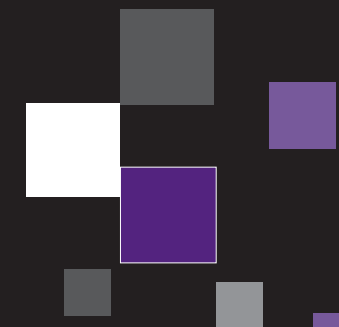


# secondquarter

GALLEON ENERGY INC. 2007 INTERIM REPORT



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# REPORT TO SHAREHOLDERS

The positive financial and operating results for Q2 2007 are a direct outcome of the significant drilling success achieved by Galleon.

Drilling activity since June 30, 2007 continues to build momentum with the addition of new discoveries. The drilling program has delivered a new deep liquids rich natural gas discovery at Eaglesham, a new Dawson Montney gas discovery located 10 miles from the existing main gas pools, and the initial completion of one wildcat light sweet oil well at Puskwa south of the main pool. In addition, two new deep light oil discoveries in new exploration areas in the Peace River arch have been drilled in third quarter 2007.

Some of the key accomplishments in second quarter 2007 include:

- Production averaged 13,372 Boe/d, an increase of 56% from Q2 2006 and an increase of 12% from Q1 2007. Compared to Q2 2006, Q2 2007 production volumes increased as follows: light oil 89%, heavy oil 32%, natural gas 51%, and natural gas liquids 156%. This strong production growth is expected to continue in 2007 at a rate of between 5 to 15% per quarter.
- Funds from operations were \$32.8 million (\$0.55 per basic share), a 49% increase from Q2 2006 and a 9% increase from Q1 2007. This increase is mainly as a result of production increases and lower operating costs.
- Quarterly earnings were \$3.3 million with 2007 earnings of \$7.2 million.
- Operating costs were \$8.63/Boe, a decrease of 13% from Q2 2006 and a 3% decrease from Q1 2007. Capital investment in facilities and infrastructure in 2006 has contributed to this improved cost structure.
- 9 gross wells were drilled of which seven (6.6 net) were cased for production including one light oil well (0.6 net), one heavy oil well (1.0 net) and 5 natural gas wells (5.0 net); resulting in a success rate of 78%.
- Spent \$23.9 million on exploration and development activities and raised \$30 million in equity financing to fund the exploration program reducing bank debt to \$177.9 million at June 30, 2007.

## Strong production and cash flow growth in core areas

The Puskwa light sweet oil, the Dawson Montney gas and the Eaglesham oil and gas projects are delivering strong sustainable growth in production, cash flow and earnings.

At Puskwa, production averaged 2,128 BOE/d (16% of corporate production) during Q2 2007. This represents an increase of 326% from average production in Q2 2006. In Q2 2007, Puskwa generated 27% of corporate funds from operations with an operating netback of \$49.78/BOE. This demonstrates the premium pricing and cost efficiencies of this project. The production rate for the second quarter reflects the rate restrictions imposed by the EUB on all but two producing wells and is not indicative of the production capacity in the area.

The drilling success and the implementation of enhanced oil recovery/waterflood projects will continue to drive the light oil production growth from Puskwa in the second half of 2007.

In the Montney gas project at Dawson, production averaged 3,826 BOE/d or 23 Mmcf/d (29% of corporate production) during Q2 2007. Year over year, this is an increase of 180%. This project made up 31% of funds from operations and had an operating netback of \$32.74/BOE or \$5.46/Mcf. Despite short term softness in natural gas prices, this project is delivering strong production and cash flow growth.

The combination of low operating costs and high well productivity and reserves continue to make this a profitable project for the company at natural gas prices of above \$2.60 to \$2.80/Mcf.

At Eaglesham, average production in Q2 2007 was 1,713 BOE/d (13% of corporate production). This compares to 150 BOE/d in Q2 2006. The operating netback for second quarter 2007 was \$29.83/BOE or \$4.97/Mcf. Eaglesham generated 13% of corporate funds from operations.

## Puskwa operations update

To the south of the main Puskwa pool, one wildcat well (100% interest) which tested a new structure was cased on July 30, 2007. This well produced clean oil and the productivity will be assessed once completion and testing operations have ended.

In the main Puskwa light oil pool, a further development well (100% interest) has been drilled. Although completion operations have just begun, initial results indicate that this well is capable of producing oil volumes at rates similar to those of previously drilled wells in the pool. This well will initially be restricted to a EUB-imposed production volume limitation. The continued drilling success in the main Puskwa pool confirms the significant reserve accumulation of light oil from the Beaverhill Lake formation.

Two rigs are currently drilling development locations in the main Puskwa pool. Up to 4 additional wells are planned in the remainder of 2007. Galleon has access to 45 sections (100% interest except for 1 section) on the Puskwa Beaverhill Lake fairway.

### Dawson Montney gas operations update

Subsequent to second quarter 2007, Galleon has successfully expanded the main fairway of the Montney gas play by drilling one well which is located 10 miles from the existing main producing area. This well tested in excess of 1.5 Mmcf/d (250 BOE/d). Galleon has access to over 537 sections of land in this play with an average working interest of approximately 90% and has identified over 300 drilling locations. Galleon has a 30 well program planned for the second half of 2007.

### Eaglesham operations update

Galleon has completed testing operations on a deep gas well (65% interest) at Eaglesham. The well encountered over 100 feet of gas pay with natural gas liquids. Test rates were 4.5 Mmcf/d plus natural gas liquids of 90 Bbls/d, for a total of over 800 BOE/d of gross production. This well is expected to be placed on-stream within the next two weeks at an initial rate in excess of 2 Mmcf/d gross.

At Eaglesham, Galleon has completed another significant Cretaceous gas well (60% interest). The calculated absolute open flow potential of this well is approximately 26 Mmcf/d (4,333 BOE/d). This well is expected to be placed on production at a rate of 2 Mmcf/d gross during the third quarter of 2007.

Galleon has expanded its exploration program at Eaglesham this summer by successfully acquiring over 32 square miles of 3D seismic. The data is in the process of being interpreted. Galleon has access to over 70 sections (average working interest of 72%) of land in the Eaglesham area.

### New exploration areas update

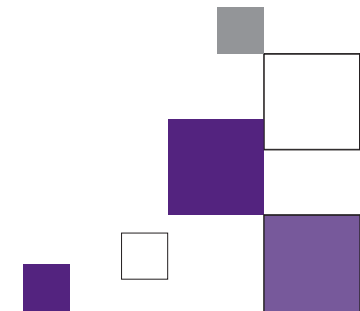
At Mcleans Creek, Alberta, one well tested at 500 BOE/d (50% interest) of light sweet oil. At Kimiwan, Alberta one well tested 200 BOE/d (55% interest) of light sweet oil. Three to four follow up locations have been identified.

Subsequent to June 30, 2007, Galleon completed an acquisition of oil and gas properties in the Eaglesham/Kakut area of Alberta for \$15.1 million. This strategic consolidation acquisition further strengthens Galleon's land position and control of infrastructure in the area. Galleon continues to pursue other acquisitions which have an attractive intrinsic value and which are accretive on a cash flow and reserve basis.

Glenn R. Carley  
*Executive Chairman*

*August 14, 2007*

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 six month periods ended June 30, 2007 with comparisons to the three and six months ended June 30, 2006 and as at December 31, 2006. 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 six month periods ended June 30, 2007 and 2006 and the audited financial statements and MD&A for the year ended December 31, 2006.

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, August 14, 2007.

## 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 timing of receipt of regulatory approvals, expected effect of production increases on operating costs per BOE, expected growth areas, drilling plans and the timing thereof, commodity prices, expected commodity mix, and capital expenditures, the timing thereof and the method of funding thereof. These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Corporation's objectives, goals or future plans are forward-looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals (including GPP at Puskwa) and ability to access sufficient capital from internal and external sources. As a consequence, Galleon's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect Galleon's operations and financial results are included elsewhere herein and in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at Galleon's website ([www.galleonenergy.com](http://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.

## SECOND QUARTER 2007 HIGHLIGHTS

- Funds from operations were \$32.8 million (\$0.55 per basic share), an increase of 9% from Q1 2007, and 49% greater than Q2 2006;
- Earnings for the three months ended June 30, 2007 were \$3.3 million (\$0.06 per basic share) and \$7.2 million for the six months ended June 30, 2007 (\$0.12 per basic share);
- Daily production averaged 13,372 BOE, an increase of 12% from Q1 2007, and 56% greater than Q2 2006;
- Operating costs of \$8.63/BOE decreased by 3% compared to Q1 2007 and 13% from Q2 2006;
- Drilled 9 gross wells of which seven (6.6 net) were cased for production including one light oil well (0.6 net), one heavy oil well (1.0 net) and 5 natural gas wells (5.0 net); a success rate of 78%;
- Spent \$23.9 million on exploration and development activities, plus property acquisitions of \$5.9 million;
- Completed a flow-through equity issuance of 1,481,500 Class A shares for gross proceeds of \$30.0 million;
- Reduced net debt to \$177.9 million in Q2 2007 from \$210.5 million in Q1 2007;
- Expanded the banking syndicate to four banks, with available credit facilities of \$210 million on a revolving basis;
- Subsequent to June 30, 2007, completed an acquisition of oil and gas properties in the Eaglesham/Kakut area for \$15.1 million.

## RESULTS OF OPERATIONS

Comparative financial results for the quarter are as follows:

<i>Three months ended June 30</i>	<i>(\$000s)</i>	<i>2007 1,216,855 BOE \$/BOE</i>	<i>(\$000s)</i>	<i>2006 778,992 BOE \$/BOE</i>
Revenues	60,735	49.91	36,517	46.88
Royalties	(13,609)	(11.18)	(6,980)	(8.96)
ARTC and GCA <sup>1</sup>	2,603	2.14	3,595	4.62
Transportation costs	(1,408)	(1.16)	(950)	(1.22)
Operating costs	(10,507)	(8.63)	(7,716)	(9.91)
Net	37,814	31.08	24,466	31.41
G&A	(1,797)	(1.48)	(1,068)	(1.37)
Interest costs	(2,682)	(2.20)	(1,098)	(1.41)
Capital and other taxes	(502)	(0.41)	(231)	(0.30)
Realized gain on financial derivative	–	–	–	–
Funds from operations <sup>2</sup>	32,833	26.99	22,069	28.33

<i>Six months ended June 30</i>	<i>(\$000s)</i>	<i>2007 2,286,770 BOE \$/BOE</i>	<i>(\$000s)</i>	<i>2006 1,553,570 BOE \$/BOE</i>
Revenues	113,709	49.72	72,747	46.83
Royalties	(24,625)	(10.77)	(15,841)	(10.20)
ARTC and GCA <sup>1</sup>	5,237	2.29	4,570	2.94
Transportation costs	(2,995)	(1.31)	(2,056)	(1.32)
Operating costs	(19,985)	(8.74)	(14,781)	(9.51)
Net	71,341	31.19	44,639	28.74
G&A	(3,061)	(1.34)	(2,228)	(1.43)
Interest costs	(4,928)	(2.15)	(1,838)	(1.18)
Capital and other taxes	(722)	(0.32)	(457)	(0.29)
Realized gain on financial derivative	373	0.16	–	–
Funds from operations <sup>2</sup>	63,003	27.54	40,116	25.84

<sup>1</sup> GCA means Gas Cost Allowance

<sup>2</sup> See “Non-GAAP Measurements”

For the three months ended June 30, 2007 funds from operations of \$32.8 million (\$0.55 per basic share) increased by 49% from \$22.1 million (\$0.42 per basic share) in the same period of 2006. The increase is a result of production and commodity price increases. The operating netback of \$31.08/Boe is 1% lower than the \$31.41/Boe in the same period in 2006 due to lower GCA credits from the Crown. Lower GCA is a result of reduced capital spending compared to the capital spent on additional natural gas facilities in the second quarter of 2006. On a per unit basis, funds from operations decreased by 5% in Q2 2007 compared to Q2 2006 mainly due to a 56% increase in interest expense.

For the six months ended June 30, 2007 funds from operations of \$63.0 million (\$1.08 per basic share) increased by 57% from \$40.1 million (\$0.79 per basic share) in the same period of 2006. The increase is attributed to production and commodity price increases. The operating netback of \$31.19/Boe is 9% higher than the \$28.74/Boe in the same period in 2006 due to 8% lower operating costs achieved through efficiencies gained with production growth. Average daily production rates in 2007 increased by 47% compared to 2006. Interest costs increased by 82% on a per unit basis year over year due to greater bank debt levels in 2007.

## PETROLEUM AND NATURAL GAS REVENUES

<i>Three months ended June 30</i>	<i>(\$000s)</i>	<i>2007</i> <i>%</i>	<i>(\$000s)</i>	<i>2006</i> <i>%</i>
Light oil	21,397	36	12,254	34
Heavy oil	7,491	12	6,654	18
NGLs	1,390	2	601	2
Natural gas	30,275	50	16,871	46
Royalty income	182	–	137	–
<b>Total</b>	<b>60,735</b>	<b>100</b>	<b>36,517</b>	<b>100</b>

<i>Six months ended June 30</i>	<i>(\$000s)</i>	<i>2007</i> <i>%</i>	<i>(\$000s)</i>	<i>2006</i> <i>%</i>
Light oil	39,706	35	23,347	32
Heavy oil	14,411	13	10,356	14
NGLs	2,441	2	1,091	2
Natural gas	56,790	50	37,627	52
Royalty income	361	–	326	–
<b>Total</b>	<b>113,709</b>	<b>100</b>	<b>72,747</b>	<b>100</b>

Revenues for the three months ended June 30, 2007 increased 66% and 56% respectively compared to the same periods in 2006. Significant increases in production volumes and natural gas price improvements

contributed to the increase in revenues for both the three and six month periods ended June 30, 2007.

## PRODUCTION

		<i>Three months ended June 30</i>			<i>Six months ended June 30</i>			
		<i>2007</i>	<i>BOE/d</i>	<i>2006</i>	<i>2007</i>	<i>BOE/d</i>	<i>2006</i>	
		<i>%</i>		<i>%</i>	<i>%</i>		<i>%</i>	
Light oil (Bbls/d)	3,317	25	1,753	21	3,223	26	1,804	21
Heavy oil (Bbls/d)	2,247	17	1,705	20	2,164	17	1,645	19
NGLs (Bbls/d)	256	2	100	1	231	1	96	1
Natural gas (Mcf/d)	45,314	56	30,014	58	42,097	56	30,229	59
<b>BOE/d (6:1)</b>	<b>13,372</b>	<b>100</b>	<b>8,560</b>	<b>100</b>	<b>12,634</b>	<b>100</b>	<b>8,583</b>	<b>100</b>

Average production volumes for second quarter 2007 of 13,372 BOE/d increased 56% compared to 8,560 BOE/d in the same period of the prior year. Average production for second quarter 2007 increased by 12% compared to the first quarter of 2007. Compared to Q2 2006, Q2 2007 production volumes increased as follows: light oil 89%, heavy oil 32%, natural gas 51%, and natural gas liquids 156%.

On March 23, 2007 Galleon was granted good production practice ("GPP") status from the Alberta Energy and Utilities Board ("EUB") on two sections at Puskwa. Light oil production from the two wells located on these sections was increased starting April 2007. A pilot water flood project was completed in June 2007. On May 19, 2007 Galleon applied for water flood expansion on two additional developed sections of land. Galleon remains optimistic that approval will be received prior to the end of 2007 on the additional sections.

Heavy oil production increased as a result of optimization techniques and minor workovers at Edam.

Natural gas production increased by 17% in Q2 2007 compared to Q1 2007 as a result of pipeline tie-ins of previously drilled wells from the Montney gas project. Drilling success was 78% in the second quarter of 2007. Nine wells were drilled and seven (6.6 net) cased for production including one light oil well (0.6 net), one heavy oil well (1.0 net) and five (5.0 net) natural gas wells.

## 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, for the period from April 1, 2007 – October 31, 2007 15,000 GJ per day is hedged at prices ranging between \$6.50 per GJ to \$8.12 per GJ. For the six month period ending June 30, 2007, Galleon realized gains of \$701,806 on its gas hedges. As well Galleon has realized \$373,000 year to date on a crude oil financial derivative contract for 1,000 Bbl per day for the period from January 1, 2007 – December 31, 2007. An additional unrealized gain of \$453,000 was recorded based on the mark to market value at June 30, 2007.

## PRICES (NET OF TRANSPORTATION)

	<i>2007</i>	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
		<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Light oil (\$Bbl/d)	70.12	75.63	66.91	70.53	
Heavy oil (\$Bbl/d)	35.89	42.69	36.21	34.08	
NGLs (\$Bbls/d)	59.67	65.71	58.33	61.83	
Natural Gas (\$Mcf/d)	7.14	5.97	7.23	6.67	

Average natural gas prices of \$7.14/Mcf for second quarter 2007 increased 20% from \$5.97/Mcf during the same period of the prior year. Light oil prices of \$70.12/Bbl decreased 7% for the three months ended June 30, 2007 compared to \$75.63/Bbl in the same period of the prior year, not including the impact of the crude oil costless collar. Heavy oil prices for

second quarter 2007 of \$35.89/Bbl decreased 16% from \$42.69/Bbl in the same period of the prior year due to an increase in heavy oil price differentials. On a U.S. dollar basis, heavy oil price differentials increased from \$17.94 in the second quarter of 2006 to \$20.36 in the second quarter 2007.

## PERFORMANCE BY PROPERTY

<i>Three months ended June 30</i>	<i>Production BOE/d</i>	<i>%</i>	<i>2007 Operating Netbacks/ BOE<sup>1</sup> \$</i>	<i>Production BOE/d</i>	<i>%</i>	<i>2006 Operating Netbacks/ BOE<sup>1</sup> \$</i>	<i>2007 Funds from Operations<sup>2</sup> %</i>
Puskwa	2,128	16	49.78	499	6	81.44	27
Dawson Montney gas	3,826	29	32.74	1,366	16	22.83	31
Eaglesham	1,713	13	29.83	150	1	71.93	13
Dawson	2,675	20	25.58	3,485	41	27.02	18
Edam and other heavy oil	2,247	17	10.26	1,705	20	13.97	6
B.C.	220	1	23.38	242	3	24.83	2
Calais	374	3	32.74	880	10	20.53	3
Other	189	1	6.65	233	3	20.19	-
	<b>13,372</b>	<b>100</b>	<b>28.94</b>	<b>8,560</b>	<b>100</b>	<b>26.79</b>	<b>100</b>

<i>Six months ended June 30</i>	<i>Production BOE/d</i>	<i>%</i>	<i>2007 Operating Netbacks/ BOE<sup>1</sup> \$</i>	<i>Production BOE/d</i>	<i>%</i>	<i>2006 Operating Netbacks/ BOE<sup>1</sup> \$</i>	<i>2007 Funds from Operations<sup>2</sup> %</i>
Puskwa	1,828	15	49.83	335	4	72.62	25
Dawson Montney gas	3,328	26	31.52	1,150	13	23.81	28
Eaglesham	1,634	13	31.12	135	2	66.46	14
Dawson	2,855	23	27.11	3,719	43	29.72	21
Edam and other heavy oil	2,165	17	10.25	1,645	19	7.75	6
B.C.	214	2	24.25	249	3	26.64	1
Calais	425	3	26.08	1,104	13	23.52	3
Other	185	1	13.40	246	3	19.63	2
	<b>12,634</b>	<b>100</b>	<b>28.91</b>	<b>8,583</b>	<b>100</b>	<b>25.80</b>	<b>100</b>

<sup>1</sup> Operating netbacks/BOE exclude ARTC and GCA and are calculated by subtracting royalties and operating costs from revenues.

<sup>2</sup> See "Non-GAAP Measurements."

At Puskwa, production for the three month period ending June 30, 2007 increased by 40% compared to the three months ended March 31, 2007 and by 326% from Q2 2006. Exploration and development at Puskwa was initiated in the first quarter of 2006. This project contributed 27% of total funds from operations in Q2 2007 and 25% year to date. The production rate for the quarter reflects the allowable rate imposed by the EUB on all but two producing wells and is not indicative of the production capacity in the area. The strong operating netbacks of \$49.78 during Q2 2007 were driven by low operating costs of \$3.04/BOE and high light oil prices, net of transportation, of \$72.18/Bbl. Galleon plans to drill up to 15 wells in the Puskwa area in 2007. The strong operating netbacks for the three and six month periods ending June 30, 2006 are a result of highly productive 100% owned light sweet oil wells with minimal operating costs and royalty holiday status.

Production of Montney gas at Dawson increased 180% for the second quarter of 2007 over the same period of the prior year. The operating netback of \$32.74/BOE improved by 43% from the prior year, partially due to the increase in natural gas prices. Operating costs decreased from \$7.96/BOE (\$1.26/Mcf) in the second quarter of 2006 to \$4.07/BOE (\$0.65/Mcf) in the second quarter of 2007. The decrease is a function of control of the facilities in the area and increased production rates. In Q2 2007 this area contributed 31% to total funds from operations. Galleon has identified over 300 drilling locations in the Dawson area and plans to drill up to 60 wells in 2007.

Liquids rich natural gas and light oil production at Eaglesham commenced in August, 2006 and reached 1,713 BOE/day on average in the second quarter of 2007. Operating netbacks of \$29.83/BOE reflect a low operating cost structure of \$4.43/BOE or \$0.74/Mcf. Control of the facilities in the area has enabled Galleon to control operating costs. Eaglesham contributed 13% of second quarter 2007 funds from operations. Galleon plans to drill up to 10 wells in this area in 2007.

At Dawson, natural production declines resulted in a decrease of 23% in production volumes compared to the prior year. Lower volumes resulted in higher operating costs per barrel of oil equivalent, and a lower operating netback. Although the area was previously Galleon's main contributor to funds from operations, for the six month period of 2007 it represented only 21% due to capital allocations towards Galleon's growth projects.

Heavy oil production grew 32% in the second quarter of 2007 compared to the same period of the prior year as a result of exploitation techniques. The price of heavy oil of \$35.89/Boe decreased by 16% compared to \$42.69 for the second quarter 2006. Operating netbacks for the six month period of 2007 of \$10.25/BOE have increased significantly over the same period of the prior year due to a larger production base and a reduction in operating

costs including propane and third party fuel gas. With exit production for 2007 planned between 17,000 – 21,000 BOE/d, it is expected that the heavy oil assets will only account for 10% – 12% of total production by the end of 2007.

The decrease in production at Calais relates to normal declines which are not being replaced with new production as Galleon has shifted its focus to other areas offering better opportunities for growth.

## ROYALTIES

<i>Three months ended June 30</i> <i>(\$000s, except as indicated)</i>	<b>2007</b>	<b>2006</b>
Crown	12,366	6,328
Freehold	344	272
GORR and other	899	380
Subtotal	13,609	6,980
ARTC and GCA	(2,603)	(3,595)
<b>Net royalties</b>	<b>11,006</b>	<b>3,385</b>
<b>% of revenue</b>	<b>22.4</b>	<b>19.1</b>
<b>% of revenue net of ARTC and GCA</b>	<b>18.1</b>	<b>9.3</b>
<i>Six months ended June 30</i> <i>(\$000s, except as indicated)</i>	<b>2007</b>	<b>2006</b>
Crown	22,457	14,583
Freehold	757	457
GORR and other	1,411	801
Subtotal	24,625	15,841
ARTC and GCA	(5,237)	(4,570)
<b>Net royalties</b>	<b>19,388</b>	<b>11,271</b>
<b>% of revenue</b>	<b>21.7</b>	<b>21.8</b>
<b>% of revenue net of ARTC and GCA</b>	<b>17.1</b>	<b>15.5</b>

Gross royalties were 22.4% of revenues for the second quarter of 2007 (20.4% Crown, 0.6% Freehold, and 1.4% other) compared to 19.1% for the same period in 2006 (17.3% Crown, 0.7% Freehold and 1.1% other). Lower royalty rates in the second quarter of 2006 were primarily due to royalty holiday status at Eaglesham and Puskwa.

## OPERATING COSTS

<i>Three months ended June 30</i>	<i>Production %</i>	<i>Operating Costs %</i>	<i>2007 Operating Costs \$/BOE</i>
Puskwa	16	6	3.04
Dawson Montney gas	29	15	4.07
Eaglesham	13	8	4.43
Dawson	20	30	13.03
Edam and other heavy oil	17	32	18.23
Calais	3	3	8.97
Other	2	6	19.04
	100	100	8.63

<i>Six months ended June 30</i>	<i>Production %</i>	<i>Operating Costs %</i>	<i>2007 Operating Costs \$/BOE</i>
Puskwa	15	6	3.21
Dawson Montney gas	26	14	4.15
Eaglesham	13	8	4.97
Dawson	23	30	11.58
Edam and other heavy oil	17	33	18.53
Calais	3	3	8.02
Other	3	6	18.04
	100	100	8.74

Operating costs were \$10.5 million or \$8.63/BOE for the second quarter of 2007 compared to \$7.7 million or \$9.91/BOE for the same period of the prior year. Galleon's operating costs per barrel of oil equivalent excluding the heavy oil was \$6.69/BOE for the second quarter of 2007. Operating costs in Galleon's key areas of Puskwa, Dawson Montney gas, and Eaglesham remain low and below the corporate average due to control of the facilities in

those areas. Sufficient capacity exists at Galleon's facilities to accommodate planned production increases. It is therefore anticipated that production additions in the key areas will be brought on stream at rates similar to or better than those experienced in 2007. It is anticipated that production increases in Galleon's key areas will lower the corporate average operating costs per barrel of oil equivalent.

## GENERAL AND ADMINISTRATION EXPENSES

<i>Three months ended June 30</i>	<i>(\$000s)</i>	<i>2007 \$/BOE</i>	<i>(\$000s)</i>	<i>2006 \$/BOE</i>
Gross	2,556	2.10	1,952	2.51
Capitalized overhead	(541)	(0.44)	(736)	(0.95)
Overhead recoveries	(218)	(0.18)	(148)	(0.19)
	<b>1,797</b>	<b>1.48</b>	<b>1,068</b>	<b>1.37</b>

<i>Three months ended June 30</i>	<i>(\$000s)</i>	<i>2007 \$/BOE</i>	<i>(\$000s)</i>	<i>2006 \$/BOE</i>
Gross	5,088	2.22	3,911	2.52
Capitalized overhead	(1,677)	(0.73)	(1,397)	(0.90)
Overhead recoveries	(350)	(0.15)	(286)	(0.19)
	<b>3,061</b>	<b>1.34</b>	<b>2,228</b>	<b>1.43</b>

While gross general and administrative (G&A) expenses have increased by 31% with the growth of the Corporation, gross G&A of \$2.10/BOE for the second quarter 2007 decreased 16% on a per unit basis compared to the same period of the previous year. The decrease is a result of higher production volumes and is indicative of the efficiency of Galleon's growth. Net G&A expenses for the second quarter increased by 8% on a per unit basis compared to the same period of the prior year as a result of reduced capital spending in the second quarter 2007 due to spring breakup.

For the three months ended June 30, 2007 G&A expenses by category were: salary and employee – 51%, office – 21%, computer – 8%, consulting – 7%, audit, engineering and legal – 5%, corporate – 4%, and shareholder costs – 4%.

### INTEREST

Interest expense of \$2.6 million for the three months ended June 30, 2007 was higher than \$1.1 million interest expense in the same period of the prior year due to increased average debt levels and higher interest rates. Galleon reduced its bank debt in the three month period ended June 30, 2007 to \$168.1 million from \$189.4 million in the first quarter 2007 mainly as a result of the flow-through share issuance in April 2007. Galleon monitors its debt levels in relation to equity, and as a ratio of expected annual funds from operating activities.

### STOCK BASED COMPENSATION

Stock based compensation was a non-cash expense of \$4.1 million for the six month period ending June 30, 2007 compared to \$4.0 million in the same quarter of the prior year. During the second quarter 2007 380,000 stock options were granted to employees at an average exercise price of \$16.80 with fair values of between \$5.10 and \$5.55 per option based on the Black Sholes valuation model.

At June 30, 2007, 5,398,950 stock options were outstanding at an average exercise price of \$11.60.

### DEPLETION, DEPRECIATION AND ACCRETION

Depletion and depreciation ("D&D") charges were \$25.0 million or \$20.53/BOE for the three months ended June 30, 2007 compared to \$13.4 million or \$17.21/BOE for the same period of the prior year. For the six months ended June 30, 2007 D&D charges were \$47.0 million or \$20.56/BOE, compared to \$26.2 million or \$16.84/BOE for the corresponding period in 2006. Reserve additions for the second quarter of 2007 were estimated internally.

Capital expenditures of \$84.1 million (\$74.0 million – June 30, 2006) related to undeveloped land, seismic and equipment inventory have been excluded from the depletion and depreciation calculation and \$85.8 million (\$49.8 million – June 30, 2006) of future development costs have been added.

Accretion expense on the Corporation's asset retirement obligation was \$355,760 for the second quarter of 2007 compared to \$296,614 in the same quarter of the prior year. Accretion expense increased due to a greater asset retirement obligation, which is based on the number of wells and facilities in which Galleon has an interest. For the second quarter of 2007, \$109,000 of obligations were settled.

### CAPITAL AND FUTURE TAXES

The current tax provision of \$502,000 for the second quarter 2007 was partially comprised of Saskatchewan capital and resource taxes, as was the

provision for the second quarter of 2006. The provision is calculated based on revenues earned in Saskatchewan. It is not expected that Galleon will pay any income taxes in 2007. A Canada Revenue Agency assessment of \$265,000 relating to an audit of 2004 corporate income tax was recorded in Q2 2007. This amount is expected to be recovered upon the refiling of the 2006 corporate tax return.

The provision for future income taxes was \$2.0 million for the second quarter of 2007 compared to a \$2.2 million recovery for the second quarter of the prior year. The recovery in 2006 was related to statutory tax rate reductions.

### CAPITAL EXPENDITURES

	<i>(\$000s)</i>
Property & equipment balance at December 31, 2006	577,758
Additions to property and equipment	85,602
Change in equipment inventory	(453)
Acquisition of property and equipment	35,769
Asset retirement obligation acquired	980
Asset retirement obligation incurred	1,119
Depletion and depreciation	(47,001)
<b>Property &amp; equipment balance at June 30, 2007</b>	<b>653,774</b>

<i>Three months ended June 30</i>	<i>(\$000s)</i>	<i>2007</i> <i>%</i>	<i>(\$000s)</i>	<i>2006</i> <i>%</i>
Land	1,812	8	5,501	9
Geological and geophysical	3,200	13	4,748	8
Drilling and completion	15,240	64	26,465	45
Plant and facilities	3,547	15	22,166	38
Other assets	141	-	48	-
Exploration and development expenditures	23,940	100	58,928	100

<i>Six months ended June 30</i>	<i>(\$000s)</i>	<i>2007</i> <i>%</i>	<i>(\$000s)</i>	<i>2006</i> <i>%</i>
Land	5,445	6	12,229	10
Geological and geophysical	6,130	7	17,070	14
Drilling and completion	55,793	66	52,575	42
Plant and facilities	17,595	21	42,300	34
Other assets	186	–	(85)	–
Exploration and development expenditures	85,149	100	124,089	100

Exploration and development expenditures during the second quarter of 2007 were \$23.9 million, less \$0.3 million of equipment inventory purchased in previous quarters, for net expenditures of \$23.6 million. Drilling and completions expenditures comprised 64% of exploration and development activity. Galleon drilled 9 wells and cased 7 (6.6 net) for a success rate of 78%.

Facilities expenditures comprised 15% of activity, and included the construction of pipelines and tie-in of wells. Land and seismic expenditures were incurred to expand Galleon's key areas and initiate exploration activity in new areas. Management has established a capital budget of between \$170 and \$220 million for 2007.

## LIQUIDITY AND CAPITAL RESOURCES

	<i>June 30, 2007</i> <i>(\$000s)</i>	<i>December 31, 2006</i> <i>(\$000s)</i>
<b>Debt and working capital</b>		
Bank debt	168,091	122,996
Working capital deficiency	9,787	28,217
Total net debt	177,878	151,213

## FUNDING OF CAPITAL PROGRAM

<i>Three months ended June 30</i>	<i>2007</i> <i>(\$000s)</i>	<i>2006</i> <i>(\$000s)</i>
Issuance of shares, net of costs	29,746	742
Funds from operations	32,833	22,069
Change in bank debt	(21,323)	61,540
Change in working capital and other	(11,416)	431
	29,840	84,782

<i>Six months ended June 30</i>	<i>2007 (\$000s)</i>	<i>2006 (\$000s)</i>
Issuance of shares, net of costs	30,542	54,228
Funds from operations	63,003	40,116
Change in bank debt	45,095	46,325
Change in working capital and other	(18,885)	9,276
	119,755	149,945

During the second quarter of 2007 share option exercises of \$1.4 million, an equity offering of flow-through Class A shares for net proceeds of \$28.4 million, funds from operations of \$32.8 million plus working capital, reduced bank debt by \$21.3 million and funded exploration and development expenditures.

On April 19, 2007 the Corporation closed an equity offering of flow-through Class A shares for total proceeds of \$30.0 million. This offering, the Corporation's current bank line, and funds from operations are expected to fund the capital expenditure program for the remainder of 2007.

## COMMITMENTS

### Drilling Rig

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

<i>Year</i>	<i>Amount (\$000s)</i>
2007	2,660
2008	4,554
2009	1,894

### Minimum Lease Payments

At June 30, 2007 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

<i>Year</i>	<i>Amount (\$000s)</i>
2007	397
2008	570
2009	249
2010	83

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

### Flow-through Shares

In connection with the Corporation's flow-through share offerings in 2006, Galleon is obligated to spend \$40.0 million on qualifying exploration expenses prior to December 31, 2007. As at June 30, 2007, it is estimated that \$0.8 million remains to be incurred.

In connection with the Corporation's flow-through share offerings in 2007, Galleon is obligated to spend \$30.0 million on qualifying exploration expenses prior to December 31, 2008. As at June 30, 2007, the full amount of the required capital expenditure remains to be incurred

## FINANCIAL INSTRUMENTS

As a means of managing the risk of commodity price volatility, in December 2006, Galleon entered into a financial contract with a Canadian chartered bank, setting a floor price of USD WTI \$61.75/Bbl and a ceiling of USD WTI \$70.00/Bbl on 1,000 Bbl per day of crude oil for the period January 1, 2007 to December 31, 2007. The contract will protect base line revenues if the WTI crude oil benchmark falls below \$61.75/Bbl. The contract is a costless collar, therefore no premium was paid by Galleon upon entering into the contract. The contract will be settled monthly based on the average USD WTI benchmark price. Galleon will receive payments on the contract if the benchmark USD WTI price falls below \$61.75/Bbl and will be required to make payments if the price rises above \$70.00/Bbl. Galleon has recognized this financial instrument on its balance sheet at fair value, and is accounting for the instrument using mark to market accounting. As at June 30, 2007 Galleon had realized gains of \$373,000 and an unrealized gain of \$453,000 related to this derivative instrument.

On July 5, 2007, the Corporation entered into two financial derivative contracts for 2,000 Bbl/d of crude oil within a costless collar of \$70.00 to \$80.75/Bbl CDN. For further information see note 12 (Subsequent Events) to the financial statements.

## BUSINESS RISKS

### Environmental Regulation and Risk

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.

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the Regulatory Framework for Air Emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy-using products. Regarding large industry and industry related projects the Government's Action Plan intends to achieve the following: (i) an absolute reduction of 150 megatonnes in greenhouse gas emissions by 2020 by imposing mandatory targets; and (ii) air pollution from industry is to be cut in half by 2015 by setting certain targets. New facilities using cleaner fuels and technologies will have a grace period of three years. In order to facilitate the companies' compliance of the Action Plan's requirements, while at the same time allowing them to be cost-effective, innovative and adopt cleaner technologies, certain options are provided. These are: (i) in-house reductions; (ii) contributions to technology funds; (iii) trading of emissions with below-target emission companies; (iv) offsets; and (v) access to Kyoto's Clean Development Mechanism.

On March 8, 2007, the Alberta Government introduced Bill 3, the Climate Change and Emissions Management Amendment Act, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2007; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay \$15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions, offered by a prospective operation, must be verified by a third party to ensure that the emission reductions are real.

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 the impact of those requirements on the Corporation and its operations and financial condition.

## Review of Alberta Royalty and Tax Regime

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coalbed methane, will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The review panel is to produce a final report that will be presented to the Minister of Finance by August 31, 2007.

## CHANGES IN ACCOUNTING POLICIES

### Financial Instruments

Galleon adopted the following new Handbook Sections effective January 1, 2007:

- Section 1530, "Comprehensive Income";
- Section 3251, "Equity";
- Section 3855, "Financial Instruments- Recognition and Measurement";
- Section 3861, "Financial Instruments- Disclosure and Presentation";
- Section 3865, "Hedges"

These new accounting standards provide requirements for the recognition and measurement of financial instruments and the use of hedge accounting. The standards have been adopted prospectively and the comparative interim consolidated financial statements have not been restated.

### Accounting Changes

Effective January 1, 2007 the Corporation adopted the revised recommendations of CICA Section 1506, "Accounting Changes". These standards are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007. There was no effect on the current or prior period financial statements as a result of this adoption.

## 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 are being 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 Energy as of June 30:

	2007	2006 <sup>1</sup>
Class A shares outstanding		
Basic	59,734,952	52,048,377
Diluted <sup>2</sup>	65,133,902	56,961,702
Class B shares outstanding	922,500	922,500
Class A shares issuable on conversion of Class B shares <sup>3</sup>	525,941	425,507

<sup>1</sup> Restated to reflect a three-for-two Class A share split in June 2006.

<sup>2</sup> Includes outstanding options of 5,398,950 (June 30, 2006 – 4,913,325).

<sup>3</sup> Assumes a conversion at the June 30, 2007 closing price of \$17.54 per Class A share (June 30, 2006 - \$21.68). The actual conversion rate varies based on a formula related to the trading price of the Class A shares.

At June 30, 2007, the market value of Galleon's class A and class B shares was \$1,056.0 million based on the June 30, 2007 closing price of \$17.54 per class A share and \$8.95 per class B share. As of August 14, 2007, the number of class A shares, class B shares, and options outstanding is 59,777,952, 922,500, and 5,675,950 respectively.

## OUTLOOK

Drilling activity since June 30, 2007 continues to build momentum with the addition of new discoveries. The drilling program has delivered a new deep liquids rich natural gas discovery at Eaglesham, a new Dawson Montney gas discovery located 10 miles from the existing main gas pools, and the initial completion of one wildcat light sweet oil well at Puskwa south of the main pool. In addition, two new deep light oil discoveries in new exploration areas in the Peace River arch have been drilled in third quarter 2007.

Two rigs are currently drilling development locations in the main Puskwa pool. Up to 4 additional wells are planned in the remainder of 2007. Galleon has access to 45 sections (100% interest except for 1 section) on the Puskwa Beaverhill Lake fairway.

Subsequent to second quarter 2007, Galleon has successfully expanded the main fairway of the Montney gas play by drilling one well which is located 10 miles from the existing main producing area. This well tested in excess of 1.5 Mmcf/d (250 BOE/d). Galleon has access to over 537 sections of land in this play with an average working interest of approximately 90% and has identified over 300 drilling locations. Galleon has a 30 well program planned for the second half of 2007.

Galleon has expanded its exploration program at Eaglesham this summer by successfully acquiring over 32 square miles of 3D seismic. The data is in the process of being interpreted. Galleon has access to over 70 sections (average working interest of 72%) of land in the Eaglesham area.

Subsequent to June 30, 2007, Galleon completed an acquisition of oil and gas properties in the Eaglesham/Kakut area of Alberta for \$15.1 million. This strategic consolidation acquisition further strengthens Galleon's land position and control of infrastructure in the area. Galleon continues to pursue other acquisitions which have an attractive intrinsic value and which are accretive on a cash flow and reserve basis.

## ADDITIONAL INFORMATION

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

# QUARTERLY HIGHLIGHTS

	Q2	2007 Q1	Q4	Q3	Q2	2006 Q1	Q4	2005 Q3
<b>PRODUCTION</b>								
Light oil (Bbl/d)	3,317	3,127	2,419	1,823	1,753	1,859	2,271	2,213
Heavy oil (Bbl/d)	2,247	2,081	2,100	1,984	1,705	1,580	1,135	1,205
Natural Gas (Mcf/d)	45,314	38,845	36,733	33,068	30,014	30,445	32,212	27,452
Liquids (Bbl/d)	256	206	230	102	100	93	99	71
BOE/d	13,372	11,888	10,869	9,420	8,560	8,606	8,874	8,064
Total BOE produced	1,216,855	1,069,915	999,982	866,646	778,992	774,578	816,420	741,917
Daily BOE of production per million Class A shares – basic <sup>1</sup>	226	206	191	172	165	173	186	169
<b>Prices (net of transportation)</b>								
Light oil (\$/Bbl)	70.12	63.24	61.12	75.65	75.63	65.66	67.44	73.64
Heavy oil (\$/Bbl)	35.89	36.55	31.16	47.01	42.69	24.71	29.31	48.19
Crude oil (\$/Bbl)	56.30	52.57	47.19	53.35	59.39	46.78	54.73	62.54
Natural Gas (\$/Mcf)	7.14	7.36	6.84	5.58	5.97	7.36	11.16	9.13
NGLs (\$/Bbl)	59.67	56.64	56.02	69.83	65.71	57.62	58.84	56.64
<b>Per BOE (\$)</b>								
Revenues	49.91	49.51	45.26	46.06	46.88	46.77	63.68	59.99
Royalties, net of ARTC & GCA	(9.04)	(7.84)	(6.02)	(7.20)	(4.34)	(10.18)	(15.01)	(11.69)
Transportation costs	(1.16)	(1.47)	(1.37)	(1.25)	(1.22)	(1.43)	(1.48)	(1.64)
Operating costs	(8.63)	(8.86)	(9.65)	(10.66)	(9.91)	(9.12)	(7.73)	(6.98)
Net	31.08	31.34	28.22	26.95	31.41	26.04	39.46	39.68
Other revenue	–	–	–	–	–	–	–	–
G&A	(1.48)	(1.18)	(2.67)	(0.80)	(1.37)	(1.50)	(1.82)	(1.58)
Interest	(2.20)	(2.10)	(1.49)	(1.39)	(1.41)	(0.95)	(0.91)	(0.90)
Capital and other taxes	(0.41)	(0.21)	(0.21)	(0.33)	(0.30)	(0.29)	(0.40)	(0.38)
Realized gain on financial derivative	–	0.35	–	–	–	–	–	–
Funds from operations <sup>2</sup>	26.99	28.20	23.85	24.43	28.33	23.30	36.33	36.82

<sup>1</sup> Restated to reflect a three-for-two Class A share split in June 2006.

<sup>2</sup> See “Non-GAAP Measurements”

## QUARTERLY FINANCIAL HIGHLIGHTS (unaudited)

	2007 <i>Q2</i>	2007 <i>Q1</i>	2006 <i>Q4</i>	2006 <i>Q3</i>
<b>FINANCIAL (\$000s)</b>				
Revenues	60,735	52,974	45,264	39,921
Operating costs	(10,507)	(9,478)	(9,651)	(9,243)
General & administrative expenses	(1,797)	(1,264)	(2,670)	(692)
Interest expense	(2,682)	(2,246)	(1,487)	(1,202)
Funds from operations <sup>2</sup>	32,833	30,170	23,857	21,178
Per share, basic <sup>1, 2</sup>	0.55	0.52	0.42	0.39
Per share, diluted <sup>1, 2</sup>	0.54	0.50	0.40	0.37
Earnings	3,271	3,921	1,906	2,196
Per share, basic <sup>1</sup>	0.06	0.07	0.03	0.04
Per share, diluted <sup>1</sup>	0.05	0.07	0.03	0.04
Total assets	699,112	692,749	614,565	540,980
Weighted average outstanding Class A shares-basic <sup>1</sup>	59,204,393	57,800,899	56,761,415	54,854,334
Weighted average outstanding Class A shares-diluted <sup>1</sup>	61,175,217	59,947,494	59,234,229	57,447,555

## QUARTERLY FINANCIAL HIGHLIGHTS (unaudited)

	2006 Q2	2006 Q1	2005 Q4	2005 Q3
<b>FINANCIAL (\$000s)</b>				
Revenues	36,517	36,230	51,989	44,506
Operating costs	(7,716)	(7,065)	(6,311)	(5,179)
General & administrative expenses	(1,068)	(1,160)	(1,489)	(1,171)
Interest expense	(1,098)	(740)	(742)	(668)
Funds from operations <sup>2</sup>	22,069	18,047	29,662	27,325
Per share, basic <sup>1, 2</sup>	0.42	0.36	0.62	0.57
Per share, diluted <sup>1, 2</sup>	0.40	0.35	0.59	0.54
Earnings	7,985	1,740	9,324	9,112
Per share, basic <sup>1</sup>	0.15	0.04	0.20	0.19
Per share, diluted <sup>1</sup>	0.15	0.03	0.18	0.18
Total assets	477,967	399,269	352,619	312,523
Weighted average outstanding Class A shares-basic <sup>1</sup>	52,003,462	49,661,598	47,698,056	47,640,620
Weighted average outstanding Class A shares-diluted <sup>1</sup>	54,838,259	52,220,178	50,599,782	50,268,840

<sup>1</sup> Restated to reflect a three-for-two Class A share split in June 2006.

<sup>2</sup> See "Non-GAAP Measurements".

# CONSOLIDATED BALANCE SHEETS

June 30, 2007

December 31, 2006

(\$000s) (unaudited)

## ASSETS

### CURRENT

Accounts receivable	26,122	24,639
Deposits and prepaid expenses	2,552	1,839
Fair value of financial derivative (note 11)	642	190
	29,316	26,668
Goodwill (note 3)	16,022	10,139
Property and equipment (notes 3,4 and 6)	653,774	577,758
	699,112	614,565

## LIABILITIES

### CURRENT

Accounts payable and accrued liabilities	38,461	54,695
Bank loan (note 6)	168,091	122,996
	206,552	177,691
Asset retirement obligation (note 5)	23,748	21,432
Future income taxes (note 8)	55,082	32,287
	285,382	231,410

## SHAREHOLDERS' EQUITY

Share capital (note 7)	359,916	339,869
Contributed surplus (note 7)	14,955	11,619
Retained earnings	38,859	31,667
	413,730	383,155
	699,112	614,565

See accompanying notes

# CONSOLIDATED STATEMENTS OF EARNINGS

## COMPREHENSIVE INCOME AND RETAINED EARNINGS

<i>(\$000s, except per share amounts) (unaudited)</i>	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>				
Petroleum and natural gas revenue	60,735	36,517	113,709	72,747
Royalties, net of ARTC and GCA	(11,006)	(3,385)	(19,388)	(11,271)
	<b>49,729</b>	<b>33,132</b>	<b>94,321</b>	<b>61,476</b>
<b>EXPENSES</b>				
Operating	10,507	7,716	19,985	14,781
Transportation	1,408	950	2,995	2,056
General and administration	1,797	1,068	3,061	2,228
Interest	2,682	1,098	4,928	1,838
Stock-based compensation (note 7)	2,193	2,718	4,054	4,011
Accretion	356	153	673	296
Depletion and depreciation	24,979	13,404	47,001	26,164
Realized gain on financial derivative (note 11)	–	–	(373)	–
Unrealized loss (gain) on financial derivative (note 11)	26	–	(453)	–
	<b>43,948</b>	<b>27,107</b>	<b>81,871</b>	<b>51,374</b>
<b>EARNINGS BEFORE TAXES</b>	<b>5,781</b>	<b>6,025</b>	<b>12,450</b>	<b>10,102</b>
Income taxes				
Capital and other taxes	502	231	722	457
Future income taxes (recovery)	2,008	(2,191)	4,536	(80)
	<b>2,510</b>	<b>(1,960)</b>	<b>5,258</b>	<b>377</b>
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>3,271</b>	<b>7,985</b>	<b>7,192</b>	<b>9,725</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>35,588</b>	<b>19,581</b>	<b>31,667</b>	<b>17,841</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>38,859</b>	<b>27,566</b>	<b>38,859</b>	<b>27,566</b>
<b>NET EARNINGS AND COMPREHENSIVE INCOME PER SHARE (note 7)</b>				
Basic	0.06	0.15	0.12	0.19
Diluted	0.05	0.15	0.12	0.18
Weighted average Class A shares – basic	59,204,393	52,003,462	58,506,523	50,838,999
– diluted	61,175,217	54,838,259	60,427,881	53,471,081

See accompanying notes

# CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(\$000s) (unaudited)</i>	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Cash provided by (used in):				
<b>OPERATING ACTIVITIES</b>				
Net earnings	3,271	7,985	7,192	9,725
Items not requiring cash:				
Future income taxes	2,008	(2,191)	4,536	(80)
Depletion and depreciation	24,979	13,404	47,001	26,164
Accretion	356	153	673	296
Stock-based compensation	2,193	2,718	4,054	4,011
Unrealized (gain) loss on financial derivative	26	–	(453)	–
Abandonment costs	(109)	–	(456)	–
Change in non-cash working capital	(1,619)	(214)	(3,682)	5,838
	<b>31,105</b>	<b>21,855</b>	<b>58,865</b>	<b>45,954</b>
<b>FINANCING ACTIVITIES</b>				
Issue of common shares	31,378	742	32,178	57,687
Share issue costs	(1,632)	–	(1,636)	(3,459)
Bank loan	(21,323)	61,540	45,095	(46,325)
	<b>8,423</b>	<b>62,282</b>	<b>75,637</b>	<b>100,553</b>
<b>INVESTING ACTIVITIES</b>				
(Additions to) disposal of equipment inventory	(272)	–	453	–
Additions to oil and gas properties	(23,668)	(58,928)	(85,602)	(124,089)
Acquisition of oil and gas properties (note 3)	(5,900)	(25,854)	(34,606)	(25,856)
Change in non-cash working capital	(9,688)	995	(14,747)	3,788
	<b>(39,528)</b>	<b>(83,787)</b>	<b>(134,502)</b>	<b>(146,157)</b>
Change in cash	–	350	–	350
Cash, beginning and end of period	–	350	–	350
<b>SUPPLEMENTARY INFORMATION</b>				
Cash interest paid	2,933	1,252	5,168	1,992
Cash taxes paid	168	538	333	765

*See accompanying notes*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the three and six month periods ended June 30, 2007 and 2006 (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 annual audited consolidated financial statements for the year ended December 31, 2006, except as noted below. These notes do not include all disclosures required for annual financial statements presentation and disclosure and should be read in conjunction with new or pending accounting pronouncements, the audited consolidated financial statements for the year ended December 31, 2006.

## 2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

As of January 1, 2007, Galleon adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506 "Accounting Changes;" Section 1530 "Comprehensive Income;" Section 3251 "Equity;" Section 3855 "Financial Instruments - Recognition and Measurement;" Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3865 "Hedges."

CICA Section 1506, "Accounting Changes," provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retroactive unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

CICA Section 1530, "Comprehensive Income", introduces a new requirement to temporarily present certain gains and losses from changes

in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. The application of this revised standard did not result in comprehensive income being different from the net earnings for the periods presented.

CICA Section 3855 "Financial Instruments – Recognition and Measurement" prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification. All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise. The application of CICA Section 3855 did not have an impact on Galleon's consolidated financial statements.

CICA Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. Galleon has not designated its derivative instrument as a hedge, therefore this section does not have an impact on Galleon's consolidated financial statements.

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company:

As of January 1, 2008, Galleon will be required to adopt two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which will replace Section 3861 "Financial Instruments – Disclosure and Presentation." The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments

presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its consolidated financial statements.

As of January 1, 2008, Galleon will be required to adopt Section 1535 "Capital Disclosures," which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS"). The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

### 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 holds 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, with the purchase price allocated on a preliminary basis 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>

Additional properties were acquired during the second quarter for \$5.9 million.

### 4 PROPERTY AND EQUIPMENT

As at June 30, 2007, \$84.1 million (June 30, 2006 - \$74.0 million) of undeveloped land, seismic and equipment inventory have been excluded from and \$85.8 million (June 30, 2006 - \$49.8 million) in future development costs have been added to the full cost pool for depletion purposes. For the three and six months ended June 30, 2007, \$217,874 and \$350,374, respectively (June 30, 2006 - \$146,750 and 246,750, respectively) of exploration salaries have been capitalized.

<i>As at June 30, 2007</i>	<i>Cost</i>	<i>Accumulated depletion and depreciation</i>	<i>Net book value</i>
	\$	\$	\$
Petroleum and natural gas properties & equipment	811,637	(160,536)	651,101
Equipment inventory	2,083	-	2,083
Office furniture and equipment	858	(268)	590
	<u>814,578</u>	<u>(160,804)</u>	<u>653,774</u>

<i>As at December 31, 2006</i>	<i>Cost</i>	<i>Accumulated depletion and depreciation</i>	<i>Net book value</i>
	\$	\$	\$
Petroleum and natural gas properties & equipment	688,354	(113,605)	574,749
Equipment inventory	2,536	-	2,536
Office furniture and equipment	671	(198)	473
	<u>691,561</u>	<u>(113,803)</u>	<u>577,758</u>

## 5 ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligation arises due to 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 \$53.1 million, which will be incurred over the next 19 years. Credit adjusted risk free interest rates of 5% and 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

	<i>Six months ended</i> <i>June 30, 2007</i>	<i>Year ended</i> <i>December 31, 2006</i>
	\$	\$
Balance, beginning of period	21,432	11,186
Accretion expense	673	631
Liabilities incurred	1,119	6,149
Liabilities acquired (note 3)	980	1,200
Revision of liabilities	–	2,880
Settlement of liabilities	(456)	(614)
Balance, end of period	<u>23,748</u>	<u>21,432</u>

## 6 AVAILABLE CREDIT FACILITY

The Corporation has extendible revolving term credit facilities of \$210 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 \$180 million and at rates ranging from the bank's prime rate plus 0.95% to prime plus 1.75% on \$30 million based on the Corporation's debt to cash flow ratio. The Corporation may also borrow at the prevailing Banker's Acceptance rate. The borrowing base is subject to semi-annual review, the next review date being November 30, 2007. 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 June 30, 2007, an amount of \$168.1 million was drawn against the credit facilities.

## 7 SHARE CAPITAL

### Authorized

Unlimited number of preferred shares with no par value

Unlimited number of voting Class A shares with no par value

Unlimited number of voting Class B shares with no par value, convertible (at the option of the Corporation) at any time after December 31, 2006 and before December 31, 2008, into Class A shares. The conversion factor is calculated by dividing \$10 by the greater of \$1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December 31, 2008, the Class B shares become convertible (at the option of the shareholder) into Class A shares on the same basis. Effective February 1, 2009, all remaining Class B shares will be deemed to be converted to Class A shares

### Issued and outstanding

	<i>Number of Shares</i>	<i>Amount</i> \$
<b>CLASS A SHARES</b>		
<b>Balance at December 31, 2005 (a)</b>	47,740,326	169,256
Issued for cash (b)	7,415,700	135,196
Issue of flow-through shares for cash (b)	1,580,000	40,046
Issued for cash on exercise of stock options	976,051	3,058
Tax effect of flow through shares	–	(6,800)
Share issue costs, net of tax of \$3,148	–	(6,944)
Transfer from contributed surplus	–	850
<b>Balance at December 31, 2006</b>	57,712,077	334,662
Issued for cash on exercise of stock options	186,000	800
Tax effect of flow through shares	–	(11,692)
Share issue costs, net of tax of \$1	–	(3)
Transfer from contributed surplus	–	260
<b>Balance at March 31, 2007</b>	57,898,077	324,027
Issue of flow-through shares for cash (b)	1,481,500	30,000
Issued for cash on exercise of stock options	355,375	1,378
Share issue costs, net of tax of \$478	–	(1,154)
Transfer from contributed surplus	–	458
<b>Balance at June 30, 2007</b>	<u>59,734,952</u>	<u>354,709</u>
<b>CLASS B SHARES</b>		
Balance at March 31 and June 30, 2007	922,500	5,207
<b>Total share capital at June 30, 2007</b>	<u>60,657,452</u>	<u>359,916</u>

- 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 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. Galleon is obligated to incur qualifying exploration expenses of \$30.0 million prior to December 31, 2008.

On February 14, 2006, the Corporation issued 3,405,000 Class A shares at \$16.17 per share by way of private placement for gross proceeds of \$55.0 million.

On July 25, 2006, the Corporation issued 2,985,000 Class A shares at \$20.15 per share and 780,000 flow-through Class A shares at \$25.70 per share pursuant to a public offering for gross proceeds of \$80.2 million.

On November 16, 2006 the Corporation issued 1,025,700 Class A shares at a price of \$19.50 per share and 800,000 flow-through Class A shares at a price of \$25.00 per share pursuant to a public offering for gross proceeds of \$40.0 million.

## Share options

The Corporation has a share option plan which was approved on May 19, 2005 and amended on August 25, 2005 and June 19, 2007. 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.

	<i>Six months ended June 30, 2007</i>	<i>Year ended December 31, 2006</i>
	\$	\$
Contributed surplus, beginning of period	11,619	4,756
Stock based compensation expense	4,054	7,713
Transfer to share capital on exercise of options	(718)	(850)
<b>Contributed surplus, end of period</b>	<b>14,955</b>	<b>11,619</b>

The fair value of options granted was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rates of 2.00-3.93%; 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.

	<i>Number of Shares<sup>1</sup></i>	<i>Weighted Average Exercise Price<sup>1</sup></i>
		\$
Outstanding, December 31, 2005	4,638,876	5.63
Granted	1,647,500	19.13
Exercised	(976,051)	(3.13)
Outstanding, December 31, 2006	5,310,325	10.28
Granted	250,000	15.48
Exercised	(186,000)	(4.30)
Outstanding, March 31, 2007	<b>5,374,325</b>	<b>10.72</b>
Granted	<b>380,000</b>	<b>16.80</b>
Exercised	<b>(355,375)</b>	<b>(3.88)</b>
<b>Outstanding, June 30, 2007</b>	<b>5,398,950</b>	<b>11.60</b>

<sup>1</sup> 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 six months ended June 30, 2007, 1,172,500 and 1,715,000 options, respectively have been excluded from the diluted earnings per share calculation as they are anti-dilutive. For the three and six months ended June 30, 2007, the diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 61,714,779 and 60,981,538, respectively (June 30, 2006 – 55,257,895 and 53,940,069, respectively). The prior year amounts have been restated to reflect the three-for-two Class A share split in June 2006.

## 8 INCOME TAXES

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

	<i>June 30, 2007</i>	<i>December 31, 2006</i>
	\$	\$
Property and equipment	51,548	38,740
ACRI benefit	(870)	(870)
Share issue costs	(3,815)	(4,031)
Asset retirement obligation	(348)	(286)
Non-capital losses	(9,420)	(1,321)
Partnership income tax deferral	17,800	–
Financial derivative	187	55
<b>Future income tax liability</b>	<b>55,082</b>	<b>32,287</b>

## 9 COMMITMENTS

### Drilling Rig

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

<i>Year</i>	<i>Amount</i>
	\$
2007	2,660
2008	4,554
2009	1,894

### Minimum Lease Payments:

At June 30, 2007 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

<i>Year</i>	<i>Amount</i>
	\$
2007	397
2008	570
2009	249
2010	83

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

### Flow-through Shares:

In connection with the Corporation's flow-through share offerings in 2006, Galleon is obligated to spend \$40.0 million on qualifying exploration expenses prior to December 31, 2007. As at June 30, 2007, approximately \$0.8 million remains to be incurred.

In connection with the Corporation's flow-through share offerings in 2007, Galleon is obligated to spend \$30.0 million on qualifying exploration expenses prior to December 31, 2008. As at June 30, 2007, the full amount of the required capital expenditure remains to be incurred.

## 10 COMMODITY CONTRACTS

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

### *Natural Gas:*

April 1, 2007 – October 31, 2007	5,000 GJ/day	CDN \$6.64 GJ
April 1, 2007 – October 31, 2007	5,000 GJ/day	CDN \$6.50 - \$8.12 GJ
April 1, 2007 – October 31, 2007	5,000 GJ/day	CDN \$7.50 GJ

As the above physical contracts were entered into for the purpose of selling the Corporation's natural gas production and were based on Galleon's expected natural gas production volumes, the contracts are considered to be within the scope of normal sales contracts for accounting purposes. As such, natural gas production sold based on physical contracts is included within the petroleum and natural gas revenue caption in the statement of earnings.

## 11 FINANCIAL INSTRUMENTS

### 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 fair value of these instruments, excluding the financial derivative, approximates their carrying amounts due to their short term nature or the indexed rate of interest on the bank loan. The fair value of the financial derivative is recognized on the balance sheet as described below.

### Credit risk:

A substantial portion of the Corporation's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk. Galleon generally grants unsecured credit but routinely assesses the financial strength of its customers.

### Interest rate risk:

The Corporation is exposed to interest rate cash flow risk to the extent that changes in market interest rates will impact the Corporation's debts that have a floating interest rate.

Financial derivative contracts:

Galleon has entered into the following financial derivative contract for the purpose of protecting its funds generated from operations from the volatility of crude oil prices. For the three and six months ended June 30, 2007, the contract had a realized gain of zero and \$373,000 respectively. As described in note 2, 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 June 30, 2007 the fair value was an asset of \$642,000, resulting in an unrealized loss for the three months ended June 30, 2007 of \$26,000 and an unrealized gain for the six months ended June 30, 2007 of \$453,000.

The Corporation has the following costless collar financial derivative in place (see note 12):

*Crude Oil:*

---

January 1, 2007 – December 31, 2007 1,000 Bbl/d WTI USD \$61.75-\$70.00/Bbl

## 12 SUBSEQUENT EVENTS

On July 3, 2007, the Corporation completed the purchase of oil and gas assets in the Kakut area of Alberta for cash of approximately \$15.1 million including adjustments.

On July 5, 2007, the Corporation entered into two financial derivative contracts. Details of these costless collar financial derivative contracts are:

*Crude Oil:*

---

July 1, 2007 – December 31, 2007 2,000 Bbl/d WTI CDN \$70.00-\$80.75/Bbl

January 1, 2008 – December 31, 2008 2,000 Bbl/d WTI CDN \$70.00-\$80.75/Bbl

## 13 COMPARATIVE FIGURES

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

# CORPORATE INFORMATION

## HEAD OFFICE

500, 311 – 6th Avenue SW  
Calgary, Alberta T2P 3H2

p (403) 261-6012

f (403) 262-5561

[www.galleonenergy.com](http://www.galleonenergy.com)

## BOARD OF DIRECTORS

John A. Brussa <sup>2,3</sup>

Glenn R. Carley, Executive Chairman<sup>2</sup>

Fred C. Coles <sup>1,2</sup>

William L. Cooke <sup>1,3</sup>

Brad R. Munro <sup>1</sup>

Steve Sugianto

<sup>1</sup> Member of the Audit and Reserves Committee

<sup>2</sup> Member of the Compensation Committee

<sup>3</sup> Member of the Corporate Governance Committee

## OFFICERS

Steve Sugianto, *President and Chief Executive Officer*

Glenn R. Carley, *Executive Chairman*

Shivon M. Crabtree, *VP Finance & Chief Financial Officer*

Jim Iverson, *VP Exploration East*

Marc Houle, *VP Exploration West*

Dale Orton, *VP Engineering*

Devin Sundstrom, *VP Production*

Chris Tibbles, *VP Land*

Bill Wee, *VP Corporate Development*

C. Steven Cohen, *Secretary*

## AUDITOR

Ernst & Young LLP  
Calgary, Alberta

## BANK

The Bank of Nova Scotia  
Calgary, Alberta

ATB Financial  
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 Exchange  
Trading Symbols GO.A and GO.B

## COMPANY DEFINITION

Throughout the Interim 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.

## FORWARD-LOOKING STATEMENT

Certain information regarding Galleon Energy Inc. including management's assessment of future plans and operations, may constitute forward-looking statements under applicable securities laws and necessarily involve risks associated with oil and gas exploration, production, marketing and transportation such as loss of market, volatility of prices, currency fluctuations, imprecision of reserve estimates, environment risks, competition from other producers and ability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.



TSX: GO.A