

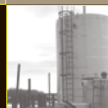


GALLEON ENERGY INC.

Q2

INTERIM REPORT 2006

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Report to Shareholders

The second quarter of 2006 had significant financial and operations results:

- Average production of 8,560 Boe/d – a 52% increase over the second quarter 2005 production and a 27% increase on a per share basis.
- Funds from operations of $22.1 million – a 60% increase over the second quarter 2005 and a 31% increase on a per share basis.
- Earnings of $8 million were recorded in second quarter 2006, an increase of 1,058% from second quarter 2005.
- Drilled 22 wells in the second quarter of 2006 with 10 (9.6 net) cased for natural gas production and 10 (7.0 net) cased for oil production.

The success of the 2006 drilling program has led to the advancement of Galleon's key projects at Puskwa, Eaglesham and Dawson.

At Puskwa, a second major light sweet oil discovery was announced in June 2006 and three additional wells were drilled in second quarter 2006 to delineate the oil pool boundaries. Between 10 and 12 wells are planned prior to the end of 2006.

At Eaglesham, approximately 3.2 MMcf/d (530 Boe/d) of new production will be added once the 10 MMcf/d gas plant is operational later this month. Six to eight wells are planned in the remainder of 2006.

The large regional natural gas project at Dawson has grown through the drilling of 39 wells in the last 12 months with a 95% success rate. Thirty-seven (34 net) wells have been cased including one well with current initial production exceeding 4 MMcf/d. Current production is between 11 and 12 MMcf/d with approximately 4.3 MMcf/d of production capacity awaiting tie in. The existing natural gas plant is scheduled to be expanded to 30 MMcf/d before year end 2006. Land access has increased to 592 gross sections. This gas project has delivered repeatable drilling success and superior economic returns even given current natural gas prices.

In aggregate, additional tested production of approximately 1,700 Boe/d and 1,100 Boe/d is scheduled to be brought on stream in August and September 2006, respectively. Galleon's third quarter 2006 production is expected to average between 10,500 and 12,000 Boe/d.

The key 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. With the closing of the $80 million equity financing on July 25, 2006, Galleon is in a strong financial position to execute the business plan. [

[Signed]	[Signed]
Glenn R. Carley	Steve Sugianto
Executive Chairman	*President and Chief Executive Officer*

August 10, 2006

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, 2006 with comparisons to the three and six month periods ended June 30, 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 and six month periods ended June 30, 2006 and 2005 and the audited financial statements and MD&A 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, August 10, 2006.

Additional information relating to Galleon, including Galleon's Annual Information Form for the year ended December 31, 2005, 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 terms commonly used in the oil and gas industry, such as funds flow from operations, funds flow per share, funds flow netback, and operating netback. These terms are not defined by Canadian generally accepted accounting principles ("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 flow 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 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 calculates funds flow 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 growth areas, expected royalty rates, operating costs, interest expense, expected trend in earnings per share, 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, or at Galleon's website www.galleonenergy.com.

Furthermore, the forward looking statements contained herein are made as at the date hereof and Galleon does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

SECOND QUARTER 2006 HIGHLIGHTS

During the second quarter 2006 Galleon accomplished the following:

- Funds from operations of $22.1 million ($0.42 per share), an increase of 60% compared to Q2 2005.
- Earnings of $8.0 million ($0.15 per share), an increase of 1,058% compared to Q2 2005.
- Average daily production of 8,560 Boe (41% oil), an increase of 52% compared to Q2 2005 with production from the tight gas project averaging 11.2 MMcf/d during Q2 2006, which is an increase of 331% compared to Q2 2005.
- Drilled 22 gross wells with a 91% success rate. Wells cased for production include 10 gross (7.0 net) light oil wells and 10 gross (9.6 net) natural gas wells.
- Completed an acquisition of oil and gas properties in the Dawson area for $25.4 million.
- Increased land access to over 1 million acres concentrated in Galleon's core area of the Peace River Arch.
- Completed a three-for-two Class A share split on June 20, 2006.
- Subsequent to June 30, 2006 Galleon closed a public offering of Class A and flow-through Class A shares for gross proceeds of $80 million and increased its 2006 exploration and development capital budget to $180 million.

Galleon is well positioned for continued growth with a dominant land position, four well defined and diversified growth projects, favorable access to capital, and a proven ability to execute its strategy. In the second quarter, Galleon benefited from its diversified prospect base with the ability to shift capital towards its high netback light oil plays in order to capitalize on record oil prices.

RESULTS OF OPERATIONS

	Q2 2006 778,992 Boe		Q2 2005 513,535 Boe	
	$	$/Boe	$	$/Boe
Gross revenues	36,516,885	46.88	24,742,760	48.18
Royalties	(6,979,871)	(8.96)	(6,147,981)	(11.97)
ARTC and GCA	3,595,121	4.62	443,198	0.86
Transportation costs	(949,880)	(1.22)	(706,374)	(1.37)
Operating costs	(7,716,321)	(9.91)	(2,726,825)	(5.31)
Net	24,465,934	31.41	15,604,778	30.39
Other revenue	–	–	16,619	0.03
G&A	(1,068,189)	(1.37)	(1,030,455)	(2.01)
Interest costs	(1,097,994)	(1.41)	(558,040)	(1.09)
Capital and other taxes	(230,943)	(0.30)	(251,013)	(0.49)
Funds from operations	22,068,808	28.33	13,781,889	26.83

	YTD 2006 1,553,570 Boe		YTD 2005 828,422 Boe	
	$	$/Boe	$	$/Boe
Gross revenues	72,746,517	46.83	38,554,893	46.54
Royalties	(15,841,002)	(10.20)	(9,571,550)	(11.55)
ARTC and GCA	4,570,195	2.94	693,198	0.84
Transportation costs	(2,055,632)	(1.32)	(1,181,049)	(1.43)
Operating costs	(14,781,452)	(9.51)	(4,315,114)	(5.21)
Net	44,638,626	28.74	24,180,378	29.19
Other revenue	573	–	22,372	0.03
G&A	(2,227,803)	(1.43)	(1,778,847)	(2.15)
Interest costs	(1,838,011)	(1.18)	(978,329)	(1.18)
Capital and other taxes	(457,448)	(0.29)	(352,290)	(0.43)
Funds from operations	40,115,937	25.84	21,093,284	25.46

For the three months ended June 30, 2006 funds from operations of $22,068,808 ($0.42 per share) increased by 60% from $13,781,889 ($0.32 per share) in the same period of 2005. The increase is a result of production increases and cost structure improvements. The operating netback of $31.41/Boe is 3% higher than $30.39/Boe for the same period in 2005 due to lower average royalty rates and greater gas cost allowance (“GCA”) credits from the Crown, net of operating cost increases. Lower royalty rates are due to the oil royalty holidays on the new light oil wells and increased GCA is a result of additional natural gas facilities compared to Q2 2005. Lower general and administrative costs (“G&A”) per barrel of oil equivalent contributed to the 6% increase in funds from operations to $28.33/Boe from $26.83/Boe in Q2 2005. Lower G&A costs per barrel of oil equivalent are a function of efficiencies gained through production growth.

For the six months ended June 30, 2006 funds from operations of $40,115,937 ($0.79 per share) increased by 90% from $21,093,284 ($0.53 per share) for the same period of 2005. The increase is attributed to production increases. The operating netback of $28.74/Boe is lower than $29.19/Boe for the same period of the prior year due to higher operating costs primarily on Galleon’s heavy oil assets.

PETROLEUM AND NATURAL GAS REVENUES

	Q2 2006		Q2 2005	
	$	%	$	%
Light oil	**12,253,997**	**34**	8,379,337	34
Heavy oil	**6,653,559**	**18**	1,712,632	7
NGLs	**600,603**	**2**	100,811	–
Natural gas	**16,871,725**	**46**	14,410,419	58
Royalty income	**137,001**	**–**	139,561	1
Gross revenues	**36,516,885**	**100**	24,742,760	100

	YTD 2006		YTD 2005	
	$	%	$	%
Light oil	**23,346,620**	**32**	11,987,828	31
Heavy oil	**10,356,040**	**14**	2,220,327	6
NGLs	**1,090,750**	**2**	251,533	1
Natural gas	**37,626,906**	**52**	23,943,671	62
Royalty income	**326,201**	**–**	151,534	–
Gross revenues	**72,746,517**	**100**	38,554,893	100

For the three months ended June 30, 2006 petroleum and natural gas revenues of $36.5 million increased by 48% compared to $24.7 million for the three months ended June 30, 2005. The increase relates to production increases and is offset by lower natural gas prices. Natural gas prices decreased by 15% for the quarter compared to the same period of the prior year. Production increased 52% to 8,560 Boe/d in the second quarter of 2006 compared to 5,643 Boe/d in the comparative period of 2005. The overall price received per barrel of oil equivalent decreased to $46.88/Boe from $48.18/Boe for the three months ended June 30, 2005 as a result of lower natural gas prices.

Galleon's revenues are most sensitive to changes in the price of natural gas as it comprises 58% of volumes sold. Galleon has concentrated efforts on increasing oil production as is evident from the shift in oil weighting to 41% of volumes sold in Q2 2006 compared to 35% in Q2 2005.

Revenues for the six months ended June 30, 2006 increased by 89% to $72.7 million from $38.6 million for the six month period ended June 30, 2005 due to an 88% increase in production volumes.

PRODUCT MIX ANALYSIS

	Q2 2006		Q2 2005		YTD 2006		YTD 2005	
	Boe/d	%	Boe/d	%	Boe/d	%	Boe/d	%
Light oil (Bbls/d)	**1,753**	**21**	1,393	25	**1,804**	**21**	1,034	23
Heavy oil (Bbls/d)	**1,705**	**20**	594	10	**1,645**	**19**	401	8
NGLs (Bbls/d)	**100**	**1**	21	1	**96**	**1**	29	1
Natural gas (Mcf/d)	**30,014**	**58**	21,813	64	**30,229**	**59**	18,679	68
Boe/d (6:1)	**8,560**	**100**	**5,643**	**100**	**8,583**	**100**	**4,577**	**100**

The 52% increase in production volumes for the three months ended June 30, 2006 compared to the same period of the prior year is attributed primarily to a 187% increase in heavy oil volumes. The production increases are a result of optimization techniques and minor workovers in the Saskatchewan area. Galleon's current production is on track with Q3 2006 guidance of 10,500 – 12,000 Boe/d.

Light oil production increases are expected as a result of the 10 successful light oil wells drilled during the quarter. The oil to natural gas and NGLs production ratio for the quarter was 41/59.

Production increased 88% for the six months ended June 30, 2006 compared to the same period of the prior year as a result of a 310% increase in heavy oil production, a 74% increase in light oil production, and a 62% increase in natural gas production.

COMMODITY PRICING AND MARKETING

Prices (net of transportation costs)	Q2 2006	Q2 2005	YTD 2006	YTD 2005
Light oil ($/Bbl)	**75.63**	65.35	**70.53**	63.53
Heavy oil ($/Bbl)	**42.69**	32.21	**34.08**	29.16
Natural gas ($/Mcf)	**5.97**	6.99	**6.67**	6.79
NGLs ($/Bbl)	**65.71**	53.94	**61.83**	47.93

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.

Galleon received record average light oil prices during the quarter of $75.63/bbl, an increase of 16% compared to Q2 2005. The WTI crude oil benchmark neared all time highs during the quarter and reached new highs in July 2006 amidst the geo-political tensions in the Middle East. The longer-term outlook for crude oil prices remains high and is driven by the growth in demand, especially from developing nations, and geo-political issues. For the six months ended June 30, 2006 average light oil prices received of $70.53/bbl increased by 11% compared to the same period in 2005.

Average heavy oil prices of $42.69/bbl received during the quarter increased 33% compared to Q2 2005. The differential narrowed during the quarter due to demand increases. For the six months ended June 30, 2006 Galleon received average heavy prices of $34.08/bbl, an increase of 17% compared to the same period in 2005.

Average natural gas prices of $5.97/Mcf received during the quarter were 15% lower than Q2 2005. The 2006 summer began with record storage inventory levels for natural gas as a result of the mild winter weather conditions in 2005. For the six months ended June 30, 2006 Galleon received average natural gas prices of $6.67/Mcf which is 2% lower than the comparative period of the prior year.

PERFORMANCE BY PROPERTY

	Boe/d	%	Q2 2006 Operating netbacks/ Boe (1) $	Boe/d	%	Q2 2005 Operating netbacks/ Boe (1) $	Q2 2006 operating cash flow %
Dawson	**4,850**	**57**	**25.84**	3,981	70	34.61	**55**
Calais	**1,529**	**18**	**45.42**	488	9	23.21	**30**
Saskatchewan (heavy oil)	**1,705**	**20**	**13.97**	595	11	4.91	**10**
Other	**476**	**5**	**22.45**	579	10	25.16	**5**
Boe/day	**8,560**	**100**	**26.79**	5,643	100	29.52	**100**

	Boe/d	%	YTD 2006 Operating netbacks/ Boe (1) $	Boe/d	%	YTD 2005 Operating netbacks/ Boe (1) $	YTD 2006 operating cash flow %
Dawson	**4,869**	**57**	**28.32**	2,992	65	33.20	**62**
Calais	**1,574**	**18**	**37.66**	544	12	23.94	**27**
Saskatchewan (heavy oil)	**1,645**	**19**	**7.75**	401	9	4.75	**6**
Other	**495**	**6**	**23.15**	640	14	24.14	**5**
Boe/day	**8,583**	**100**	**25.80**	4,577	100	28.34	**100**

(1) *Operating netbacks/Boe exclude ARTC and GCA and are calculated by subtracting royalties and operating costs from revenues.*

During the quarter the Dawson area continued to be the largest contributor to Galleon's operating cash flow, contributing 55% of total operating cash flow from 4,840 Boe/d of production (21% crude oil). Operating netbacks at Dawson have decreased as a result of lower natural gas prices and higher operating costs per barrel of oil equivalent. The increase in operating costs is consistent with the industry trend of escalating costs due to increased demand for services and inflationary pressures. Compared to Q2 2005 Galleon realized higher costs at Dawson for road and lease maintenance, propane, fuel, utilities, and minor workovers.

The Calais area contributed 30% of Q2 2006 operating cash flow from 18% of total production. Strong operating netbacks of $45.42/Boe are driven by the recent light oil wells brought on production in the Puskwa region. These highly productive 100% owned light sweet oil wells received average oil prices of $77.89/bbl (net of transportation) during the quarter, are currently on royalty holidays, and have minimal operating costs. Galleon expects Puskwa to be a major growth area for the Corporation over the next 12 months.

The heavy oil wells in Saskatchewan contributed 10% of Q2 2006 operating cash flow from 20% of total production. Operating netbacks of $13.97/Boe have increased by 185% compared to Q2 2005 mainly as a result of higher oil prices.

ROYALTIES

	Q2 2006 $	Q2 2005 $	YTD 2006 $	YTD 2005 $
Crown	**6,328,121**	5,828,191	**14,583,393**	9,084,437
Freehold	**271,472**	157,514	456,984	190,999
GORR and other	**380,277**	154,812	**800,624**	296,114
Subtotal	**6,979,870**	6,140,517	**15,841,001**	9,571,550
ARTC and GCA	**(3,595,120)**	(435,734)	**(4,570,194)**	(693,198)
Net royalties	**3,384,750**	5,704,783	**11,270,807**	8,878,352
% of gross revenue	**19.1 %**	24.8 %	**21.8 %**	24.8 %
% of gross revenue net of ARTC and GCA	**9.3 %**	23.1 %	**15.5 %**	23.0 %

Royalty expenses were 19.1% of gross revenues (17.3% Crown, 0.7% freehold, and 1.1% other) in the second quarter of 2006 compared to 24.8% (23.6% crown, 0.6% freehold and 0.6% other) in the second quarter of 2005. The decrease in average royalty rates is a reflection of the change in product mix. Galleon has a lower average royalty rate on oil production compared to natural gas. The oil royalty holidays at Puskwa also contributed to the lower average royalty rate for the quarter. Net of ARTC and GCA, the royalty rate in the second quarter of 2006 was 9.3% and 23.1% in the second quarter of 2005. The decrease in the net royalty rate is a result of higher GCA and custom processing credits from the Crown. The GCA credits are related to additional operated natural gas facilities in 2005 and 2006. Galleon expects its gross royalty rate for the remainder of the year to average 19%- 23%.

For the six months ended June 30, 2006 Galleon's average gross royalty rate was 21.8% (20.0% Crown, 0.7% freehold, and 1.1% other) compared to 24.8% (23.6% Crown, 0.5% freehold, and 0.7% other) for the comparative period of the prior year. Net of ARTC and GCA, the royalty rate for the six months ended June 30, 2006 was 15.5% compared to 23.0% for the same period of the prior year.

OPERATING COSTS

	Production %	Q2 2006 Operating costs %	Operating costs $/Boe
Dawson	57	46	7.96
Calais	18	8	4.67
Saskatchewan (heavy oil)	20	40	19.93
Other	5	6	10.67
	100	100	9.91

	Production %	YTD 2006 Operating costs %	Operating costs $/Boe
Dawson	57	45	7.50
Calais	18	8	4.43
Saskatchewan (heavy oil)	19	40	19.78
Other	6	7	11.43
	100	100	9.51

Operating costs were $7,716,321 or $9.91/Boe for the three months ended June 30, 2006 compared to $2,726,825 or $5.31/Boe for the three months ended June 30, 2005. The rise in costs is attributed mainly to the heavy oil assets in Saskatchewan. Significant cost increases are attributed to propane and fuel, water and service trucks, and minor workovers. The optimization of these assets has resulted in significant increases to production while also increasing Galleon's average operating costs per barrel of oil equivalent. For the remainder of the year, Galleon will remain focused on lowering controllable costs in Saskatchewan so as to reduce overall corporate operating costs. Higher operating costs this quarter among other properties include costs for road and lease maintenance, property taxes, and well servicing and minor workovers. Galleon expects operating costs per barrel of oil equivalent will decrease with planned production increases throughout the remainder of the year.

For the six months ended June 30, 2006, operating costs were $14,781,452 or $9.51/Boe compared to $4,315,114 or $5.21/Boe for the comparative period of the prior year.

GENERAL AND ADMINISTRATION COSTS ("G&A")

	Q2 2006		Q2 2005	
	$	$/Boe	$	$/Boe
Gross	**1,952,457**	**2.51**	1,330,964	2.59
Overhead recoveries	**(884,268)**	**(1.14)**	(300,509)	(0.58)
	1,068,189	**1.37**	1,030,455	2.01

	YTD 2006		YTD 2005	
	$	$/Boe	$	$/Boe
Gross	**3,911,394**	**2.52**	2,374,946	2.87
Overhead recoveries	**(1,683,591)**	**(1.09)**	(596,099)	(0.72)
	2,227,803	**1.43**	1,778,847	2.15

Net G&A costs of $1.37/Boe and $1.43/Boe for the three and six months ended June 30, 2006 respectively have decreased compared to the prior year as a result of increases in capital and operating overhead recoveries. The higher recoveries are a function of increases in capital spending and operating activity. Galleon's strategy of growth through asset acquisitions and drilling has enabled it to add production without significant increases to administrative costs. Recently the Corporation has added several new employees in anticipation of the future growth of Galleon.

For the six months ended June 30, 2006 G&A costs by category are: salary and employee – 46%, office – 19%, corporate – 15%, audit, engineering and legal – 6%, consulting – 9%, and computer – 5%.

For the six months ended June 30, 2005 G&A costs by category are: salary and employee – 51%, audit, engineering and legal – 11%, office – 14%, consulting – 10%, corporate – 10%, and computer – 4%.

INTEREST

Interest expense of $1,097,994 for the three months ended June 30, 2006 is higher compared to $558,040 for the same period in 2005 due to increased average debt levels related to the growth of the Corporation. It is expected that interest expense will decrease in Q3 2006 due to lower bank debt as a result of the $80 million equity financing on July 25, 2006 (see note 8 to the financial statements). For the six months ended June 30, 2006 interest expense of $1,838,011 is higher compared to $978,329 for the same period in 2005.

STOCK BASED COMPENSATION

Stock based compensation is a non-cash expense of $4,010,886 for the six months ended June 30, 2006 compared to $2,014,598 in the corresponding period of 2005. The increase is due to the addition of new employees and an increase in the fair value of options granted. As calculated by the Black-Scholes Option Pricing Model, all other factors being equal, an increase in Galleon's share price results in a higher option fair value. After adjusting for the three-for-two stock split, 1,177,500 stock options were granted during the six months ended June 30, 2006 at an average exercise price of $19.03 and had fair values of between $4.38 and $7.41 per option.

At June 30, 2006, 4,913,325 stock options are outstanding at an average exercise price of $9.33 per Class A share.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion and depreciation ("D&D") charges were $13,403,677 or $17.21/Boe for the three months ended June 30, 2006 compared to $9,622,721 or $18.74/Boe for the corresponding period in 2005. For the six months ended June 30, 2006 D&D charges were $26,163,877 or $16.84/Boe compared to $15,440,473 or $18.64/Boe for the same period in 2005. The reduction in D&D charges is a result of lower finding and development costs in 2006 attributed to larger oil and gas pool discoveries.

Reserve additions for 2006 were estimated internally. Capital expenditures of $74.0 million ($27.2 million – June 30, 2005) related to undeveloped land, seismic costs, and facilities under construction have been excluded from the depletion and depreciation calculation and $49.8 million ($9.5 million – June 30, 2005) of future costs have been added.

Accretion expense on the Corporation's asset retirement obligation was $296,614 for the six months ended June 30, 2006 compared to $137,174 for the six months ended June 30, 2005. The increase is related to an increase in the Corporation's asset retirement obligation which is driven by the number of wells and facilities in which Galleon has an interest.

CAPITAL AND FUTURE TAXES

The current tax provision of $230,943 for the three months ended June 30, 2006 is comprised of Saskatchewan capital and resource taxes and a small amount of federal income tax. For the six months ended June 30, 2006, the capital and other tax provision of $457,448 is greater than $352,290 for the same period in the prior year. The increase relates to higher Saskatchewan taxes due to significantly higher revenue from Saskatchewan in 2006 compared to 2005.

The provision for future income taxes is a recovery of $2,190,808 for the three months ended June 30, 2006 compared to an expense of $1,715,040 for the same period in 2005. The non-cash future tax recovery in Q2 2006 is a result of a decrease in both the federal and provincial income tax rates during the quarter. The year over year decrease in the future tax provision for the six months ended June 30, 2006 is also due to the decrease in federal and provincial income tax rates.

Galleon Energy has estimated tax pools of $320.5 million as at June 30, 2006.

NET EARNINGS

Second quarter 2006 net earnings of $7,984,548 or $0.15 per basic share have increased significantly over the same period in the prior year due to increased funds from operations driven by production growth and the tax rate changes. The increase in earnings and earnings per share is indicative of management's ability to grow its operations efficiently and increase value on a per share basis. Given Galleon's planned production increases for the remainder of the year, management expects the increasing trend in earnings per share will continue through to the end of 2006. As at June 30, 2006, the Corporation had retained earnings of $27,565,681.

CAPITAL EXPENDITURES

	$
Property & equipment balance at December 31, 2005	317,177,496
Additions to property and equipment	124,089,362
Acquisition of property and equipment	25,855,585
Asset retirement obligation	870,815
Depletion and depreciation	(26,163,877)
Property & equipment balance at June 30, 2006	441,829,381

Exploration and Development Expenditures

	Q2 2006 $	YTD 2006 $	%
Land	5,501,386	12,229,441	10
Geological and geophysical	4,748,264	17,070,452	14
Drilling and completion	26,464,520	52,574,717	42
Plant and facilities	22,165,749	42,300,322	34
Other assets	47,657	(85,570)	–
	58,927,576	124,089,362	100

During the quarter Galleon capitalized on the lower natural gas prices to accumulate land at significantly lower prices than observed in the first quarter of 2006. Near the end of Q2 2006, Galleon exceeded its target by having access to over 1 million acres of land of which 93% is located within its core area of the Peace River Arch. Also during the quarter Galleon completed a $25 million acquisition of producing properties within the Dawson area. Drilling success was 91% during the quarter. Galleon drilled 22 (18.5 net) wells and cased 10 light oil wells (7.0 net) and 10 natural gas wells (9.6 net) for production. Plant and facility additions included the completion of a 100% owned and operated 15 MMcf/day natural gas plant in the Dawson area. A further 15 MMcf/d capacity expansion is planned prior to the end of the year. Facility expenditures were also incurred at Puskwa and Eaglesham for two 100% owned and operated 10 MMcf/d gas plants. Both plants are scheduled to begin operations in August.

LIQUIDITY AND CAPITAL RESOURCES

Debt and working capital

	June 30, 2006 $	December 31, 2005 $
Bank debt	**121,625,897**	75,301,382
Working capital deficiency	**26,650,629**	17,374,850
Total net debt	**148,276,526**	92,676,232

Funding of Capital Program

	Q2 2006 $	Q2 2005 $	YTD 2006 $	YTD 2005 $
Issuance of shares, net of costs	**742,060**	54,468,976	**54,228,713**	96,743,847
Funds provided by operations	**22,068,808**	13,781,889	**40,115,937**	21,093,284
Change in bank debt	**61,539,885**	42,053,539	**46,324,515**	19,928,859
Change in cash and working capital	**431,271**	3,068,551	**9,275,782**	(5,008,040)
	84,782,024	113,372,955	**149,944,947**	132,757,950

During the second quarter of 2006, funds from operations of $22.1 million and bank debt were used to fund $84.8 million of acquisition and exploration and development expenditures. For the six months ended June 30, 2006, funds from operations of $40.1 million, net proceeds of $54.2 million from an equity offering, and bank debt were used to fund $150 million of acquisition and exploration and development expenditures.

Subsequent to June 30, 2006 Galleon closed an equity offering for $80,193,750. The proceeds were initially used to reduce outstanding bank debt. The available credit facility will subsequently be drawn upon to fund Galleon's 2006 capital expenditure program. Galleon's capital budget for 2006 is $180 million.

It is expected the remainder of the budget will be financed from funds from operations, the recently completed equity offering and bank debt.

During the quarter Galleon increased its bank facilities to $150 million. At June 30, 2006, the Corporation had an extendible revolving credit facility in place with a Canadian banking syndicate. Collateral for the facilities consists of a demand debenture for $500 million secured by a first floating charge over all of the property and equipment of the Corporation. At June 30, 2006, $121.6 million was drawn on the credit facility. Subsequent to June 30, 2006 outstanding bank debt was reduced by the net proceeds from the equity offering.

SHARE INFORMATION

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

	2006	*2005*(1)
Class A shares outstanding		
Basic	**52,048,377**	47,633,690
Diluted	**56,961,702**	50,439,690
Class B shares outstanding	**922,500**	922,500
Class A shares issuable on conversion of Class B shares(2)	**425,507**	693,609

(1)Restated to reflect a three-for-two Class A share split in June 2006.

(2) Assumes a conversion at the June 30, 2006 closing price of $21.68 per Class A share (June 30, 2005 -$13.30)

At June 30, 2006, the market value of Galleon's class A shares was $1.1 billion based on the June 30, 2006 closing price of $21.68 per share and 52,048,377 class A shares outstanding.

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 over 1 million gross acres, has an inventory of over 300 locations and plans to drill between 130 and 140 wells in 2006 based on a capital program of $180 million.

Highlights

	2nd Qtr 2006	1st Qtr 2006	4th Qtr 2005	3rd Qtr 2005	2nd Qtr 2005	1st Qtr 2005	4th Qtr 2004	3rd Qtr 2004
PRODUCTION								
Light oil (Bbl/d)	**1,753**	1,859	2,271	2,213	1,393	670	329	92
Heavy oil (Bbl/d)	**1,705**	1,580	1,135	1,205	594	206	249	297
Natural Gas (Mcf/d)	**30,014**	30,445	32,212	27,452	21,813	15,511	10,343	8,272
Liquids (Bbl/d)	**100**	93	99	71	21	37	21	13
Boe/d at 6:1 gas	**8,560**	8,606	8,874	8,064	5,643	3,499	2,324	1,781
Total Boe produced	**778,992**	774,578	816,420	741,917	513,535	314,887	213,762	163,812
Daily Boe of production per million Class A shares - basic(1)	**165**	173	186	169	130	96	73	60
PRICES (NET OF TRANSPORTATION)								
Light oil ($/Bbl)	**75.63**	65.66	67.44	73.64	65.35	59.72	51.18	55.69
Heavy oil ($/Bbl)	**42.69**	24.71	29.31	48.19	32.21	26.45	28.98	35.30
Crude oil ($/Bbl)	**59.39**	46.78	54.73	62.54	54.86	51.91	38.49	35.87
Natural Gas ($/Mcf)	**5.97**	7.36	11.16	9.13	6.99	6.51	6.15	5.83
NGLs ($/Bbl)	**65.71**	57.62	58.84	56.64	53.94	44.75	40.36	47.92
PER BOE ($)								
Gross revenues	**46.88**	46.77	63.68	59.99	48.18	43.86	39.13	36.86
Royalties, net of ARTC & GCA	**(4.34)**	(10.18)	(15.01)	(11.69)	(11.11)	(10.08)	(8.33)	(7.79)
Transportation costs	**(1.22)**	(1.43)	(1.48)	(1.64)	(1.37)	(1.51)	(1.76)	(1.59)
Operating costs	**(9.91)**	(9.12)	(7.73)	(6.98)	(5.31)	(5.04)	(5.93)	(5.77)
Net	**31.41**	26.04	39.46	39.68	30.39	27.23	23.11	21.71
Other revenue	–	–	–	–	0.03	0.02	0.04	0.03
G&A	**(1.37)**	(1.50)	(1.82)	(1.58)	(2.01)	(2.38)	(2.93)	(2.96)
Interest - cash	**(1.41)**	(0.95)	(0.91)	(0.90)	(1.09)	(1.33)	(1.25)	(0.18)
Capital and other taxes - cash	**(0.30)**	(0.29)	(0.40)	(0.38)	(0.49)	(0.32)	(0.79)	(0.28)
Funds from operations	**28.33**	23.30	36.33	36.82	26.83	23.22	18.18	18.32

(1)Restated to reflect a three-for-two Class A share split in June 2006.

Highlights

	2nd Qtr 2006	*1st Qtr 2006*	*4th Qtr 2005*	*3rd Qtr 2005*
FINANCIAL ($)				
Gross revenues	**36,516,885**	36,229,632	51,989,353	44,505,716
Royalties, net of ARTC & GCA	**(3,384,750)**	(7,886,057)	(12,254,361)	(8,672,657)
Transportation costs	**(949,880)**	(1,105,752)	(1,205,808)	(1,214,249)
Operating costs	**(7,716,321)**	(7,065,131)	(6,311,089)	(5,178,675)
Other revenue	**–**	573	604	2,926
G&A	**(1,068,189)**	(1,159,615)	(1,488,789)	(1,170,638)
Interest - cash	**(1,097,994)**	(740,017)	(742,346)	(668,167)
Capital and other tax - cash	**(230,943)**	(226,504)	(325,890)	(279,756)
FUNDS FROM OPERATIONS	**22,068,808**	18,047,129	29,661,674	27,324,500
Depletion, depreciation & accretion	**(13,556,324)**	(12,904,167)	(13,471,178)	(12,234,184)
Stock-based compensation	**(2,718,744)**	(1,292,142)	(936,322)	(998,964)
Future tax (expense) recovery	**2,190,808**	(2,110,618)	(5,930,290)	(4,978,896)
EARNINGS	**7,984,548**	1,740,202	9,323,884	9,112,456
Total assets	**477,967,268**	399,269,431	352,618,764	312,523,346
Weighted average outstanding Class A shares-basic[(1)]	**52,003,462**	49,661,598	47,698,056	47,640,620
Funds flow $ per share -basic[(1)]	**0.42**	0.36	0.62	0.57
Earnings $ per share -basic[(1)]	**0.15**	0.04	0.20	0.19
Weighted average outstanding Class A shares-diluted[(1)]	**54,838,259**	52,220,178	50,599,782	50,268,840
Funds flow $ per share - diluted[(1)]	**0.40**	0.35	0.59	0.54
Earnings $ per share - diluted(1)	**0.15**	0.03	0.18	0.18

[(1)]*Restated to reflect a three-for-two Class A share split in June 2006.*

	2nd Qtr 2005	*1st Qtr 2005*	*4th Qtr 2004*	*3rd Qtr 2004*
FINANCIAL ($)				
Gross revenues	24,742,760	13,812,133	8,363,559	6,037,730
Royalties, net of ARTC & GCA	(5,704,783)	(3,173,569)	(1,780,386)	(1,275,588)
Transportation costs	(706,374)	(474,675)	(375,407)	(259,648)
Operating costs	(2,726,825)	(1,588,289)	(1,266,631)	(945,635)
Other revenue	16,619	5,753	8,604	4,708
G&A	(1,030,455)	(748,392)	(626,502)	(484,804)
Interest - cash	(558,040)	(420,289)	(267,156)	(30,245)
Capital tax - cash	(251,013)	(101,277)	(168,166)	(46,190)
FUNDS FROM OPERATIONS	**13,781,889**	7,311,395	3,887,915	3,000,328
Depletion, depreciation & accretion	(9,708,120)	(5,869,527)	(4,310,939)	(2,276,487)
Stock-based compensation	(1,669,417)	(345,181)	(731,797)	(187,289)
Future tax expense	(1,715,040)	(602,039)	96,896	(229,437)
EARNINGS	**689,312**	494,648	(1,057,925)	307,115
Total assets	290,882,760	180,363,456	160,892,258	90,698,030
Weighted average outstanding Class A shares-basic(1)	43,467,068	36,560,286	31,937,706	29,600,667
Funds flow $ per share -basic(1)	0.32	0.20	0.12	0.10
Earnings $ per share -basic(1)	0.02	0.01	(0.03)	0.01
Weighted average outstanding Class A shares-diluted(1)	45,474,116	38,072,111	33,695,414	31,182,182
Funds flow $ per share - diluted(1)	0.30	0.20	0.12	0.10
Earnings $ per share - diluted(1)	0.02	0.01	(0.03)	0.01

(1)Restated to reflect a three-for-two Class A share split in June 2006.

Balance Sheets

(unaudited)

	June 30, 2006 $	December 31, 2005 $
ASSETS		
Current		
Cash	350,449	–
Accounts receivable	19,818,123	23,233,779
Inventory	4,555,947	1,107,847
Deposits and prepaid expenses	1,274,392	960,666
	25,998,911	25,302,292
Goodwill	10,138,976	10,138,976
Property and equipment *(notes 2 and 4)*	441,829,381	317,177,496
	477,967,268	352,618,764
LIABILITIES		
Current		
Accounts payable and accrued liabilities	52,649,540	42,677,142
Bank loan *(note 4)*	121,625,897	75,301,382
	174,275,437	117,978,524
Asset retirement obligation *(note 3)*	12,353,337	11,185,906
Future income taxes *(note 6)*	31,937,981	26,394,082
	218,566,755	155,558,512
Commitments *(note 7)*		
SHAREHOLDERS' EQUITY		
Share capital *(note 5)*	223,786,046	174,463,341
Contributed surplus *(note 5)*	8,048,786	4,755,980
Retained earnings	27,565,681	17,840,931
	259,400,513	197,060,252
	477,967,268	352,618,764

See accompanying notes

Statements of Operations and Retained Earnings (Deficit)

(unaudited)

		Three months ended June 30		Six months ended June 30	
		2006	2005	2006	2005
		$	$	$	$
REVENUE					
Petroleum and natural gas		**36,516,885**	24,742,760	**72,746,517**	38,554,893
Royalties, net of ARTC and GCA		**(3,384,750)**	(5,704,783)	**(11,270,807)**	(8,878,352)
Other income		**–**	16,619	**573**	22,372
		33,132,135	19,054,596	**61,476,283**	29,698,913
EXPENSES					
Operating		**7,716,321**	2,726,825	**14,781,452**	4,315,114
Transportation		**949,880**	706,374	**2,055,632**	1,181,049
General and administration		**1,068,189**	1,030,455	**2,227,803**	1,778,847
Interest		**1,097,994**	558,040	**1,838,011**	978,329
Stock-based compensation *(note 5)*		**2,718,744**	1,669,417	**4,010,886**	2,014,598
Accretion		**152,647**	85,399	**296,614**	137,174
Depletion and depreciation		**13,403,677**	9,622,721	**26,163,877**	15,440,473
		27,107,452	16,399,231	**51,374,275**	25,845,584
Earnings before taxes		**6,024,683**	2,655,365	**10,102,008**	3,853,329
Capital and other taxes		**230,943**	251,013	**457,448**	352,290
Future income taxes (recovery) *(note 6)*		**(2,190,808)**	1,715,040	**(80,190)**	2,317,079
		(1,959,865)	1,966,053	**377,258**	2,669,369
NET EARNINGS		**7,984,548**	689,312	**9,724,750**	1,183,960
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD		**19,581,133**	(1,284,721)	**17,840,931**	(1,779,369)
RETAINED EARNINGS (DEFICIT), END OF PERIOD		**27,565,681**	(595,409)	**27,565,681**	(595,409)
NET EARNINGS PER SHARE *(note 5)*					
Basic		**0.15**	0.02	**0.19**	0.03
Diluted		**0.15**	0.02	**0.18**	0.03
Weighted average Class A shares	– basic	**52,003,462**	43,467,068	**50,838,999**	40,032,756
	– diluted	**54,838,259**	45,474,116	**53,471,081**	42,062,693

See accompanying notes

Statements of Cash Flow

(unaudited)

	Three months ended June 30 2006 $	Three months ended June 30 2005 $	Six months ended June 30 2006 $	Six months ended June 30 2005 $
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings	**7,984,548**	689,312	**9,724,750**	1,183,960
Add items not requiring cash:				
Future income taxes (recovery)	**(2,190,808)**	1,715,040	**(80,190)**	2,317,079
Depletion and depreciation	**13,403,677**	9,622,721	**26,163,877**	15,440,473
Accretion	**152,647**	85,399	**296,614**	137,174
Stock-based compensation	**2,718,744**	1,669,417	**4,010,886**	2,014,598
FUNDS FROM OPERATIONS	**22,068,808**	13,781,889	**40,115,937**	21,093,284
Change in non-cash working capital	**(213,438)**	427,883	**5,838,714**	1,435,891
	21,855,370	14,209,772	**45,954,651**	22,529,175
FINANCING ACTIVITIES				
Issue of common shares	**742,060**	58,070,351	**57,687,275**	103,152,932
Share issue costs	**–**	(3,601,375)	**(3,458,562)**	(6,409,085)
Bank loan	**61,539,885**	42,053,539	**46,324,515**	19,928,859
	62,281,945	96,522,515	**100,553,228**	116,672,706
INVESTING ACTIVITIES				
Additions to oil and gas properties	**(58,927,576)**	(14,912,749)	**(124,089,362)**	(34,247,989)
Acquisition of oil and gas properties	**(25,854,448)**	(98,460,206)	**(25,855,585)**	(98,509,961)
Change in non-cash working capital	**995,158**	2,640,668	**3,787,517**	(6,443,931)
	(83,786,866)	(110,732,287)	**(146,157,430)**	(139,201,881)
CHANGE IN CASH	**350,449**	–	**350,449**	–
CASH, BEGINNING OF PERIOD	**–**		**–**	
CASH, END OF PERIOD	**350,449**	–	**350,449**	–
SUPPLEMENTARY INFORMATION				
Cash interest paid	**1,251,612**	558,040	**1,991,629**	978,329
Cash taxes paid	**538,465**	251,013	**764,969**	352,290

See accompanying notes

Notes to the Interim Consolidated Financial Statements

For the three and sixth month periods ended June 30, 2006 and 2005
(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 the financial statements for the year ended December 31, 2005. These notes do not include all disclosures required in annual financial statements and are incremental to, and should be read in conjunction with, the audited financial statements for the year ended December 31, 2005.

2. PROPERTY AND EQUIPMENT

On June 2, 2006, the Corporation purchased oil and gas properties from a senior oil and gas producer in the Peace River Arch area of Alberta. The cash purchase price was $25.4 million including closing adjustments.

As at June 30, 2006, $74.0 million (June 30, 2005 – $27.2 million) of undeveloped land, seismic, and facilities under construction have been excluded from and $49.8 million (June 30, 2005 – $9.5 million) in future development costs have been added into the full cost pool for depletion purposes. During the three and six months ended June 30, 2006, $146,750 and $246,750 respectively (June 30, 2005 – nil) of exploration salaries have been capitalized.

	June 30 2006 $	*December 31 2005 $*
Petroleum and natural gas properties & equipment	**520,414,166**	369,512,834
Office furniture and equipment	**453,447**	539,017
	520,867,613	370,051,851
Accumulated depletion & depreciation	**(79,038,232)**	(52,874,355)
Net book value	**441,829,381**	317,177,496

3. ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligation results 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 $19.0 million, which will be incurred over the next 15 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.

	June 30 2006 $	*December 31 2005 $*
Balance, beginning of period	**11,185,906**	3,998,345
Accretion expense	**296,614**	362,612
Liabilities incurred	**721,474**	820,689
Liabilities acquired	**339,736**	6,004,260
Settlement of liabilities	**(190,393)**	–
Balance, end of period	**12,353,337**	11,185,906

4. AVAILABLE CREDIT FACILITY

The Corporation has a $150 million extendible revolving term credit facility in place with a bank syndicate. The facility bears interest at rates ranging from the bank's prime rate to prime plus 0.75% per annum 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, 2006. Collateral for the facilities consists of a demand debenture for $500 million secured by a first floating charge over all of the property and equipment of the Corporation. At June 30, 2006, an amount of $121.6 million was drawn against the credit facilities (December 31, 2005 – $75.3 million).

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.

Issued and outstanding	*Number of Shares*	*Amount $*
CLASS A SHARES		
Balance at December 31, 2005 (a)	47,740,326	169,256,097
Issued for cash (b)	3,405,000	55,047,500
Tax effect of flow through shares (c)	–	(6,800,000)
Share issue costs, net of tax of $1,175,912 (b)	–	(2,282,650)
Issued for cash on exercise of stock options	729,501	1,897,715
Transfer from contributed surplus (d)	–	510,102
Balance at March 31, 2006	51,874,827	217,628,764
Issued for cash on exercise of stock options	173,550	742,060
Transfer from contributed surplus (d)	–	207,978
Balance at June 30, 2006	**52,048,377**	**218,578,802**
CLASS B SHARES		
Balance at June 30, 2006 and December 31, 2005	922,500	5,207,244
Total share capital - June 30, 2006	**52,970,877**	**223,786,046**

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 February 14, 2006, the Corporation issued 3,405,000 Class A shares for gross proceeds of $55 million by way of private placement.

c) On May 12, 2005, the Corporation issued 2,400,000 Class A shares on a flow through basis for gross proceeds of $20 million. In January 2006, the Corporation renounced expenditures of $20 million to the shareholders effective December 31, 2005.

d) For the three and six months ended June 30, 2006 the Corporation reclassified stock based compensation recorded in contributed surplus related to share options exercised of $207,978 and $718,080 respectively (three and six months ended June 30, 2005,$73,831 and $106,139 respectively).

Share options

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

	June 30 2006 $	*December 31 2005 $*
Contributed surplus, beginning of period	**4,755,980**	1,129,044
Stock based compensation expense	**4,010,886**	3,949,884
Transfer to share capital	**(718,080)**	(322,948)
Contributed surplus, end of period	**8,048,786**	4,755,980

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 2.00-3.18%; 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 June 30, 2006, 2,912,825 share options have vested and are exercisable at prices ranging from $0.23 to $22.83 per Class A share.

	Number of Shares(1)	*Weighted Average Exercise Price (1) $*
Outstanding, December 31, 2005	4,638,876	5.63
Granted	360,000	15.27
Exercised	(729,501)	(2.60)
Outstanding, March 31, 2006	4,269,375	6.96
Granted	817,500	20.68
Exercised	(173,550)	4.28
Outstanding, June 30, 2006	4,913,325	9.33

(1) Restated to reflect the three-for-two Class A share split in June 2006.

Earnings per share

The Corporation utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase common shares of the Corporation at their average market price for the period. For the three and six months ended June 30, 2006, 232,500 and 697,500 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, 2006 the diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 55,257,895 and 53,940,069 respectively (June 30, 2005 – 46,753,467 and 43,328,747 respectively). The prior year amounts have been restated to reflect the three-for-two Class A share split in June 2006.

6. INCOME TAXES

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

	June 30 2006 $	*December 31 2005 $*
Property and equipment	**36,008,714**	30,285,615
ACRI benefit	**(755,410)**	(832,189)
Share issue costs	**(2,994,775)**	(2,730,817)
Asset retirement obligation	**(320,548)**	(328,527)
Future income tax liability	**31,937,981**	26,394,082

The impact of the reduction in federal and provincial income tax rates in 2006 was a reduction in the future income tax provision otherwise calculated of $4,276,370 for the three months ended June 30, 2006 and $4,524,210 for six months ended June 30, 2006. Exclusive of this one time non-cash adjustment, the Corporation estimates its effective annual income tax rate to be 44%.

7. 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 commencing January 31, 2007. Future minimum payments under this contract are as follows:

Year	*Amount $*
2007	4,554,000
2008	4,554,000

Equipment:

The Corporation has made installment payments of $2.7 million related to equipment which will be delivered in the third of quarter 2006. Additional future commitments for this equipment are $5.5 million.

Minimum Lease Payments:

At June 30, 2006 the Corporation has committed to future minimum payments under operating leases that cover office space as follows:

Year	*Amount $*
2006	244,608
2007	471,544
2008	279,749

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

8. SUBSEQUENT EVENTS

On July 25, 2006 the Corporation closed a public offering of 2,985,000 Class A shares at a price of $20.15 per share and 780,000 flow-through Class A shares at a price of $25.70 per share for total proceeds of $80,193,750. Galleon is obligated to spend $20,046,000 on qualifying exploration expenses prior to December 2007. Galleon will recognize the associated future income tax liability upon renunciation of the exploration expenses.

9. COMPARATIVE FIGURES

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

Corporate Information

Corporate Office

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

tel: 403.261.6012
fax: 403.262.5561

www.galleonenergy.com

Board of Directors

John A. Brussa [2, 3]

Glenn R. Carley, Executive Chairman [2]

Fred C. Coles [1, 2]

William L. Cooke [1, 3]

Brad R. 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 Branches
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

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GALLEON
ENERGY INC.

www.galleonenergy.com