Boe/day	%	Operating netbacks/Boe \$	Production Boe/day	%	Operating netbacks/Boe \$	
Dawson	2,992	65	33.20	183	17	22.12	77
Calais	544	12	23.94	182	16	26.47	10
Wymark	223	5	30.10	288	26	27.04	5
Flatrock/Two Rivers	253	6	20.03	–	–	–	4
Lloydminster/Edam	401	9	4.75	269	24	12.00	2
Other	164	3	22.36	183	17	22.50	2
Boe/day	4,577	100	28.34	1,105	100	22.04	100

*Operating netbacks/Boe exclude ARTC, GCA and hedge costs

During second quarter 2005, 83% of operating cash flows were generated from 3,981 Boe/day (33% crude oil) at Dawson. Operating netbacks reached \$34.61/Boe at Dawson due to the high quality products and third party processing revenues. The properties acquired on May 18, 2005 are located in Dawson. The growth and value of the Corporation has and will continue to come from the premium quality of properties located in the Peace River Arch area.

Royalties

Royalty expenses were 25.6% of gross revenues (24.3% crown, 0.7% freehold and 0.6% other) for second quarter 2005 compared to 24.6% (19.6% crown, 3.2% freehold and 1.8% other) for second quarter 2004. Net of ARTC and gas cost allowance ("GCA"), the royalty rate in second quarter 2005 was 23.7%. GCA of \$443,198 was received in second quarter 2005 for credits attributable to 2004.

Year to date 2005, royalty expenses were 25.6% of gross revenues (24.3% crown, 0.5% freehold and 0.8% other) compared to 23.1% (17.7% crown, 3.7% freehold and 1.7% other) for the same period in 2004. Net of ARTC and GCA, the royalty rate in 2005 was 23.8% compared to 20.7% in 2004. ARTC of \$250,000 was accrued to June 30, 2005 and \$176,623 was accrued to June 30, 2004.

The Corporation's properties are primarily located on crown lands. The crown royalty rate structure is price sensitive and accordingly rates have increased due to higher commodity prices received in 2005.

Operating expenses

Operating expenses averaged \$5.31/Boe in second quarter 2005 compared to \$5.43/Boe in second quarter 2004. Operating expenses averaged \$5.21/Boe to June 30, 2005 and \$6.02/Boe to June 30, 2004.

To June 30, 2005, operating expenses per Boe have averaged \$3.13 and \$4.20 at Dawson and Calais respectively. With volume growth planned in these two core areas, operating costs on a per unit basis are expected to further decrease due to the low production costs of these properties.

General and administration costs

Year to date 2005 G&A costs by category are: salary and employee – 51%, office – 14%, audit, engineering and legal – 11%, consulting – 10%, corporate – 10%, and computer – 4%. This compares to the same period of 2004: salary and employee – 51%, corporate – 13%, audit, engineering and legal – 11%, office – 9%, consulting – 9%, and computer – 7%.

	<i>Q2 2005</i>		<i>Q2 2004</i>	
	\$	\$/Boe	\$	\$/Boe
Gross	1,330,964	2.59	664,525	5.16
Overhead recoveries	(300,509)	(0.58)	(141,262)	(1.09)
Subtotal	1,030,455	2.01	523,263	4.07

	<i>YTD 2005</i>		<i>YTD 2004</i>	
	\$	\$/Boe	\$	\$/Boe
Gross	2,374,946	2.87	1,173,601	5.84
Overhead recoveries	(596,099)	(0.72)	(316,838)	(1.58)
Subtotal	1,778,847	2.15	856,763	4.26

Interest

Interest expense of \$588,040 was recorded in second quarter 2005. These costs are related to interest paid on bank debt utilized. Bank debt was reduced in second quarter 2005 with proceeds from the equity financings and increased due to the property acquisitions. The effective rate charged during second quarter 2005 was 4.5%. Interest expense of \$35,681 was recorded in second quarter 2004.

Depletion and depreciation

Depletion and depreciation rates for oil and gas properties were \$18.74/Boe in second quarter 2005 compared to \$10.21/Boe in second quarter 2004. Capital expenditures of \$27.2 million (\$6.7 million – second quarter 2004) related to undeveloped land and seismic costs have been excluded from the depletion and depreciation calculation and \$9.5 million (\$0.9 million – second quarter 2004) of future costs have been added.

Second quarter 2005 reserve additions were strong due to the results of the drilling program and the property acquisitions. Second quarter 2005 proven reserve additions of approximately 6.1 million boe have been internally estimated in compliance with NI 51-101 reserve definitions. The Corporation expects finding and development costs to average between \$16 and \$18 per Boe in 2005.

Net earnings

Second quarter 2005 net earnings of \$689,312, or \$0.02 per basic share, are net of a future tax provision of \$1,715,040 and non cash expenses for stock-based compensation of \$1,669,417. The large amount recorded for stock-based compensation was due to 1,169,000 stock options granted in the quarter. Large corporation tax of \$251,013 was recorded in second quarter 2005 and \$352,290 to June 30, 2005.

Capital expenditures

The second quarter drilling program resulted in 3 light sweet crude oil wells in the core area of Dawson. Thirteen wells were drilled and 7 were cased for natural gas production and 3 were cased for crude oil production representing a 77% rate of success: Dawson – drilled 7 wells resulting in 4 natural gas wells and 3 crude oil wells; Calais – drilled 5 wells and cased 2 natural gas wells; Princess – drilled and cased 1 natural gas well.

	\$
Property & equipment balance at December 31, 2004	140,882,566
Additions to property and equipment	34,247,989
Acquisition of property and equipment	98,509,961
Asset retirement obligation	6,194,414
Depletion and depreciation	(15,440,473)
Property & equipment balance at June 30, 2005	<u>264,394,457</u>

EXPLORATION AND DEVELOPMENT EXPENDITURES

	<i>Q2 2005</i>	<i>YTD 2005</i>	
	\$	\$	%
Land	357,495	983,317	3
Geological and geophysical	432,137	3,339,400	10
Drilling and completion	9,769,785	19,431,360	57
Plant and facilities	4,270,040	10,406,900	30
Other assets	83,292	87,012	–
Total exploration and development	<u>14,912,749</u>	<u>34,247,989</u>	100

Liquidity and Capital Resources

For the second quarter of 2005, funds from operations of \$13.8 million and bank debt were used to fund the \$14.9 million exploration and development capital expenditure program. Funds from operations per average weighted basic share was \$0.48 in second quarter 2005 compared to \$0.14 in second quarter 2004 and \$0.30 in first quarter 2005.

DEBT AND WORKING CAPITAL	<i>June 30, 2005</i>	<i>December 31, 2004</i>
	\$	\$
Bank debt	68,335,547	48,406,688
Working capital deficiency	4,405,252	9,413,293
Total net debt	<u>72,740,799</u>	<u>57,819,981</u>

SOURCE OF FUNDS	<i>Q2 2005</i>	<i>Q2 2004</i>
	\$	\$
Issuance of shares, net of costs	54,468,976	9,354,349
Funds provided by operations	13,781,889	2,402,456
Increase in bank debt	42,053,539	–
Change in cash and working capital	3,068,551	(852,518)
Net additions to property and equipment	<u>113,372,955</u>	<u>10,904,287</u>

SOURCE OF FUNDS	<i>YTD 2005</i>	<i>YTD 2004</i>
	\$	\$
Issuance of shares, net of costs	96,743,847	20,524,000
Funds provided by operations	21,093,284	3,339,169
Increase in bank debt	19,928,859	–
Change in cash and working capital	(5,008,040)	(583,527)
Net additions to property and equipment	<u>132,757,950</u>	<u>23,279,642</u>

On May 6, 2005, the Corporation closed a purchase of oil and gas properties in the Edam area of Saskatchewan from an arm's length company for cash of \$7.2 million. The Corporation acted as an agent for a third party private corporation on the purchase of other assets valued at \$14.7 million. The Corporation's credit facilities were increased to \$55 million Cdn coincident with the close of the acquisition.

On May 18, 2005, the Corporation purchased oil and gas properties from an arm's length party for properties located in Dawson, Alberta. The cash purchase price of \$89.8 million including closing adjustments was funded from expanded bank credit facilities and an equity financing. At the closing of the acquisition, availability under the Corporation's credit facilities increased to \$80 million Cdn.

On May 12, 2005 the Corporation issued 3,794,000 subscription receipts at \$10.00 each for gross proceeds of \$37,940,000. Each subscription receipt entitled the holder to acquire one Class A Share of Galleon, without the payment of any additional consideration, upon the closing of the above mentioned Dawson acquisition. Proceeds from the issuance of the subscription receipts were placed in escrow and were released on May 18, 2005. The shares issued are subject to a hold period under applicable securities laws expiring on September 13, 2005.

On May 12, 2005, the Corporation issued on a flow-through basis 1,600,000 Class A shares at \$12.50 each for gross proceeds of \$20 million. The shares issued are subject to a hold period under applicable securities laws expiring September 13, 2005. Eligible expenditures are required to be incurred prior to December 31, 2006. The tax effect of the flow-through shares will be recorded when the expenditures are renounced to the shareholders.

At June 30, 2005, the market value of Galleon's Class A shares exceeded \$422 million based on the June 30, 2005 closing price of \$13.30 per share and 31,755,793 class A shares outstanding.

At June 30, 2005, the Corporation had an extendible revolving credit facility in place with a Canadian chartered bank. The facilities include a credit facility of \$80 million Cdn and a swap facility of \$3.5 million US. Collateral for the facilities consists of a demand debenture for \$150 million secured by a first floating charge over all of the property and equipment of the Corporation. At June 30, 2005, \$68.3 million was drawn on the credit facility.

Galleon has no off-balance sheet financing arrangements.

The Corporation has lease arrangements for office space to July 31, 2008. Future minimum lease payments total \$1.4 million.

At August 11, 2005, 31,755,793 Class A shares, 922,500 Class B shares and 2,806,000 options were outstanding.

Critical Accounting Estimates

There are a number of critical estimates underlying the accounting policies employed in preparing the financial statements.

REVENUE ESTIMATES

Payment for sales in the oil and gas industry occurs up to two months after the month of production. Sales are estimated based upon information received from field offices regarding production levels and published industry pricing and transportation data.

COST ESTIMATES

Costs for services performed but not yet billed are estimated based on original quotes and historical cost information.

RESERVES

The full cost method of accounting, which is used to account for oil and gas activities, relies on estimates of proven reserves that will ultimately be recoverable from the properties. These estimates are utilized in calculating the unit-of-production depletion, potential impairment of asset carrying costs and future site restoration expense. The process of estimating reserves is complex and requires significant judgment, based on available geological, geophysical, engineering and economic data.

Reserves are evaluated at year-end by an independent engineering firm and quarterly updates to those reserves, as well as new reserves from wells drilled in the current year are estimated by the Corporation's engineers.

Although every effort is made to ensure that critical estimates are accurate, changing economic and operational conditions, as well as governmental regulations, can significantly affect those estimates, which may cause significant fluctuation in earnings and cash flows.

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 test. 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.

OUTLOOK

Current production is approximately 7,600 Boe/d, an increase of 35% over second quarter 2005 and a 23% increase on a per share basis. Approximately 900 Boe/d of production is behind pipe awaiting tie-in.

Expansion of the exploration and development projects and the associated product portfolio will be the focus for the remainder of 2005. Galleon has increased the Q3 and Q4 2005 drilling program to 32-38 locations (8-10 deep light sweet oil, 4-6 deep gas and 20-22 multi-zone gas locations) and has a drilling inventory of 110 locations and access to 709,000 gross acres of undeveloped land for future growth.

Galleon has submitted a listing application to the Toronto Stock Exchange and expects to become listed for trading on the TSX in the next few weeks.

Balance Sheets

<i>(unaudited)</i>	<i>June 30</i> <i>2005</i> \$	<i>December 31</i> <i>2004</i> \$
ASSETS		
Current		
Accounts receivable	14,759,129	8,633,197
Deposits and prepaid expenses	417,538	401,938
Inventory	1,172,660	835,581
	16,349,327	9,870,716
Goodwill	10,138,976	10,138,976
Property and equipment <i>(notes 2 and 4)</i>	264,394,457	140,882,566
	290,882,760	160,892,258
LIABILITIES		
Current		
Accounts payable and accrued liabilities	20,754,579	19,284,009
Bank loan <i>(note 4)</i>	68,335,547	48,406,688
	89,090,126	67,690,697
Asset retirement obligation <i>(note 3)</i>	10,329,934	3,998,345
Future tax liability	15,484,896	6,660,997
	114,904,956	78,350,039
Commitments <i>(note 6)</i>		
SHAREHOLDERS' EQUITY		
Share capital <i>(note 5)</i>	173,535,710	83,192,544
Contributed surplus <i>(note 5)</i>	3,037,503	1,129,044
Deficit	(595,409)	(1,779,369)
	175,977,804	82,542,219
	290,882,760	160,892,258

See accompanying notes

Statements of Operations and Deficit

(unaudited)

	Three months ended		Six months ended	
	June 30 2005	June 30 2004	June 30 2005	June 30 2004
	\$	\$	\$	\$
REVENUE				
Petroleum and natural gas	24,742,760	5,088,601	38,554,893	7,515,191
Transportation	(706,374)	(126,622)	(1,181,049)	(177,985)
Crude oil hedge cost	–	(188,256)	–	(310,334)
Royalties, net of ARTC and GCA	(5,704,783)	(1,042,773)	(8,878,352)	(1,517,388)
Other income	16,619	4,706	22,372	14,079
	18,348,222	3,735,656	28,517,864	5,523,563
EXPENSES				
Operating	2,726,825	699,145	4,315,114	1,211,240
General and administration	1,030,455	523,263	1,778,847	856,763
Stock-based compensation (note 5)	1,669,417	122,238	2,014,598	209,958
Interest	558,040	35,681	978,329	41,280
Accretion	85,399	21,667	137,174	42,882
Depletion and depreciation	9,622,721	1,314,289	15,440,473	2,056,281
	15,692,857	2,716,283	24,664,535	4,418,404
Earnings before taxes	2,655,365	1,019,373	3,853,329	1,105,159
Current taxes	251,013	75,111	352,290	75,111
Future income taxes	1,715,040	484,515	2,317,079	447,121
	1,966,053	559,626	2,669,369	522,232
NET EARNINGS	689,312	459,747	1,183,960	582,927
DEFICIT, BEGINNING OF PERIOD	(1,284,721)	(1,488,306)	(1,779,369)	(236,486)
Repurchase of Class A shares	–	–	–	(1,375,000)
DEFICIT, END OF PERIOD	(595,409)	(1,028,559)	(595,409)	(1,028,559)
NET EARNINGS PER SHARE (note 5)				
Basic	\$0.02	\$0.03	\$0.04	\$0.04
Diluted	\$0.02	\$0.02	\$0.04	\$0.03
Weighted average shares – basic	28,978,045	17,607,394	26,688,504	16,093,751
– diluted	30,316,077	18,554,786	28,041,795	16,877,398

See accompanying notes

Statements of Cash Flow

(unaudited)

	Three months ended		Six months ended	
	2005	2004	2005	2004
	\$	\$	\$	\$
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings	689,312	459,747	1,183,960	582,927
Add items not requiring cash:				
Depletion and depreciation	9,622,721	1,314,289	15,440,473	2,056,281
Accretion	85,399	21,667	137,174	42,882
Future income taxes	1,715,040	484,515	2,317,079	447,121
Stock-based compensation	1,669,417	122,238	2,014,598	209,958
FUNDS FROM OPERATIONS	13,781,889	2,402,456	21,093,284	3,339,169
Change in non-cash working capital relating to operating activities	427,883	348,795	1,435,891	271,270
	14,209,772	2,751,251	22,529,175	3,610,439
FINANCING ACTIVITIES				
Issue of common shares	58,070,351	10,044,400	103,152,932	22,054,900
Share issue costs	(3,601,375)	(690,051)	(6,409,085)	(1,530,900)
Bank loan	42,053,539	–	19,928,859	–
Repayment of bank debt assumed in Venture acquisition	–	(111,948)	–	(1,896,694)
	96,522,515	9,242,401	116,672,706	18,627,306
INVESTING ACTIVITIES				
Additions to oil and gas properties	(14,912,749)	(10,904,287)	(34,247,989)	(20,910,718)
Acquisition of oil and gas properties	(98,460,206)	–	(98,509,961)	(2,368,924)
Change in non-cash working capital	2,640,668	1,726,076	(6,443,931)	1,834,265
	(110,732,287)	(9,178,211)	(139,201,881)	(21,445,377)
INCREASE IN CASH	–	2,815,441	–	792,368
CASH, BEGINNING OF PERIOD	–	1,181,590	–	3,204,663
CASH, END OF PERIOD	–	3,997,031	–	3,997,031
SUPPLEMENTARY INFORMATION				
Cash interest paid	558,040	35,681	978,329	41,280
Cash taxes paid	251,013	75,111	352,290	75,111

See accompanying notes

Notes to the Financial Statements (unaudited)

1. Accounting Policies

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and follow the same accounting policies as for the financial statements for the fiscal year ended December 31, 2004. These notes are incremental to, and should be read in conjunction with, the audited consolidated financial statements for the fiscal period ended December 31, 2004.

2. Property and Equipment

At June 30, 2005, \$27.2 million (June 30, 2004 – \$6.7 million) of undeveloped land and seismic costs have been excluded from and \$9.5 million (June 30, 2004 – \$0.9 million) in future development costs have been added into the depletion calculation. To June 30, 2005 no exploration salaries (June 30, 2004 – nil) have been capitalized.

	<i>Cost</i> \$	<i>Accumulated Depletion & Depreciation</i> \$	<i>Net Book Value</i> \$
Petroleum and natural gas properties & equipment	291,538,099	27,337,847	264,200,252
Office furniture and equipment	250,789	56,584	194,205
Balance at June 30, 2005	291,788,888	27,394,431	264,394,457

	<i>Cost</i> \$	<i>Accumulated Depletion & Depreciation</i> \$	<i>Net Book Value</i> \$
Petroleum and natural gas properties & equipment	152,672,746	11,919,571	140,753,175
Office furniture and equipment	163,778	34,387	129,391
Balance at December 31, 2004	152,836,524	11,953,958	140,882,566

On May 6, 2005, the Corporation closed a purchase of oil and gas properties in the Edam area of Saskatchewan from an arm's length company for cash of \$7.2 million. The Corporation acted as an agent for a third party private corporation on the purchase of other assets valued at \$14.7 million.

On May 18, 2005, the Corporation purchased oil and gas properties from an arm's length party in the Dawson area of Alberta. The cash purchase price was \$89.8 million including closing adjustments.

3. 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 \$16 million, which will be incurred over the next 18 years. A credit adjusted risk free rate of 5% and an inflation rate of 1.5% were used to calculate the fair value of the asset retirement obligation.

	<i>Six month period ended</i>	
	<i>June 30, 2005</i>	<i>June 30, 2004</i>
	\$	\$
Balance, beginning of period	3,998,345	660,271
Accretion expense	137,174	42,882
Liabilities incurred	341,081	250,972
Liabilities acquired	5,853,334	451,088
Balance, end of period	10,329,934	1,405,213

4. Available Credit Facility

The Corporation has an \$80 million extendible revolving credit facility in place with a Canadian chartered bank. In addition, the Corporation has in place a \$3.5 US million swap facility.

Collateral for the facilities consists of a demand debenture for \$150 million secured by a first floating charge over all of the property and equipment of the Corporation. At June 30, 2005, an amount of \$68.3 million was drawn against the credit facility.

5. Share Capital

AUTHORIZED

Unlimited number of preferred shares with no par value

Unlimited number of voting Class A shares with no par value

Unlimited number of voting Class B shares with no par value, convertible (at the option of the Corporation) at any time after December 31, 2006 and before December 31, 2008, into Class A shares. The fraction 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.

<i>Issued and outstanding</i>	<i>Number of Shares</i>	<i>Amount \$</i>
Class A shares		
Balance at December 31, 2004	21,870,771	77,985,300
Issued for cash (a)	4,225,355	45,000,031
Share issue costs, net of tax of \$981,989 (a)	-	(1,825,721)
Issued for cash on exercise of stock options	180,000	82,550
Tax effect of flow-through shares (b)	-	(8,750,000)
Balance at March 31, 2005	26,276,126	112,492,160
Issued for cash (a and b)	5,394,000	57,940,010
Share issue costs, net of tax of \$1,261,191 (a and b)	-	(2,340,184)
Issued for cash on exercise of stock options	85,667	130,341
Transfer from contributed surplus (c)	-	106,139
Balance at June 30, 2005	31,755,793	168,328,466
Class B shares		
Balance at December 31, 2004 and June 30, 2005	922,500	5,207,244
Total share capital – June 30, 2005	32,678,293	173,535,710

a) On May 12, 2005 the Corporation issued 3,794,000 subscription receipts at \$10.00 each for gross proceeds of \$37,940,000. Each subscription receipt entitled the holder to acquire one Class A Share of Galleon, without the payment of any additional consideration, upon the closing of the acquisition of properties at Dawson, Alberta. Proceeds from the issuance of the subscription receipts were placed in escrow and were released at the closing of the acquisition on May 18, 2005. The shares issued are subject to a hold period under applicable securities laws expiring September 13, 2005.

b) On February 10, 2005, the Corporation issued 4,225,355 Class A shares at \$10.65 per share for gross proceeds of \$45 million. The shares issued are subject to a hold period under applicable securities laws which expired June 11, 2005.

On June 17, 2004, the Corporation issued 1,000,000 Class A shares at \$10.00 each on a flow-through basis for gross proceeds of \$10 million. These expenditures were incurred in 2004.

On November 23, 2004, the Corporation issued 1,000,000 Class A shares at \$15.00 each on a flow-through basis for gross proceeds of \$15 million. Under the look back provision governing flow-through shares, the Corporation is required to incur eligible expenditures prior to December 31, 2005. To June 30, 2005 approximately \$13 million of these expenditures had been incurred.

In January 2005, the Corporation renounced expenditures of \$25 million to the shareholders effective December 31, 2004.

On May 12, 2005, the Corporation issued 1,600,000 Class A shares on a flow-through basis at \$12.50 each for gross proceeds of \$20 million. The shares issued will be subject to a hold period under applicable securities laws expiring September 13, 2005. Under the look back provision governing flow-through shares, the Corporation is required to incur eligible expenditures prior to December 31, 2006. To June 30, 2005 none of these expenditures had been incurred.

c) The Corporation reclassified stock based compensation recorded in contributed surplus related to share options exercised of \$106,139 for the period ended June 30, 2005.

Share options

The Corporation has a share option plan which was approved on May 19, 2005. The exercise price of each option equals the market price of the Corporation's Class A shares on the date of the grant. Compensation expense is recognized as the options vest (one third immediately and one third on each of the first and second anniversaries of the date of the grant). The options expire five years from the date of grant. The Corporation may grant up to

10% of the aggregate number of Class A shares and Class B shares outstanding and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the aggregate number of issued and outstanding Class A and Class B shares. Class A shares have been reserved for all options granted.

In accordance with the Corporation's accounting policy with respect to stock based compensation, an expense of \$2,014,598 has been recognized to June 30, 2005 which includes \$1,669,417 in second quarter 2005.

The fair value of options granted were estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rates of 2-3%; dividend yield of 0%; volatility factors of the market price of the Corporation's common shares of 40-46%; and, an average expected life of the options of 3 years.

	<i>Number of Shares</i>	<i>Weighted Average Exercise Price \$</i>
Outstanding, December 31, 2004	1,792,667	3.74
Granted	1,279,000	10.45
Exercised	(265,667)	(0.80)
<u>Outstanding, June 30, 2005</u>	<u>2,806,000</u>	<u>7.08</u>

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. The weighted average number of Class A shares outstanding during the six month period ended June 30, 2005 was 26,688,504 and 28,041,795 diluted (June 30, 2004 – 16,093,751 and 16,877,398, respectively). The diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 28,885,831 (June 30, 2004 – 18,433,933).

6. Subsequent Event

Effective August 1, 2005, the Corporation has entered into an office lease for a term of 3 years ending on July 31, 2008. Total obligations are estimated to be \$1.4 million over the term of the lease.

Corporate Information

Corporate Office

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Calgary, Alberta T2P 3H2

Telephone: (403) 261-6012

Fax: (403) 262-5561

Board of Directors

John A. Brussa ²

Glenn R. Carley, Executive Chairman ²

Fred C. Coles ^{1 2}

William L. Cooke ¹

Brad R. Munro ¹

Steve Sugianto

¹. Member of the Audit and Reserves Committee

². Member of the Compensation Committee

Officers

Steve Sugianto, President and Chief Executive Officer

Glenn R. Carley, Executive Chairman

Shivon M. Crabtree, VP Finance & Chief Financial Officer

C. Steve Cohen, Secretary

Tom Greschner, VP Production

Darrin Hanik, VP Engineering

Brent Lacey, VP Exploration

Auditor

Ernst & Young LLP, Calgary, Alberta

Bank

The Canadian Imperial Bank of Commerce, 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

TSX Venture Exchange, Trading Symbols GO.A and GO.B

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. This conversion ratio approximates relative heating values, and is the generally accepted ratio used by Canadian oil and gas companies and investment analysts.

Forward Looking Statements

Certain information regarding the Corporation contained herein may constitute forward looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward looking statements.

CONVERSION

To convert from	To	Multiply by
BOE	Mcf	6.0
Mcf	Cubic metres (m ³)	28.174
Bbls	Cubic metres (m ³)	0.159
Feet	Metres	0.305
Miles	Kilometres	1.609
Acres	Hectares	0.4
Hectares	Acres	2.5

SECTION

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12	11	10	9
5	6	7	8
4	3	2	1

TOWNSHIP

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30	29	28	27	26	25
19	20	21	22	23	24
18	17	16	15	14	13
7	8	9	10	11	12
6	5	4	3	2	1

www.galleonenergy.com



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ENERGY INC.

GO.A