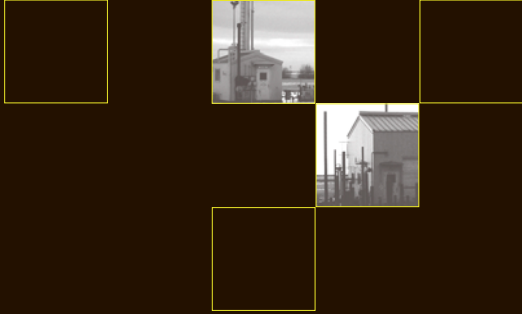


GALLEON ENERGY INC.



Q1  
INTERIM REPORT 2006

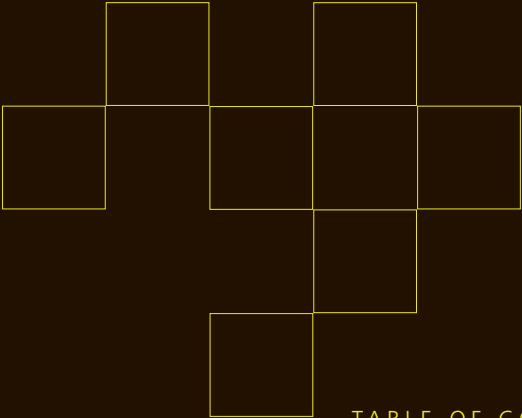


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Report to Shareholders

First quarter 2006 was the best drilling quarter for Galleon in its history. Galleon made a major light sweet oil discovery in the Puskwa area of Alberta in March 2006 and as well developed a large tight gas/resource play project. Both of these projects give Galleon clear visibility and multi year drilling to continue to grow production and reserves on a per share basis thereby creating and delivering significant value.

Galleon has a dominant land position, repeatable successful drilling opportunities and control of infrastructure in the Peace River region. Galleon has increased land access to 846,000 gross acres, has an inventory of over 300 locations and plans to drill between 120 and 130 wells in 2006 based on a capital program of \$150 million.

Strong operating and financial results in the first quarter of 2006:

- Average production of 8,606 Boe/d – a 146% increase over the first quarter 2005 production and an 81% increase on a per share basis.
- Funds from operations of \$18.0 million – a 147% increase over the first quarter 2005 and an 80% increase on a per share basis.
- Earnings of \$1.7 million, net of \$1.3 million of stock based compensation expense, were recorded in first quarter 2006, an increase of 252% from first quarter 2005.
- Drilled 30 wells in the first quarter of 2006 with 19 (16.9 net) cased for natural gas production and 6 (5.8 net) cased for oil production.

Subsequent to the first quarter of 2006:

- In Puskwa, one rig is currently drilling and two more rigs have been contracted to drill a minimum of twelve wells. A 10 Mmcf/d gas plant is expected to be on stream in third quarter 2006. A 10,000 Boe/d oil facility is anticipated to be operational before year end.
- In March 2006, the 16-32-71-26W5M well was completed in the Beaverhill Lake formation and tested at a rate of 2,559 Boepd in the initial test period with a 10% drawdown. To delineate the pool, a well was drilled at 8-5-72-26W5M and has been cased with testing and completion operations currently in progress. This well has two potential zones, Beaverhill Lake and Granite Wash. A well located at 8-32-71-26W5M is currently drilling and a well located at 12-11-72-26W5M, Galleon's sixth well at Puskwa, will commence drilling next week.
- In other activity, Galleon recently entered into a farm in arrangement, with an arms length major oil and gas company, in the Karr area of Alberta which is located approximately 25 miles south of the Puskwa area. The deal will provide Galleon with access to approximately 9,280 acres. Galleon is participating for a 37.5% earned working interest in a 4,200 metre test well that is targeting the Beaverhill Lake formation. Results from the well are expected in May 2006.
- In the tight gas project, one rig is currently drilling and one additional rig has been contracted to drill up to 50 wells in the remainder of 2006. An existing gas plant will be expanded to 30 Mmcf/d from 15 Mmcf/d prior to the end of 2006.



Glenn R. Carley

*Executive Chairman
May 11, 2006*



Steve Sugianto

President and Chief Executive Officer

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" or the "Corporation") for the three month period ended March 31, 2006 with comparisons to the three month period ended March 31, 2005. The MD&A has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the unaudited interim financial statements as at and for the three month periods ended March 31, 2006 and 2005 and the audited financial statements for the year ended December 31, 2005.

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

Amounts are shown in Canadian dollars unless otherwise stated.

This MD&A is based on information available as of, and is dated, May 11, 2006.

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 provided by 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 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 is 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 that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, results from various projects of the Corporation, drilling plans, lowering the cost structure at certain properties of the Corporation, growth expectations within the Corporation, the timing of construction of facilities, drilling plans and the timing thereof 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 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), at Galleon's website (www.galleonenergy.com). Furthermore, the forward looking statements contained herein are made as at the date hereof and Galleon does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

FIRST QUARTER 2006 HIGHLIGHTS

- Average daily production of 8,606 Boe, an increase of 146% from first quarter 2005; natural gas – 30.4 Mmcf and crude oil and liquids – 3,532 Bbl
- Funds from operations of \$18.0 million, a 147% increase from first quarter 2005
- Earnings of \$1.7 million, an increase of 252% from first quarter 2005
- Drilled 30 gross wells resulting in 19 gross (16.9 net) natural gas wells and 6 gross (5.8 net) oil wells including a major light sweet oil discovery in the Puskwa area of Alberta
- Exploration and development capital expenditures of \$65.2 million

	<i>Q1 2006</i> 774,578 Boe	<i>\$/Boe</i>	<i>Q1 2005</i> 314,887 Boe	<i>\$/Boe</i>
	\$		\$	
Gross revenues	36,229,632	46.77	13,812,133	43.86
Royalties	(8,861,131)	(11.44)	(3,431,033)	(10.90)
ARTC and GCA	975,074	1.26	257,464	0.82
Transportation costs	(1,105,752)	(1.43)	(474,675)	(1.51)
Operating costs	(7,065,131)	(9.12)	(1,588,289)	(5.04)
Net	20,172,692	26.04	8,575,600	27.23
Other revenue	573	—	5,753	0.02
G&A	(1,159,615)	(1.50)	(748,392)	(2.38)
Interest costs	(740,017)	(0.95)	(420,289)	(1.33)
Capital and other taxes	(226,504)	(0.29)	(101,277)	(0.32)
Funds from operations	18,047,129	23.30	7,311,395	23.22

Gross revenues were \$36.2 million in first quarter 2006 compared to \$13.8 million in first quarter 2005, an increase of 162%. This significant revenue increase was due to a 90% growth in volumes and a 10% rise in sales prices.

The volume growth has resulted in cost improvements and changes in various categories. By comparing first quarter 2006 to first quarter 2005 on a per unit basis: gross revenues have increased by 7%; royalties have increased by 5%; ARTC and gas cost allowance ("GCA") have increased by 54%; transportation

PETROLEUM AND NATURAL GAS REVENUES

The first quarter of 2006 will be noted for strong, positive drilling success in the Corporation's expanded four projects being multi-zone gas, light sweet oil, tight gas and high impact oil and gas. The rotation from multi-zone gas to tight gas and high impact projects was well underway during first quarter 2006. Although the financial impact of this change does not appear in the first quarter of 2006, it is expected to be realized in the remainder of 2006 and beyond.

costs have decreased by 5%; operating costs have increased by 81%; G&A costs have decreased by 37%; interest costs have decreased by 29% and taxes have decreased by 9%. Funds from operations has not changed year over year on a per unit basis.

Discussion of these changes follows by category below.

During first quarter 2006, crude oil revenues were 41% of gross revenues based on 40% of volumes sold. In comparison, during first quarter 2005, crude oil revenues were 30% of gross revenues based on 25% of volumes sold.

REVENUE CONTRIBUTION ANALYSIS

	<i>Q1 2006</i>		<i>Q1 2005</i>	
	\$	%	\$	%
Oil	14,803,237	41	4,116,186	30
NGLs	482,014	1	150,722	1
Natural gas	20,755,181	57	9,533,252	69
Royalty income	189,200	1	11,973	-
Gross revenues	36,229,632	100	13,812,133	100

Volumes averaged 8,606 Boe/d in first quarter 2006 compared to 3,499 Boe/d in first quarter 2005, an increase of 146%. This

growth was comprised of a 287% increase in crude oil and liquids volumes and a 96% increase in natural gas volumes.

PRODUCT MIX ANALYSIS

	<i>Q1 2006</i>		<i>Q1 2005</i>	
	Boe/d	%	Boe/d	%
Oil (Bbls/d)	3,439	40	876	25
NGLs (Bbls/d)	93	1	37	1
Natural gas (Mcf/d)	30,445	59	15,511	74
Boe/d (6:1)	8,606	100	3,499	100

The mix of crude oil in first quarter 2006 was light oil – 54% and heavy/medium oil – 46%.

This compares to light oil – 76% and heavy/medium oil 24% in first quarter 2005.

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. The Corporation currently has no hedge contracts in place.

Light oil prices received in first quarter 2006 were \$65.66/Bbl, an increase of 10% from first quarter 2005. Heavy oil differentials

widened during first quarter 2006 from the fourth quarter of 2005 resulting in heavy oil prices averaging 38% of light oil prices. During first quarter 2005, heavy oil prices averaged 44% of light oil prices.

Natural gas sales prices in first quarter 2006 were significantly affected by a price decrease of 34% from fourth quarter 2005. In first quarter 2006, natural gas prices averaged \$7.36/Mcf compared to \$6.51/Mcf in first quarter 2005, an increase of 13%.

PRICES, NET OF TRANSPORTATION COSTS

	<i>Q1 2006</i>	<i>Q1 2005</i>	<i>% change</i>
Light oil (\$/Bbl)	65.66	59.72	10
Heavy/medium oil (\$/Bbl)	24.71	26.45	(7)
Net crude oil (\$/Bbl)	46.78	51.91	(10)
Natural gas (\$/Mcf)	7.36	6.51	13
NGLs (\$/Bbl)	57.62	44.75	29

Performance by Property

During first quarter 2006, 71% of operating cash flows were generated at Dawson from the production of 4,888 Boe/day (30% crude oil).

The drilling program will target tight gas in Dawson and high impact oil and gas at Puskwa, located in the Calais area of Alberta. The growth and value of the Corporation has and will continue to come from the properties located in these two core areas in the Peace River Arch region.

	Q1 2006		Operating netbacks/ Boe \$	Q1 2005		Operating netbacks/ Boe \$	Q1 2006 Operating cash flow
	Production Boe/day	%		Production Boe/day	%		
Dawson	4,888	57	30.81	1,993	57	30.34	71
Calais	1,619	19	30.24	600	17	24.54	23
Lloydminster/Edam	1,472	17	0.37	93	3	5.09	—
Other	627	7	21.07	813	23	20.54	6
Boe/day	8,606	100	24.78	3,499	100	26.44	100

* Operating netbacks/Boe exclude ARTC, GCA and hedge costs and is calculated by subtracting royalties and operating costs from revenues.

ROYALTIES

	Q1 2006	%	Q1 2005	%
Crown	8,255,272	93	3,256,246	95
Freehold	185,512	2	44,867	1
GORR and other	420,347	5	129,920	4
Subtotal	8,861,131	100	3,431,033	100
ARTC and GCA	(975,074)		(257,464)	
Net royalties	7,886,057		3,173,569	

Royalty expenses were 24.4% of gross revenues (22.8% crown, 0.5% freehold and 1.1% other) in first quarter 2006 compared to 24.8% (23.6% crown, 0.3% freehold and 0.9% other) in first quarter 2005. Net of ARTC and GCA, the royalty rate in first quarter 2006 was 21.8% and 23.0% in first quarter 2005.

As the majority of the Corporation's properties are located on Crown lands, royalty rates have and may vary significantly due to the price sensitivity of the royalty rate structure and commodity prices received.

OPERATING EXPENSES

	<i>% of Total production</i>	<i>% of Total net operating costs</i>	<i>Q1 2006 Gross operating costs \$/Boe</i>	<i>Net operating costs \$/Boe</i>
Dawson	57	44	7.68	7.03
Calais	19	9	4.35	4.19
Lloydminster/ Edam	17	37	19.77	19.77
Other	7	10	14.67	13.12
	100	100	9.63	9.12

**Net operating costs are net of processing revenues*

Operating expenses were \$7,065,131 or \$9.12/Boe in first quarter 2006 compared to \$1,588,289 or \$5.04/Boe in first quarter 2005. The cost of goods and services has risen significantly in the later part of 2005 and first quarter 2006. In addition, the cost structure varies significantly by property.

In first quarter 2006, operating expenses per Boe have averaged \$7.03 and \$4.19 at Dawson and Calais respectively. In first quarter 2006, these two core areas generated 94% of operating cash flow based on 76% of total volumes. The Corporation has plans to reduce fuel and trucking costs at Edam and thereby lowering the cost structure of the property.

General and administration costs

To March 31, 2006 G&A costs by category were: salary and employee – 43%, office – 21%, corporate – 14%, audit, engineering and legal – 8%, consulting – 9%, and computer – 5%.

The Corporation currently employs 31 people on a permanent basis in head office.

To March 31, 2005, G&A costs by category were: salary and employee – 43%, audit, engineering and legal – 16%, office – 14%, consulting – 14%, corporate – 8%, and computer – 5%.

	<i>\$</i>	<i>Q1 2006 \$/Boe</i>	<i>\$</i>	<i>Q1 2005 \$/Boe</i>
Gross	1,858,937	2.40	1,043,982	3.32
Overhead recoveries	(699,322)	(0.90)	(295,590)	(0.94)
Total	1,159,615	1.50	748,392	2.38

Interest

Interest expense of \$740,017 was recorded in first quarter 2006 compared to \$420,289 in first quarter 2005. These costs are related to interest on bank debt utilized and fees for bank syndication.

Stock based compensation

Stock based compensation expense of \$1,292,142 has been recognized in first quarter 2006 compared to \$345,181 in first quarter 2005. In first quarter 2006, 240,000 stock options were granted at an average exercise price of \$22.90 and, based on the Black-Scholes Option Pricing Model, had a fair value of between \$6.64 and \$7.85 per option.

At March 31, 2006, 2,846,250 stock options are outstanding at an average exercise price of \$10.44 per Class A share.

Depletion and depreciation

Depletion and depreciation charges for oil and gas properties were \$12,760,200 or \$16.47/Boe in first quarter 2006 compared to \$5,817,752 or \$18.48/Boe in first quarter 2005. Reserve additions for the first quarter 2006 were estimated internally.

Capital expenditures of \$39.2 million (\$19.5 million – first quarter 2005) related to undeveloped land and seismic costs have been excluded from the depletion and depreciation calculation and \$52.0 million (\$4.1 million – first quarter 2005) of future costs have been added.

Accretion expense of \$143,967 was recorded in first quarter 2006 and \$51,775 in first quarter 2005.

Capital expenditures

	\$
Property & equipment balance at December 31, 2005	317,177,496
Additions to property and equipment	65,161,785
Acquisition of property and equipment	1,137
Asset retirement obligation	333,296
Depletion and depreciation	(12,760,200)
Property & equipment balance at March 31, 2006	369,913,514

EXPLORATION AND DEVELOPMENT EXPENDITURES

	\$	<i>Q1 2006</i>	%
Land	6,728,056		10
Geological and geophysical	12,322,188		19
Drilling and completion	26,110,195		40
Plant and facilities	20,134,573		31
Other assets	(133,227)		—
Total exploration and development	65,161,785		100

Taxes

Large corporation taxes and Saskatchewan surcharges of \$226,504 were recorded in first quarter 2006 and \$101,277 in first quarter 2005.

An amount of \$2,110,618 was recorded in first quarter 2006 for future income tax expense compared to \$602,039 in first quarter 2005. The Corporation's effective tax rate is estimated to be 34%.

Net earnings

First quarter 2006 net earnings of \$1,740,202, or \$0.05 per basic share, are net of a future tax provision of \$2,110,618 and non cash expenses for stock-based compensation of \$1,292,142. At March 31, 2006, the Corporation had retained earnings of \$19,581,133.

Thirty wells were drilled and 19 were cased for natural gas production and 6 were cased for crude oil production representing an 83% success rate: Dawson – drilled 22 wells resulting in 16 natural gas wells and 2 oil wells; Calais - drilled 5 wells and cased 2 natural gas wells and 2 oil wells including the light sweet oil discovery at Puskwa; and Edam – drilled 3 oil wells.

Liquidity and Capital Resources and Subsequent Events

During the first quarter of 2006, funds from operations of \$18.0 million and equity financing with net proceeds of \$53.5 million were used to fund the \$65.2 million exploration and development capital expenditure program.

DEBT AND WORKING CAPITAL

	<i>March 31, 2006</i>	<i>December 31, 2005</i>
	\$	\$
Bank debt	60,086,011	75,301,382
Working capital deficiency	26,219,358	17,374,850
Total net debt	86,305,369	92,676,232

SOURCE OF FUNDS

	<i>Q1 2006</i>	<i>Q1 2005</i>
	\$	\$
Issuance of shares, net of costs	53,486,653	42,274,871
Funds provided by operations	18,047,129	7,311,395
Change in bank debt	(15,215,370)	(22,124,680)
Change in cash and working capital	8,844,510	(8,076,591)
Net additions to property and equipment	65,162,922	19,384,995

At March 31, 2006, the market value of Galleon's class A shares was \$1.2 billion based on the March 31, 2006 closing price of \$34.00 per share and 34,583,210 class A shares outstanding.

At March 31, 2006, the Corporation had an extendible revolving credit facility in place with a Canadian banking syndicate. The facilities include a credit facility of \$120 million Cdn and a swap facility of \$3.5 million US. Collateral for the facilities consists of a demand debenture for \$300 million secured by a first floating charge over all of the property and equipment of the Corporation. At March 31, 2006, \$60.1 million was drawn on the credit facility.

On April 11, 2006, the Corporation announced that its board of directors had recommended a stock split of its Class A shares on the basis of 3 Class A shares for each 2 Class A shares currently

held. Galleon's shareholders will be asked to approve the stock split at a special meeting of shareholders to be held on June 7, 2006. In addition to shareholder approval, the stock split is subject to receipt of all regulatory approvals.

On April 21, 2006, the Corporation signed a letter of offer to increase the bank facilities to \$150 million Cdn.

Galleon has no off-balance sheet financing or related party arrangements. The Corporation has lease arrangements for office space to July 31, 2008. Future lease payments total \$1.1 million over the balance of the term.

At May 11, 2006, 34,653,909 Class A shares, 922,500 Class B shares and 3,000,550 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

Galleon has a dominant land position, repeatable successful drilling opportunities and control of infrastructure in the Peace River region. Galleon has increased land access to 846,000 gross acres, has an inventory of over 300 locations and plans to drill between 120 and 130 wells in 2006 based on a capital program of \$150 million.

In Puskwa, one rig is currently drilling and two more rigs have been contracted to drill a minimum of twelve wells. A 10 Mmcf/d gas plant is expected to be on stream in third quarter 2006. A 10,000 boe/d oil facility is anticipated to be operational before year end.

In the tight gas project, one rig is currently drilling and one additional rig has been contracted to drill up to 50 wells in the remainder of 2006. An existing gas plant will be expanded to 30 Mmcf/d from 15 Mmcf/d prior to the end of 2006.

Highlights – 2006

	<i>1st Qtr 2006</i>	<i>4th Qtr 2005</i>	<i>3rd Qtr 2005</i>	<i>2nd Qtr 2005</i>
Production				
Light oil (Bbl/d)	1,859	2,271	2,213	1,393
Heavy/medium oil (Bbl/d)	1,580	1,135	1,205	594
Natural Gas (Mcf/d)	30,445	32,212	27,452	21,813
Liquids (Bbl/d)	93	99	71	21
Boe/d at 6:1 gas	8,606	8,874	8,064	5,643
Total Boe produced	774,578	816,420	741,917	513,535
Daily Boe of production per million Class A shares - basic	260	279	254	195
Prices (net of transportation)				
Light oil (\$/Bbl)	65.66	67.44	73.64	65.35
Heavy/medium oil (\$/Bbl)	24.71	29.31	48.19	32.21
Crude oil (\$/Bbl)	46.78	54.73	62.54	54.86
Natural Gas (\$/Mcf)	7.36	11.16	9.13	6.99
NGLs (\$/Bbl)	57.62	58.84	56.64	53.94
Per Boe (\$)				
Gross revenues	46.77	63.68	59.99	48.18
Royalties, net of ARTC and GCA	(10.18)	(15.01)	(11.69)	(11.11)
Transportation costs	(1.43)	(1.48)	(1.64)	(1.37)
Operating costs	(9.12)	(7.73)	(6.98)	(5.31)
Net	26.04	39.46	39.68	30.39
Other revenue	—	—	—	0.03
G&A	(1.50)	(1.82)	(1.58)	(2.01)
Interest – cash	(0.95)	(0.91)	(0.90)	(1.09)
Capital and other taxes – cash	(0.29)	(0.40)	(0.38)	(0.49)
Funds from operations	23.30	36.33	36.82	26.83

	<i>1st Qtr 2005</i>	<i>4th Qtr 2004</i>	<i>3rd Qtr 2004</i>	<i>2nd Qtr 2004</i>
Production				
Light oil (Bbl/d)	670	329	92	84
Heavy/medium oil (Bbl/d)	206	249	297	274
Natural Gas (Mcf/d)	15,511	10,343	8,272	6,328
Liquids (Bbl/d)	37	21	13	1
Boe/d at 6:1 gas	3,499	2,324	1,781	1,414
Total Boe produced	314,887	213,762	163,812	128,667
Daily Boe of production per million Class A shares - basic	144	109	90	83
Prices (net of transportation)				
Light oil (\$/Bbl)	59.72	51.18	55.69	49.40
Heavy/medium oil (\$/Bbl)	26.45	28.98	35.30	29.70
Crude oil with hedge (\$/Bbl)	51.91	38.49	35.87	28.57
Natural Gas (\$/Mcf)	6.51	6.15	5.83	6.67
NGLs (\$/Bbl)	44.75	40.36	47.92	34.78
Per Boe (\$)				
Gross revenues (net of hedges)	43.86	39.13	36.86	38.09
Royalties, net of ARTC and GCA	(10.08)	(8.33)	(7.79)	(8.10)
Transportation costs	(1.51)	(1.76)	(1.59)	(0.99)
Operating costs	(5.04)	(5.93)	(5.77)	(5.43)
Net	27.23	23.11	21.71	23.57
Other revenue	0.02	0.04	0.03	0.03
G&A	(2.38)	(2.93)	(2.96)	(4.07)
Interest – cash	(1.33)	(1.25)	(0.18)	(0.28)
Capital and other taxes – cash	(0.32)	(0.79)	(0.28)	(0.58)
Funds from operations	23.22	18.18	18.32	18.67

	<i>1st Qtr 2006</i>	<i>4th Qtr 2005</i>	<i>3rd Qtr 2005</i>	<i>2nd Qtr 2005</i>
Financial (\$)				
Gross revenues	36,229,632	51,989,353	44,505,716	24,742,760
Royalties, net of ARTC & GCA	(7,886,057)	(12,254,361)	(8,672,657)	(5,704,783)
Transportation costs	(1,105,752)	(1,205,808)	(1,214,249)	(706,374)
Operating costs	(7,065,131)	(6,311,089)	(5,178,675)	(2,726,825)
Other revenue	573	604	2,926	16,619
G&A	(1,159,615)	(1,488,789)	(1,170,638)	(1,030,455)
Interest – cash	(740,017)	(742,346)	(668,167)	(558,040)
Capital tax – cash	(226,504)	(325,890)	(279,756)	(251,013)
Funds from operations	18,047,129	29,661,674	27,324,500	13,781,889
Depletion, depreciation & accretion	(12,904,167)	(13,471,178)	(12,234,184)	(9,708,120)
Stock-based compensation	(1,292,142)	(936,322)	(998,964)	(1,669,417)
Future tax expense	(2,110,618)	(5,930,290)	(4,978,896)	(1,715,040)
Earnings	1,740,202	9,323,884	9,112,456	689,312
Total assets	399,269,431	352,618,764	312,523,346	290,882,760
Long term financial liabilities	—	—	—	—
Weighted average outstanding Class A shares-basic	33,107,732	31,798,704	31,760,413	28,978,045
Cash flow \$ per share –basic	0.55	0.93	0.86	0.48
Earnings \$ per share –basic	0.05	0.29	0.29	0.02
Weighted average outstanding Class A shares-diluted	34,813,452	33,733,188	33,512,560	30,316,077
Cash flow \$ per share – diluted	0.52	0.88	0.82	0.45
Earnings \$ per share – diluted	0.05	0.28	0.27	0.02

	<i>1st Qtr 2005</i>	<i>4th Qtr 2004</i>	<i>3rd Qtr 2004</i>	<i>2nd Qtr 2004</i>
Financial (\$)				
Gross revenues (net of hedges)	13,812,133	8,363,559	6,037,730	4,924,425
Royalties, net of ARTC & GCA	(3,173,569)	(1,780,386)	(1,275,588)	(1,042,773)
Transportation costs	(474,675)	(375,407)	(259,648)	(150,702)
Operating costs	(1,588,289)	(1,266,631)	(945,635)	(699,145)
Other revenue	5,753	8,604	4,708	4,706
G&A	(748,392)	(626,502)	(484,804)	(523,263)
Interest – cash	(420,289)	(267,156)	(30,245)	(35,681)
Capital tax – cash	(101,277)	(168,166)	(46,190)	(75,111)
Funds from operations	7,311,395	3,887,915	3,000,328	2,402,456
Depletion, depreciation & accretion	(5,869,527)	(4,310,939)	(2,276,487)	(1,335,956)
Stock-based compensation	(345,181)	(731,797)	(187,289)	(122,238)
Future tax (expense) recovery	(602,039)	96,896	(229,437)	(484,515)
Earnings (loss)	494,648	(1,057,925)	307,115	459,747
Total assets	180,363,456	160,892,258	90,698,030	60,289,729
Long term financial liabilities	—	—	—	—
Weighted average outstanding Class A shares-basic	24,373,524	21,291,804	19,733,778	17,607,394
Cash flow \$ per share – basic	0.30	0.18	0.15	0.14
Earnings (loss) \$ per share – basic	0.02	(0.05)	0.02	0.03
Weighted average outstanding Class A shares-diluted	25,381,407	22,463,609	20,788,121	18,554,786
Cash flow \$ per share – diluted	0.29	0.17	0.14	0.13
Earnings (loss) \$ per share -diluted	0.02	(0.05)	0.01	0.02

Balance Sheets

(unaudited)

	<i>March 31</i> <i>2006</i>	<i>December 31</i> <i>2005</i>
	\$	\$
ASSETS		
Current		
Accounts receivable	16,014,252	23,233,779
Deposits and prepaid expenses	705,988	960,666
Inventory	2,496,701	1,107,847
	19,216,941	25,302,292
Goodwill	10,138,976	10,138,976
Property and equipment (notes 2 and 4)	369,913,514	317,177,496
	399,269,431	352,618,764
LIABILITIES		
Current		
Accounts payable and accrued liabilities	45,436,299	42,677,142
Bank loan (note 4)	60,086,011	75,301,382
	105,522,310	117,978,524
Asset retirement obligation (note 3)	11,663,170	11,185,906
Future income taxes	34,128,790	26,394,082
	151,314,270	155,558,512
Commitments (note 6)		
SHAREHOLDERS' EQUITY		
Share capital (note 5)	222,836,008	174,463,341
Contributed surplus (note 5)	5,538,020	4,755,980
Retained earnings	19,581,133	17,840,931
	247,955,161	197,060,252
	399,269,431	352,618,764

See accompanying notes

Statements of Operations and Retained Earnings (Deficit)

(unaudited)

	<i>Three months ended</i>	
	<i>March 31</i>	
	2006	2005
	\$	\$
REVENUE		
Petroleum and natural gas	36,229,632	13,812,133
Royalties, net of ARTC and GCA	(7,886,057)	(3,173,569)
Other income	573	5,753
	28,344,148	10,644,317
EXPENSES		
Operating	7,065,131	1,588,289
Transportation	1,105,752	474,675
General and administration	1,159,615	748,392
Interest	740,017	420,289
Stock-based compensation <i>(note 5)</i>	1,292,142	345,181
Accretion	143,967	51,775
Depletion and depreciation	12,760,200	5,817,752
	24,266,824	9,446,353
Earnings before taxes	4,077,324	1,197,964
Capital and other taxes	226,504	101,277
Future income taxes	2,110,618	602,039
	2,337,122	703,316
NET EARNINGS	1,740,202	494,648
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	17,840,931	(1,779,369)
RETAINED EARNINGS (DEFICIT), END OF PERIOD	19,581,133	(1,284,721)
NET EARNINGS PER SHARE <i>(note 5)</i>		
Basic and diluted	\$ 0.05	\$ 0.02
Weighted average shares – basic	33,107,732	24,373,524
– diluted	34,813,452	25,381,407

See accompanying notes

Statements of Cash Flow

(unaudited)

	<i>Three months ended March 31</i>	
	2006	2005
	\$	\$
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net earnings	1,740,202	494,648
Add items not requiring cash:		
Future income taxes	2,110,618	602,039
Depletion and depreciation	12,760,200	5,817,752
Accretion	143,967	51,775
Stock-based compensation	1,292,142	345,181
FUNDS FROM OPERATIONS	18,047,129	7,311,395
Change in non-cash working capital	6,052,151	1,007,806
	24,099,280	8,319,201
FINANCING ACTIVITIES		
Issue of common shares	56,945,215	45,082,581
Share issue costs	(3,458,562)	(2,807,710)
Bank loan	(15,215,370)	(22,124,680)
	38,271,283	20,150,191
INVESTING ACTIVITIES		
Additions to oil and gas properties	(65,161,785)	(19,335,240)
Acquisition of oil and gas properties	(1,137)	(49,755)
Change in non-cash working capital	2,792,359	(9,084,397)
	(62,370,563)	(28,469,392)
CHANGE IN CASH	—	—
CASH, BEGINNING AND END OF PERIOD	—	—
SUPPLEMENTARY INFORMATION		
Cash interest paid	740,017	420,289
Cash taxes paid	226,504	101,277

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 year ended December 31, 2005. These notes are incremental to, and should be read in conjunction with, the audited financial statements for the year ended December 31, 2005.

2. Property and Equipment

At March 31, 2006, \$39.2 million (March 31, 2005 - \$19.5 million) of undeveloped land and seismic costs have been excluded from and \$52.0 million (March 31, 2005 - \$4.1 million) in future development costs have been added into the full cost pool for depletion purposes. In first quarter 2006, \$100,000 (March 31, 2005 – nil) of exploration salaries have been capitalized.

	<i>Cost</i> \$	<i>Accumulated Depletion & Depreciation</i> \$	<i>Net Book Value</i> \$
Petroleum and natural gas properties & equipment	435,142,278	65,509,112	369,633,166
Office furniture and equipment	405,790	125,442	280,348
Balance at March 31, 2006	435,548,068	65,634,554	369,913,514

	<i>Cost</i> \$	<i>Accumulated Depletion & Depreciation</i> \$	<i>Net Book Value</i> \$
Petroleum and natural gas properties & equipment	369,512,834	52,768,125	316,744,709
Office furniture and equipment	539,017	106,230	432,787
Balance at December 31, 2005	370,051,851	52,874,355	317,177,496

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 \$18.0 million, which will be incurred over the next 16 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>Three month period ended</i>	
	<i>March 31, 2006</i>	<i>March 31, 2005</i>
	\$	\$
Balance, beginning of period	11,185,906	3,998,345
Accretion expense	143,967	51,775
Liabilities incurred	333,297	216,972
Balance, end of period	11,663,170	4,267,092

4. Available Credit Facility

The Corporation has a \$120 million extendible revolving term credit facility in place with a bank syndicate. The interest rate charged on the loan varies based on a ratio of the debt to cash flow. In addition, the Corporation has in place a \$3.5 million US swap facility. Collateral for the facilities consists of a demand debenture for \$300 million secured by a first floating charge over all of the property and equipment of the Corporation. At March 31, 2006, an amount of \$60,086,011 was drawn against the credit facilities (March 31, 2005 - \$26,282,008).

5. Share Capital

AUTHORIZED

Unlimited number of preferred shares with no par value

Unlimited number of voting Class A shares with no par value

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

<i>Issued and outstanding</i>	<i>Number of Shares</i>	<i>Amount \$</i>
Class A shares		
Balance at December 31, 2005	31,826,876	169,256,097
Issued for cash (a)	2,270,000	55,047,500
Tax effect of flow through shares (b)	-	(6,800,000)
Share issue costs, net of tax of \$1,175,912 (a)	-	(2,282,650)
Issued for cash on exercise of stock options	486,334	1,897,715
Transfer from contributed surplus (c)	-	510,102
Balance at March 31, 2006	34,583,210	217,628,764
Class B shares		
Balance at March 31, 2006 and December 31, 2005	922,500	5,207,244
Total share capital – March 31, 2006	35,505,710	222,836,008

- a) On February 14, 2006, the Corporation issued 2,270,000 Class A shares for gross proceeds of \$55 million. The shares issued are subject to a hold period under applicable securities laws expiring June 15, 2006.
- b) 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. Under the look back provision governing flow-through shares, the Corporation is required to incur these eligible expenditures prior to December 31, 2006.
- In January 2006, the Corporation renounced expenditures of \$20 million to the shareholders effective December 31, 2005.
- c) The Corporation reclassified stock based compensation recorded in contributed surplus related to share options exercised of \$510,102 in first quarter 2006 (March 31, 2005 - nil).

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 \$1,292,142 has been recognized in the first quarter of 2006 (March 31, 2005 - \$345,181).

	<i>Three month period ended</i>	
	March 31, 2006	<i>March 31, 2005</i>
	\$	\$
Contributed surplus, beginning of period	4,755,980	1,129,044
Stock based compensation expense	1,292,142	345,181
Transfer to share capital	(510,102)	—
Contributed surplus, end of period	5,538,020	1,474,225

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. At March 31, 2006, 1,578,194 share options have vested and are exercisable at prices ranging from \$0.35 to \$25.35 per Class A share.

	<i>Number of Shares</i>	<i>Weighted Average Exercise Price</i>
		\$
Outstanding, December 31, 2005	3,092,584	8.44
Granted	240,000	22.90
Exercised	(486,334)	(3.90)
Outstanding, March 31, 2006	2,846,250	10.44

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 three month period ended March 31, 2006 was 33,107,732 and 34,813,452 diluted (March 31, 2005 – 24,373,524 and 25,381,407 respectively). The diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 35,167,699 (March 31, 2005 – 26,216,760).

6. Commitments

The Corporation has paid deposits of \$2.8 million related to equipment which will be delivered in the second of quarter 2006. Additional future commitments for this equipment are \$1.3 million.

7. Subsequent Events

On April 11, 2006, The Corporation announced that its board of directors had recommended a stock split of its Class A shares on the basis of 3 Class A shares for each 2 Class A shares currently held. Galleon's shareholders will be asked to approve the stock split at a special meeting of shareholders to be held on June 7, 2006. In addition to shareholder approval, the stock split is subject to receipt of all regulatory approvals.

On April 21, 2006, the Corporation signed a letter of offer to increase the facilities to \$150 million. The new credit facilities are expected to be in place before May 31, 2006.

8. Comparative Figures

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

Corporate Information

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Board of Directors

John A. Brussa ^{2 3}

Glenn R. Carley, Executive Chairman²

Fred C. Coles ^{1 2}

William L. Cooke ^{1 3}

Brad Munro ¹

Steve Sugianto

¹ Member of the Audit and Reserves Committee

² Member of the Compensation Committee

³ Member of the Corporate Governance Committee

Officers

Steve Sugianto

President and Chief Executive Officer

Glenn R. Carley

Executive Chairman

Shivon M. Crabtree

VP Finance & Chief Financial Officer

Tom Greschner

VP Production

Brent Lacey

VP Exploration

C. Steven Cohen

Secretary

Auditor

Ernst & Young LLP, Calgary, Alberta

Bank

The Bank of Nova Scotia
Calgary, Alberta

Alberta Treasury Branch
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Evaluation Engineers

DeGolyer and MacNaughton
Canada Limited
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

Stock Exchange Listing

TSX, Trading Symbols GO.A and GO.B



GALLEON
ENERGY INC.

www.galleonenergy.com