

FIRST
QUARTER
INTERIM
REPORT
2005

GALLEON ENERGY INC.

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Report to Shareholders

In the first quarter of 2005, Galleon:

- Increased average production to 3,499 Boe/d — a 51% increase over the fourth quarter production and a 32% increase on a per share basis. Year over year production per share has increased by 162%.
- Increased cash flow from operations to \$7.3 million — an 88% increase over the fourth quarter 2004 and a 67% increase on a per share basis. Year over year cash flow per share has increased by 400%.
- Reduced operating costs to \$5.04/Boe in first quarter 2005 from \$7.08/Boe in first quarter 2004.
- Reduced general and administrative expenses to \$2.38/Boe in first quarter 2005 from \$4.61/Boe in first quarter 2004.
- Drilled 16 wells in the first quarter with 14 cased for natural gas production.
- Increased the owned and identified drilling locations in the Peace River Arch to 110.
- Closed a \$10.65 per share, \$45 million private placement equity financing.

Subsequent to the first quarter of 2005, Galleon:

- Current production, post closing the acquisition, is approximately 7,090 Boe/d, an increase of 103% over first quarter 2005 and a 55% increase on a per share basis. In addition, approximately 500 Boe/d of production is behind pipe awaiting tie-in.
- On May 12, 2005, completed a \$20 million flow through financing at \$12.50 per share.

- On May 12, 2005, completed a \$37.94 million issuance of Subscription Receipts at \$10.00 per share. Each Subscription Receipt was exchanged for one Class A share at the close of the Dawson acquisition.
- On May 18, 2005 closed the acquisition of properties in the Dawson area of Alberta.
- Bank credit facilities increased to \$80 million Cdn from \$45 million Cdn.
- Increased owned undeveloped land to over 313,000 net acres with total access in the Peace River Arch area exceeding 636,000 gross acres.

[signed]

Glenn R. Carley
Executive Chairman

May 19, 2005

[signed]

Steve Sugianto
President and Chief
Executive Officer

Highlights

AS AT MARCH 31, 2005

	<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	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	144	109	90	83
PRICES				
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 and transportation costs)	42.35	37.37	35.27	37.10
Royalties, net of ARTC	(10.08)	(8.33)	(7.79)	(8.10)
Operating costs	(5.04)	(5.93)	(5.77)	(5.43)
Operating netback	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)
Current tax – cash	(0.32)	(0.79)	(0.28)	(0.58)
Cash flow from operations	23.22	18.18	18.32	18.67

Highlights

AS AT MARCH 31, 2005

	<i>1st Qtr</i> 2004	<i>4th Qtr</i> 2003	<i>3rd Qtr</i> 2003	<i>2nd Qtr</i> 2003
PRODUCTION				
Light oil (Bbl/d)	56	–	–	–
Heavy/medium oil (Bbl/d)	265	152	–	–
Natural Gas (Mcf/d)	2,841	42	–	–
Liquids (Bbl/d)	1	–	–	–
Boe/d at 6:1	796	159	–	–
Total Boe produced	72,378	14,615	–	–
Daily Boe of production per million Class A shares	55	19	–	–
PRICES				
Light oil (\$/Bbl)	45.26	–	–	–
Heavy/medium oil (\$/Bbl)	27.56	24.61	–	–
Crude oil with hedge (\$/Bbl)	26.48	23.79	–	–
Natural Gas (\$/Mcf)	5.71	6.41	–	–
NGLs (\$/Bbl)	42.88	–	–	–
PER BOE (\$)				
Gross revenues (net of hedges and transportation costs)	31.13	24.43	–	–
Royalties, net of ARTC	(6.56)	(5.41)	–	–
Operating costs	(7.08)	(11.65)	–	–
Operating netback	17.49	7.37	–	–
Other revenue	0.13	5.80	–	–
G&A	(4.61)	(14.12)	–	–
Interest – cash	(0.07)	–	–	–
Current tax – cash	–	–	–	–
Cash flow from (used in) operations	12.94	(0.95)	–	–

Highlights

AS AT MARCH 31, 2005

	<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 and transportation costs)	13,337,458	7,988,152	5,778,082	4,773,723
Royalties, net of ARTC	(3,173,569)	(1,780,386)	(1,275,588)	(1,042,773)
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)
Current tax – cash	(101,277)	(168,166)	(46,190)	(75,111)
Cash flow 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)
Future tax (expense) recovery	(602,039)	96,896	(229,437)	(484,515)
Stock-based compensation	(345,181)	(731,797)	(187,289)	(122,238)
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	16,957,614
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

Highlights

AS AT MARCH 31, 2005

	<i>1st Qtr</i> <i>2004</i>	<i>4th Qtr</i> <i>2003</i>	<i>3rd Qtr</i> <i>2003</i>	<i>2nd Qtr</i> <i>2003</i>
FINANCIAL (\$)				
Gross revenues (net of hedges and transportation costs)	2,253,149	357,090	–	–
Royalties, net of ARTC	(474,615)	(79,087)	–	–
Operating costs	(512,095)	(170,317)	–	–
Other revenue	9,373	84,836	31,181	13,455
G&A	(333,500)	(206,481)	(112,842)	(32,787)
Interest – cash	(5,599)	–	–	–
Current tax – cash	–	–	–	–
Cash flow from (used in) operations	936,713	(13,959)	(81,661)	(19,332)
Depletion, depreciation & accretion	(763,207)	(170,472)	(39,016)	(6,054)
Future tax recovery	37,394	94,008	–	–
Stock-based compensation	(87,720)	–	–	–
Earnings (loss)	123,180	(90,423)	(120,677)	(25,386)
Total assets	47,029,699	15,075,622	10,471,707	875,571
Long term financial liabilities	–	–	–	–
Weighted average outstanding Class A shares – basic	14,580,107	8,300,001	4,063,610	671,670
Cash flow \$ per share – basic	0.06	–	–	–
Earnings (loss) \$ per share – basic	0.01	(0.01)	(0.03)	(0.04)

Management's Discussion and Analysis

Management's Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Galleon Energy Inc. ("Galleon") for the first quarter of 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 audited consolidated financial statements for the year ended December 31, 2004.

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (Bbl) of oil.

This MD&A is based on information available as of May 19, 2005.

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

Non-GAAP Measurements

The MD&A contains the terms "cash flow" and "cash flow from operations" which should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net earnings as determined in accordance with Canadian GAAP as an indicator of Galleon's performance. Galleon's determination of cash flow may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the Statements of Cash Flow. The Corporation also presents "cash flow per share" whereby cash flow 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 throughout this interim report that are not historical facts may be considered "forward looking statements." These forward looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Corporation's objectives, goals or future plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to any number of factors, including such variables as new information regarding recoverable reserves, changes in demand for, and commodity prices of crude oil and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Corporation operates and other factors discussed in this interim report.

First Quarter 2005 Highlights

- Average daily production of 3,499 Boe; natural gas – 15.5 Mmcf and liquids – 913 Bbl
- Cash flow from operations of \$7.3 million, an 88% increase from fourth quarter 2004
- Operating netback of \$27.23/Boe
- Drilled 16 gross wells resulting in 14 gross (12.0 net capital interest) natural gas wells
- Capital expenditures of \$19.4 million
- Share equity issuance of 4.225 million Class A shares at \$10.65 per share for gross proceeds of \$45 million

Petroleum and natural gas revenues

Revenues reached \$13.3 million in first quarter 2005. In addition to revenues added from new wells, the first quarter of 2005 included revenues from the Dawson acquisition of December 1, 2004.

NETBACKS

	<i>Q1 2005</i>		<i>Q1 2004</i>	
	<i>314,887 Boe</i>		<i>72,378 Boe</i>	
	\$	\$/Boe	\$	\$/Boe
Gross revenues, net of transportation	13,337,458	42.35	2,375,227	32.82
Hedges	–	–	(122,078)	(1.69)
Royalties, net of ARTC	(3,173,569)	(10.08)	(474,615)	(6.56)
Subtotal	10,163,889	32.27	1,778,534	24.57
Operating costs	(1,588,289)	(5.04)	(512,095)	(7.08)
Operating netback	8,575,600	27.23	1,266,439	17.49
Other revenue	5,753	0.02	9,373	0.13
G&A	(748,392)	(2.38)	(333,500)	(4.61)
Interest costs	(420,289)	(1.33)	(5,599)	(0.07)
Current taxes	(101,277)	(0.32)	–	–
Cash flow from operations	7,311,395	23.22	936,713	12.94

An increase in revenues of 462% was achieved year over year which reflects the strong growth of the Corporation during the period. Revenues in first quarter 2005 were 64% higher than

fourth quarter 2004 revenues due to a 55% increase in natural gas revenues and an 85% increase in crude oil and liquids revenues.

REVENUE CONTRIBUTION ANALYSIS

	<i>Q1 2005</i>		<i>Q1 2004</i>	
	\$	%	\$	%
Oil	4,092,652	31	895,576	38
NGLs	150,722	1	4,102	–
Natural gas	9,082,111	68	1,475,549	62
Royalty income	11,973	–	–	–
Gross revenues, net of transportation	13,337,458	100	2,375,227	100

PRODUCT MIX ANALYSIS

	<i>Q1 2005</i>		<i>Q1 2004</i>	
Oil (Bbls/d)	876	25	321	40
NGLs (Bbls/d)	37	1	1	–
Natural gas (Mcf/d)	15,511	74	2,841	60
Boe/d (6:1)	3,499	100	796	100

Volumes averaged 3,499 Boe/d in first quarter 2005 compared to 796 Boe/d in first quarter 2004, an increase of 340%. This growth was comprised of a 446% increase in natural gas volumes and a 184% increase in crude oil and liquids volumes.

Volumes increased by 47% in first quarter 2005 compared to fourth quarter 2004. The Corporation will continue to target natural gas in the drilling program but acquisition of and drilling for light sweet crude oil is important for the Corporation to achieve sustainable growth and realize premium value.

Commodity pricing and marketing

Petroleum products are sold to major Canadian marketers at spot reference prices based on US WTI for crude oil and AECO-C for natural gas. The Corporation had two hedge

contracts in place during the first quarter 2004 and a cost of \$122,078 was recorded. The Corporation currently has no hedge contracts in place.

Light oil prices received by the Corporation in first quarter 2005 increased to \$59.72/Bbl or 32% from first quarter 2004. The heavy/medium crude prices decreased year over year due to wider differentials. The mix of crude oil has changed over the year: light oil – 77% and heavy/medium oil – 23% in first quarter 2005; compared to light oil – 18% and heavy/medium oil 82% in first quarter 2004.

Natural gas prices strengthened in first quarter 2005 to \$6.51/Mcf compared to \$6.15/Mcf in fourth quarter 2004 and \$5.71/Mcf in first quarter 2004.

PRICES	Q1 2005	Q1 2004
Light oil (\$/Bbl)	59.72	45.26
Heavy/medium oil (\$/Bbl)	26.45	27.56
Hedge impact (\$/Bbl)	–	(4.17)
Net crude oil (\$/Bbl)	51.91	26.48
Natural gas (\$/Mcf)	6.51	5.71
NGLs (\$/Bbl)	44.75	42.88

PERFORMANCE BY PROPERTY

	Q1 2005 Production		Operating netbacks/ Boe	Q1 2004 Production		Operating netbacks/ Boe	Q1 2005 operating cash flow
	Boe/day	%	\$	Boe/day	%	\$	%
Dawson	1,993	57	30.34	34	4	20.07	65
Calais	600	17	24.54	84	11	22.39	16
Wymark	232	7	29.02	260	33	25.17	7
Flatrock/Two Rivers	298	9	19.24	–	–	–	6
Lloydminster/Delta West	205	6	4.29	265	32	10.84	2
Other	171	4	22.49	153	20	21.48	4
Boe/day	3,499	100	26.44	796	100	19.18	100

* Operating netbacks/Boe exclude ARTC and hedge costs

Dawson and Calais, located in Alberta, are the Corporation's two core properties. The production from these properties receives a high netback and is characterized by production from multi-zones. The property acquisition which closed on May 18, 2005 is located in the centre of these two properties. The growth and value of the Corporation has and will continue to come from the premium quality of these properties.

Royalties

Royalty expenses were 25.7% of gross revenues (24.4% crown, 0.3% freehold and 1.0% other) for first quarter 2005 compared to 20.0% (13.8% crown, 5.6% freehold and 0.6% other) for first quarter 2004. Net of ARTC, the royalty rate in first quarter 2005 was 23.8%. ARTC of \$250,000 was accrued in first quarter 2005. No ARTC was accrued in first quarter 2004.

The Corporation's properties are primarily located on crown lands. The crown royalty rate structure is price sensitive and accordingly rates have increased due to higher commodity prices received in first quarter 2005. In addition, the product mix has changed to a higher percentage natural gas production which is charged at a higher royalty rate than crude oil.

Operating expenses

Operating expenses averaged \$5.04/Boe in first quarter 2005 compared to \$7.08/Boe in first quarter 2004. This 29% year over year decrease is due to the shift to low cost natural gas production, an increase in third party processing revenues and improvements made in the production cost structure through optimization.

During first quarter 2005, operating costs averaged \$3.49/Boe at Calais and \$3.00/Boe at Dawson. Operating costs are expected to further decrease with the production growth primarily coming from these low production cost core properties.

General and administration costs

Year to date 2005 G&A costs by category are: salary and employee – 43%, audit, engineering and legal – 16%, consulting – 14%, office – 14%, corporate – 8%, and computer – 5%. This compares to the same period of 2004: salary and employee – 50%, audit, engineering and legal – 13%, office – 13%, computer – 9%, consulting – 8%, and corporate – 7%.

	Q1 2005		Q1 2004	
	\$	\$/Boe	\$	\$/Boe
Gross	1,043,982	3.32	508,976	7.03
Overhead recoveries	(295,590)	(0.94)	(175,476)	(2.42)
Subtotal	748,392	2.38	333,500	4.61

On a per unit basis, G&A costs are expected to decrease throughout 2005 due to planned increases in production volumes.

Interest

Interest expense of \$420,289 was recorded in first quarter 2005. These costs are related to interest paid on bank debt utilized. Bank debt was reduced in first quarter 2005 with proceeds from the \$45 million equity financing on February 10, 2005. The effective rate charged during first quarter 2005 was 4.75%. Interest expense of \$5,599 was recorded in first quarter 2004.

Depletion and depreciation

Depletion and depreciation rates for oil and gas properties were \$18.48/Boe in first quarter 2005 compared to \$10.25/Boe in first quarter 2004. Capital expenditures of \$19.5 million (nil – first quarter 2004) related to undeveloped land and seismic costs have been excluded from the depletion and depreciation calculation and \$4.1 million (\$0.9 million – first quarter 2004) of future costs have been added.

First quarter 2005 reserve additions were significant due to the results of the drilling program. Proven reserves additions of approximately 7.9 bcf have been internally estimated in first quarter 2005. The ceiling test calculation has resulted in a large cushion. The Corporation expects finding and development costs to average between \$16 and \$17 per Boe in 2005.

Net earnings

First quarter 2005 net earnings of \$494,648, or \$0.02 per basic share, are net of a future tax provision of \$602,039 and non cash expenses for stock-based compensation of \$345,181. Large corporation tax of \$101,277 was recorded in first quarter 2005.

Capital expenditures

The first quarter drilling program marked the best drilling results in the history of the Corporation. Sixteen wells were drilled and 14 were cased for natural gas production representing an 88% rate of success: Dawson – drilled 9 wells and cased 7 natural gas wells; Calais – drilled 4 wells and cased 4 natural gas wells; Two Rivers – drilled 2 wells and cased 2 natural gas wells; and Newbrook – drilled 1 well and cased 1 natural gas well.

One major 3D seismic program was completed in Calais during first quarter 2005. The majority of the \$6.1 million in plant and facility expenditures were incurred at Dawson for well tie-ins and to optimize operations including compressor facilities.

	\$	
Property & equipment balance at December 31, 2004	140,882,566	
Additions to property and equipment	19,335,240	
Acquisition of property and equipment	49,755	
Asset retirement obligation	216,972	
Depletion and depreciation	(5,817,752)	
Property & equipment balance at March 31, 2005	154,666,781	
Exploration and development expenditures		<i>Q1 2005</i>
	\$	%
Land	625,822	3
Geological and geophysical	2,907,263	15
Drilling and completion	9,661,575	50
Plant and facilities	6,136,860	32
Other assets	3,720	–
Total exploration and development	19,335,240	100

Liquidity and Capital Resources and Subsequent Events

For the first quarter of 2005, cash flow from operations of \$7.3 million and a portion of the proceeds from an equity issuance of \$45 million net of expenses were used to fund the \$19.3 million exploration and development capital expenditure program.

Cash flow from operations per average weighted basic share was \$0.30 in first quarter 2005 compared to \$0.06 in first quarter 2004 and \$0.18 in fourth quarter 2004.

DEBT AND WORKING CAPITAL	<i>March 31, 2005</i>	<i>December 31, 2004</i>
	\$	\$
Bank debt	26,282,008	48,406,688
Working capital deficiency	1,336,702	9,413,293
Total net debt	27,618,710	57,819,981

SOURCE OF FUNDS	<i>Q1 2005</i>	<i>Q1 2004</i>
	\$	\$
Issuance of shares, net of costs	42,274,871	11,169,651
Funds provided by operations	7,311,395	936,713
Reduction of bank debt	(22,124,680)	–
Change in cash and working capital	(8,126,346)	(2,099,933)
Net additions to property and equipment	19,335,240	10,006,431

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

At March 31, 2005, the market value of Galleon's class A shares was approximately \$258.8 million based on the March 31, 2005 closing price of \$9.85 per share and 26,276,126 class A shares outstanding.

At March 31, 2005, the Corporation had an extendible revolving credit facility in place with a Canadian chartered bank. The facilities include a credit facility of \$45 million Cdn and a swap facility of \$3.5 million US. Collateral for the facilities consists of a demand debenture for \$125 million secured by a first floating charge over all of the property and equipment of the Corporation. At March 31, 2005, \$26,282,008 was drawn on the credit facility.

On March 31, 2005, the Corporation entered into an agreement to purchase oil and gas properties in the Edam area of Saskatchewan from an arms length company for cash of \$22 million. The Corporation acted as an agent for a third party for a portion of these assets and on April 18, 2005, entered into an agreement to sell certain interests in these oil and gas properties for \$14.7 million to this third party. The net purchase price to the Corporation including closing adjustments was \$7.2 million. Closing occurred on May 6, 2005.

The Corporation's credit facilities were increased to \$55 million Cdn coincident with the close of the acquisition.

On April 4, 2005, the Corporation entered into an agreement to purchase oil and gas properties from an arms length party (the "Acquisition"). The properties are located in the center of Galleon's core areas of Dawson and Calais in the Peace River Arch area of Alberta. The acquisition closed on May 18, 2005. The cash purchase price of \$89.8 million including closing adjustments was funded from expanded bank credit facilities and an equity financing. At the time of closing the Acquisition, availability under the Corporation's credit facilities increased to \$80 million Cdn.

On May 12, 2005 the Corporation issued 3,794,000 Subscription Receipts at \$10.00 each for gross proceeds of \$37,940,000. Each Subscription Receipt entitled the holder to acquire one Class A Share, without the payment of any additional consideration, upon the closing of the above mentioned Acquisition. Proceeds from the issuance of the Subscription Receipts were placed in escrow and were released at the closing of the Acquisition. If the Acquisition had not closed on or before June 15, 2005, the Subscription Receipts would have been repurchased at the original subscription price thereof plus accrued interest.

On May 12, 2005, the Corporation also issued 1,600,000 Class A shares on a flow through basis at \$12.50 each for gross proceeds of \$20,000,000. The shares issued will be subject to a hold period under applicable securities laws expiring September 13, 2005

Galleon has no off-balance sheet financing arrangements. The Corporation has lease arrangements for office space to September 30, 2005. The future minimum lease payments total \$101,582.

At May 19, 2005, 31,670,126 Class A shares, 922,500 Class B shares and 1,722,667 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 increased its production, post the most recent acquisition, to over 7,000 Boe/day. The related cash flow, strong financial position and large undeveloped land base is expected to lead to significant growth in the business through the end of 2006.

Balance Sheets

	<i>March 31</i> <i>2005</i> \$	<i>December 31</i> <i>2004</i> \$
	<i>(unaudited)</i>	
ASSETS		
Current		
Accounts receivable	13,114,621	8,633,197
Deposits and prepaid expenses	1,071,465	401,938
Inventory	1,371,613	835,581
	15,557,699	9,870,716
Goodwill (note 2)	10,138,976	10,138,976
Property and equipment (notes 3 and 5)	154,666,781	140,882,566
	180,363,456	160,892,258
LIABILITIES		
Current		
Accounts payable and accrued liabilities	16,894,401	19,284,009
Bank loan (note 5)	26,282,008	48,406,688
	43,176,409	67,690,697
Asset retirement obligation (note 4)	4,267,092	3,998,345
Future tax liability	15,031,047	6,660,997
	62,474,548	78,350,039
Commitments (note 7)		
SHAREHOLDERS' EQUITY		
Share capital (note 6)	117,699,404	83,192,544
Contributed surplus (note 6)	1,474,225	1,129,044
Deficit	(1,284,721)	(1,779,369)
	117,888,908	82,542,219
	180,363,456	160,892,258

See accompanying notes

Statements of Operations and Deficit

(unaudited)

	Three months ended March 31	
	2005	2004
	\$	\$
REVENUE		
Petroleum and natural gas	13,812,133	2,448,814
Transportation	(474,675)	(73,587)
Crude oil hedge cost	—	(122,078)
Royalties, net of ARTC	(3,173,569)	(474,615)
Other income	5,753	9,373
	10,169,642	1,787,907
EXPENSES		
Operating	1,588,289	512,095
General and administration	748,392	333,500
Stock-based compensation (note 6)	345,181	87,720
Interest	420,289	5,599
Accretion	51,775	21,215
Depletion and depreciation	5,817,752	741,992
	8,971,678	1,702,121
Earnings before taxes	1,197,964	85,786
Current taxes	101,277	—
Future income taxes (recovery)	602,039	(37,394)
NET EARNINGS	494,648	123,180
DEFICIT, BEGINNING OF PERIOD	(1,779,369)	(236,486)
Repurchase of Class A shares	—	(1,375,000)
DEFICIT, END OF PERIOD	(1,284,721)	(1,488,306)
NET EARNINGS PER SHARE		
Basic	\$ 0.02	\$ 0.01
Diluted	\$ 0.02	\$ 0.01
Weighted average shares — basic	24,373,524	14,580,107
— diluted	25,381,407	15,399,375

See accompanying notes

Statements of Cash Flow

(unaudited)

Three months ended
March 31

	2005 \$	2004 \$
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net earnings	494,648	123,180
Add items not requiring cash:		
Depletion and depreciation	5,817,752	741,992
Accretion	51,775	21,215
Future income taxes (recovery)	602,039	(37,394)
Stock-based compensation	345,181	87,720
FUNDS FROM OPERATIONS	7,311,395	936,713
Change in non-cash working capital relating to operating activities	1,007,806	(77,522)
	8,319,201	859,191
FINANCING ACTIVITIES		
Issue of common shares	45,082,581	12,010,500
Share issue costs	(2,807,710)	(840,849)
Bank loan	(22,124,680)	-
Repayment of bank debt assumed in Venture acquisition	-	(1,784,746)
	20,150,191	9,384,905
INVESTING ACTIVITIES		
Additions to oil and gas properties	(19,335,240)	(10,006,431)
Acquisition of oil and gas properties	(49,755)	(2,368,924)
Change in non-cash working capital	(9,084,397)	108,186
	(28,469,392)	(12,267,169)
DECREASE IN CASH	-	(2,023,073)
CASH, BEGINNING OF PERIOD	-	3,204,663
CASH, END OF PERIOD	-	1,181,590
SUPPLEMENTARY INFORMATION		
Cash interest paid	420,289	5,599
Cash taxes paid	101,277	-

See accompanying notes

Notes to the Financial Statements

1. Accounting Policies

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

On January 1, 2005, two wholly owned subsidiaries, Venture Energy Inc. ("Venture") and Inisfail Energy Ltd. ("Inisfail"), were amalgamated into Galleon Energy Inc.

3. Property and Equipment

At March 31, 2005, \$19.5 million (March 31, 2004 – nil) of undeveloped land and seismic costs have been excluded from and \$4.1 million (March 31, 2004 – \$0.9 million) in future development costs have been added into the depletion calculation. To March 31, 2005 (March 31, 2004 – nil), no exploration salaries have been capitalized.

2. Goodwill

Goodwill, at the time of acquisition, represents the excess of the purchase price of a business over the fair value of net assets acquired; thereafter, goodwill is assessed for impairment at least annually. If the fair value of the business is less than the book value, a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the business' other assets and liabilities from the fair value of the business to determine the implied fair value of goodwill and comparing that amount to the book value of goodwill. Any excess of the book value of goodwill over the implied fair value is the impairment amount and will be charged to income in the period of the impairment.

	<i>Cost</i> \$	<i>Accumulated Depletion & Depreciation</i> \$	<i>Net Book Value</i> \$
Petroleum and natural gas properties & equipment	172,270,992	17,728,625	154,542,367
Office furniture and equipment	167,498	43,084	124,414
Balance at March 31, 2005	172,438,490	17,771,709	154,666,781

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

4. 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 obligations is approximately \$6.9 million, which will be incurred over the next 18 years. A credit adjusted risk free rate of 4.75% and an inflation rate of 1.5% were used to calculate the fair value of the asset retirement obligation.

	<i>Quarter ended</i>	
	<i>March 31, 2005</i>	<i>March 31, 2004</i>
	\$	\$
Balance, beginning of period	3,998,345	660,271
Accretion expense	51,775	21,215
Liabilities incurred	216,972	133,534
Liabilities acquired	-	459,113
Balance, end of period	4,267,092	1,274,133

5. Available Credit Facility

The Corporation has a \$45 million extendible revolving credit facility in place with a Canadian chartered bank. In addition, the Corporation has in place a \$3.5 US million swap facility.

Collateral for the facilities consists of a demand debenture for \$125 million secured by a first floating charge over all of the property and equipment of the Corporation. At March 31, 2005, an amount of \$26,282,008 was drawn against the credit facility.

6. Share Capital

AUTHORIZED

Unlimited number of preferred shares with no par value

Unlimited number of voting Class A shares with no par value

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

ISSUED AND OUTSTANDING	<i>Number of Shares</i>	<i>Amount \$</i>
Class A shares		
Balance at December 31, 2004	21,870,771	77,985,300
Issued for cash (a)	4,225,355	45,000,031
Share issue costs, net of tax of \$981,989 (a)	-	(1,825,721)
Issued for cash on exercise of stock options	180,000	82,550
Tax effect of flow through shares (b)	-	(8,750,000)
Balance at March 31, 2005	26,276,126	112,492,160

Class B shares

Balance at December 31, 2004 and March 31, 2005	922,500	5,207,244
Total share capital – March 31, 2005	27,198,626	117,699,404

- a) On February 10, 2005, the Corporation issued 4,225,355 Class A shares at \$10.65 per share for gross proceeds of \$45 million. The shares issued are subject to a hold period under applicable securities laws expiring June 11, 2005.
- b) On June 17, 2004, the Corporation issued 1,000,000 Class A shares at \$10.00 each on a flow-through basis for gross proceeds of \$10 million. These expenditures were incurred in 2004.

On November 23, 2004, the Corporation issued 1,000,000 Class A shares at \$15.00 each on a flow-through basis for gross proceeds of \$15 million. Under the look back provision governing flow-through shares, the Corporation is required to incur eligible expenditures prior to December 31, 2005. To March 31, 2005 approximately \$10 million of these expenditures had been incurred.

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

SHARE OPTIONS

The Corporation has a share option plan which was approved effective July 22, 2003. 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 second and third 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 \$345,181 has been recognized to March 31, 2005.

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

	<i>Number of Shares</i>	<i>Weighted Average Exercise Price \$</i>
Outstanding, December 31, 2004	1,792,667	3.74
Granted	110,000	11.61
Exercised	(180,000)	(0.46)
Outstanding, March 31, 2005	<u>1,722,667</u>	<u>4.58</u>

EARNINGS PER SHARE

The Corporation utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase common shares of the Corporation at their average market price for the period. The weighted average number of Class A shares outstanding during the period was 24,373,524 and 25,381,407 diluted (March 31, 2004 – 14,580,107 and 15,399,375, respectively). The diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 26,216,760 (March 31, 2004 – 17,459,087).

7. Subsequent Events

On March 31, 2005, the Corporation entered into an agreement to purchase oil and gas properties in the Edam area of Saskatchewan from an arms length company for cash of \$22 million. The Corporation acted as an agent for a third party for a portion of these assets and on April 18, 2005, entered into an agreement to sell certain interests in these oil and gas properties for \$14.7 million to this third party. The net purchase price to the Corporation including closing adjustments was \$7.2 million. Closing occurred on May 6, 2005. The Corporation's credit facilities were increased to \$55 million Cdn coincident with the close of the acquisition.

On April 4, 2005, the Corporation entered into an agreement to purchase oil and gas properties from an arms length party (the "Acquisition"). The properties are located in the center of Galleon's core areas of Dawson and Calais in the Peace River Arch area of Alberta.

The Acquisition closed on May 18, 2005. The cash purchase price of \$89.8 million including closing adjustments was funded from expanded bank credit facilities and an equity financing. At the time of closing the Acquisition, availability under the Corporation's credit facilities increased to \$80 million Cdn.

On May 12, 2005 the Corporation issued 3,794,000 Subscription Receipts at \$10.00 each for gross proceeds of \$37,940,000. Each Subscription Receipt entitled the holder to acquire one Class A Share, without the payment of any additional consideration, upon the closing of the above mentioned Acquisition. Proceeds from the issuance of the Subscription Receipts were placed in escrow and were released at the closing of the Acquisition. If the Acquisition had not closed on or before June 15, 2005, the Subscription Receipts would have been repurchased at the original subscription price thereof plus accrued interest.

On May 12, 2005, the Corporation also issued 1,600,000 Class A shares on a flow through basis at \$12.50 each for gross proceeds of \$20,000,000. The shares issued will be subject to a hold period under applicable securities laws expiring September 13, 2005.

Corporate Information

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Board of Directors

John A. Brussa ²

Glenn R. Carley, Executive Chairman ²

Fred C. Coles ^{1 2}

William L. Cooke ¹

Brad R. Munro ¹

Steve Sugianto

¹. Member of the Audit and Reserves Committee

². Member of the Compensation Committee

Officers

Steve Sugianto, President and Chief Executive Officer

Glenn R. Carley, Executive Chairman

Shivon M. Crabtree, VP Finance & Chief Financial Officer

C. Steve Cohen, Secretary

Tom Greschner, VP Production

Darrin Hanik, VP Engineering

Jennifer Klotz, VP Land

Brent Lacey, VP Exploration

Auditor

Ernst & Young LLP, Calgary, Alberta

Bank

The Canadian Imperial Bank of Commerce, Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP, Calgary, Alberta

Evaluation Engineers

DeGolyer and MacNaughton Canada Limited, Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company, Calgary, Alberta

Stock Exchange Listing

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

www.galleonenergy.com



GO.A