

**FORM 51-102F3**  
**MATERIAL CHANGE REPORT**

**Item 1. Name and Address of Company**

Rally Energy Corp. (“Rally” or the “Company”)  
Suite 400, 444 - 5th Avenue SW  
Calgary, AB T2P 2T8  
Canada

**Item 2. Date of Material Change**

August 1, 2007

**Item 3. News Release**

A news release was issued on August 1, 2007 through the services of Marketwire.

**Item 4. Summary of Material Change**

Rally Energy Corp. (“**Rally**”) announced today that it has entered into an Arrangement Agreement whereby Logria Corporation (the “**Purchaser**”), a subsidiary of National Petroleum Company S.A.E. (“**NPC**”) and an affiliate of Citadel Capital Company (“**Citadel Capital**”), will acquire Rally in a transaction valued at approximately Cdn \$898 million. Under the terms of the Arrangement Agreement, the Purchaser will acquire all of the issued and outstanding common shares of Rally at a price of Cdn \$7.30 per share in cash and all of Rally’s outstanding in-the-money options for their in-the-money value pursuant to a plan of arrangement (the “**Transaction**”). Rally does not currently have any outstanding debt. The per share price available under the Transaction represents a 15% premium over the closing price of the Rally shares on the Toronto Stock Exchange (“**TSX**”) on August 1, 2007 and an 11% premium over the volume weighted average price of the Rally shares on the TSX over the last thirty trading days.

**Item 5. Full Description of Material Change**

Rally announced today that it has entered into an Arrangement Agreement whereby the Purchaser, a subsidiary of NPC and an affiliate of Citadel Capital will acquire Rally in a transaction valued at approximately Cdn \$898 million. Under the terms of the Arrangement Agreement, the Purchaser will acquire all of the issued and outstanding common shares of Rally at a price of Cdn \$7.30 per share in cash and all of Rally’s outstanding in-the-money options for their in-the-money value pursuant to a plan of arrangement. Rally does not currently have any outstanding debt. The per share price available under the Transaction represents a 15% premium over the closing price of the Rally shares on the TSX on August 1, 2007 and an 11% premium over the volume weighted average price of the Rally shares on the TSX over the last thirty trading days.

The Board of Directors of Rally formed a Special Committee of independent directors to engage in a review of strategic alternatives and to conduct discussions with interested parties. The terms of the Arrangement Agreement have been reviewed and approved by the Special Committee and have been unanimously approved by the Board of Directors of Rally. Each director and senior officer of Rally has indicated that they intend to vote all Rally securities beneficially owned or controlled by them in

favour of the Transaction, subject to the terms and conditions of the support agreements to be entered into in due course. The directors and senior officers of Rally beneficially own or control approximately 10% of the fully diluted outstanding shares of Rally.

Tristone Capital Inc., acting as financial advisor to Rally, has provided an opinion that the consideration to be received by the Rally shareholders in connection with the Transaction is fair, from a financial point of view, to Rally shareholders.

In connection with the Transaction, an NPC affiliate has entered into an acquisition financing facility with Citi as mandated lead arranger and lender in the amount of US \$450 million. Citi has also acted as financial advisor to Citadel Capital and NPC.

The Transaction is to be carried out by way of a statutory plan of arrangement. It is anticipated that the Transaction will have to be approved by 66 2/3% of the votes cast by Rally's securityholders at a special meeting of securityholders to be held in mid-September. Closing is subject to certain other conditions, including court approval.

The Arrangement Agreement includes customary non-solicitation covenants by Rally but provides Rally with the ability to respond to unsolicited proposals considered superior to the Transaction in accordance with the terms of the Arrangement Agreement. In the event a superior proposal is accepted, Rally will be required to pay a termination fee of Cdn \$24 million to the Purchaser. The Purchaser has the right to match a superior proposal.

Alternatively, the agreement also provides that Rally will reimburse the Purchaser for its "out of pocket" expenses in certain circumstances, including if Rally securityholders do not approve the Transaction, to a maximum Cdn \$6 million and that the Purchaser will reimburse Rally for its "out of pocket" expenses in certain circumstances to a maximum of Cdn \$2 million.

In addition to the termination fee, in certain circumstances, Rally has also agreed to indemnify the Purchaser for certain costs incurred in connection with the Transaction. The indemnity applies only to the extent that such costs exceed Cdn \$24 million, to a maximum indemnity of Cdn \$12 million.

The Purchaser has agreed to pay Rally a guarantee fee of Cdn \$24 million should the Transaction not close in certain circumstances.

The proposed Transaction is expected to close as soon as practicable after receipt of securityholder and court approvals. A proxy circular will be prepared and mailed to securityholders in August providing securityholders with important information about the Transaction. Once mailed, the proxy circular will be available at the SEDAR website at [www.sedar.com](http://www.sedar.com). All securityholders are urged to read the proxy circular once it is available.

NPC has presented a retention proposal to Rally and is working with Rally to ensure retention of its employees

**The foregoing description of the Arrangement Agreement and related matters is qualified in its entirety by reference to the terms and conditions of the Arrangement Agreement, which is attached hereto as Schedule "A" and forms a part of this document.**

### **Information Concerning Rally**

Based in Calgary, Alberta, Canada, Rally is an oil and gas exploration, development and production company. Rally's primary area of operations is in Egypt, where it has a 100% operating interest in the Issaran Oilfield, a significant heavy oil development opportunity with strong growth potential. In Pakistan, Rally holds a 30% interest in the Safed Koh Block, where it is participating in the development of a large natural gas/condensate discovery.

**Item 6. Reliance on subsection 7.1(2) or (3) of National Instrument 51-102**

Not applicable

**Item 7. Omitted Information**

None.

**Item 8. Executive Officer**

Abby Badwi, President & Chief Executive Officer and Douglas C. Urch, Vice President, Finance & Chief Financial Officer at (403) 538-0000 (TEL) or (403) 538-3705 (FAX) are knowledgeable about the material change and the Report.

**Item 9. Date of Report**

August 1, 2007

*Except for statements of historical fact, all statements in this material change report - including, without limitation, statements regarding the Transaction and future plans and objectives of Rally - are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from anticipated results include risks and uncertainties most of which are beyond Rally's control such as: risks relating to the Transaction; estimates of reserves and recoveries; production rates and operating cost assumptions; development risks and costs; the risk of commodity price and currency fluctuations; general economic and industry conditions; political and regulatory risks; environmental risks; stock market volatility; access to sufficient capital from internal and external sources; and other risks and uncertainties as disclosed under the heading "Risk Factors" and elsewhere in Rally's documents filed from time-to-time with the Toronto Stock Exchange and other regulatory authorities. The reader is cautioned that assumptions used in the preparation of such information, while considered reasonable by Rally at the time, may prove to be incorrect. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

**SCHEDULE "A"**

**EXECUTION COPY**

**ARRANGEMENT AGREEMENT**

**Between**

**LOGRIA CORPORATION**

**- and -**

**CITADEL CAPITAL COMPANY**

**- and -**

**NATIONAL PETROLEUM COMPANY S.A.E.**

**- and -**

**RALLY ENERGY CORP.**

**Dated August 1, 2007**

## ARRANGEMENT AGREEMENT

**THIS ARRANGEMENT AGREEMENT** made the 1st day of August, 2007.

**BETWEEN:**

**LOGRIA CORPORATION,**

a corporation existing under the laws of the British Virgin Islands (“**Purchaser**”),

- and –

**CITADEL CAPITAL COMPANY,**

a joint stock company existing under the laws of Egypt (“**Citadel**”),

- and –

**NATIONAL PETROLEUM COMPANY S.A.E.,**

a corporation existing under the laws of Egypt (“**NPC**”),

- and –

**RALLY ENERGY CORP.,**

a corporation existing under the laws of the Province of Ontario (“**Rally**”).

(Purchaser and Rally are collectively referred to herein as the “**Parties**” and each of them is a “**Party**”).

**RECITALS:**

- A. Rally and Purchaser wish to propose an arrangement involving Rally, one or more subsidiaries or other affiliates of Purchaser and the shareholders and optionholders of Rally.
- B. The Parties intend to carry out the transactions contemplated herein by way of an arrangement under the provisions of the *Business Corporations Act* (Ontario).
- C. Citadel and NPC are parties to this Arrangement Agreement (the “**Agreement**”) solely for the purpose of making the representations, warranties and covenants contained in Article 9.
- D. In furtherance of the foregoing, the parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to such arrangement.

**NOW THEREFORE**, the Parties agree as follows:

**ARTICLE 1**  
**DEFINITIONS AND PRINCIPLES OF INTERPRETATION**

**1.1 Definitions**

In this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the following meanings, respectively:

“**2007 Capital and Operating Plan**” and “**2008 Capital and Operating Plan**” have the respective meanings ascribed to them in Section 5.2(k)(i) hereof;

“**Acquiror**” means 2141997 Ontario Inc. a corporation existing under the laws of the Province of Ontario as an indirect wholly-owned subsidiary of Purchaser for purposes of participating in the Arrangement;

“**Acquisition Proposal**” means any offer or proposal to initiate, undertake or effect any of the following: (i) a merger, amalgamation, consolidation, recapitalization, arrangement, reorganization, business combination or take-over bid, (ii) a sale of assets (or any lease, long-term supply agreement or other arrangement having a similar economic effect as a sale) where the value of the subject assets exceeds 20% of the book value of the assets of Rally (as reflected on the Rally Financial Statements), or (iii) a sale of 20% or more of the issued and outstanding shares or equity of Rally or rights or interests therein or thereto, or similar transactions, or series of transactions, involving Rally or any of its Subsidiaries, or a proposal or public announcement of an intention to do any of (i), (ii) or (iii), excluding the Arrangement and the transactions permitted pursuant to this Agreement;

“**Act**” means the *Securities Act* (Alberta), as in effect on the date hereof;

“**affiliate**” and “**associate**” have the respective meanings ascribed to them under the Act;

“**Agreement**” has the meaning ascribed thereto in the Recitals;

“**Announced Acquisition Proposal**” has the meaning ascribed thereto in Section 5.6(a)(ii);

“**Arrangement**” means the arrangement involving Purchaser, Acquiror, Rally and its Securityholders under the provisions of section 182 of the OBCA, on the terms and subject to the conditions set forth herein and in the Plan of Arrangement;

“**Arrangement Resolution**” means the special resolution approving the Plan of Arrangement to be considered by the Securityholders at the Rally Meeting;

“**Articles of Arrangement**” means the articles of arrangement of Rally in respect of the Arrangement that are required by the OBCA to be sent to the Director after the Final Order is made in order to give effect to the Arrangement;

“**Break Fee**” has the meaning ascribed thereto in Section 8.2;

“**business day**” means any day on which commercial deposit taking banks are generally open for ordinary banking business in Calgary, Alberta, Cairo, Egypt and London, England excepting Fridays, Saturdays, Sundays or a day generally observed as a holiday in such locations under applicable Laws;

“**Canadian GAAP**” means generally accepted accounting principles as defined by the Accounting Standards Board of the Canadian Institute of Chartered Accounts in the Handbook of the Canadian Institute of Chartered Accounts as they exist on the date of this Agreement;

“**Canadian Securities Laws**” means all applicable securities laws in each of the provinces in Canada in which Rally is a reporting issuer and the respective rules, regulations, instruments, blanket orders and blanket rulings under such laws together with applicable published policies, policy statements and notices;

“**Certificate of Arrangement**” means the certificate giving effect to the Arrangement, issued by the Director pursuant to subsection 183(2) of the OBCA after the Articles of Arrangement have been filed;

“**Confidentiality Agreement**” means the confidentiality agreement between Purchaser and Rally dated May 4, 2007 regarding, among other things, the disclosure of confidential information with respect to Rally and its Subsidiaries;

“**Court**” means the Superior Court of Justice (Ontario);

“**Delivery Time**” has the meaning ascribed thereto in Section 1.7;

“**Director**” means the Director appointed pursuant to section 278 of the OBCA;

“**Dissent Rights**” means the rights of dissent exercisable by registered holders of Rally Shares in respect of the Arrangement provided for at Article 3 of the Plan of Arrangement;

“**Effective Date**” means the date shown on the Certificate of Arrangement issued in connection with the Arrangement;

“**Effective Time**” means the first moment in time in Calgary, Alberta on the Effective Date;

“**Encumbrance**” includes, without limitation, any mortgage, pledge, assignment, charge, lien, claim, security interest, adverse interest in property, option, right of first refusal or offer, adverse claim, other third party interest or encumbrance of any kind, whether contingent or absolute, and any agreement, option, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing;

“**Environmental Approvals**” means all permits, certificates, licences, authorizations, consents, instructions, registrations, directions or approvals issued or required by Governmental Entities pursuant to Environmental Laws;

“**Environmental Laws**” means all applicable statutes, regulations, ordinances, by-laws and codes and all international treaties and agreements (whether federal, provincial, state or municipal) relating to pollution or the protection and preservation of the environment, occupational health and safety, product safety, product liability or Hazardous Substances, including, without limitation, laws relating to Releases or threatened Releases of Hazardous Substances into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, Release, transport or handling of Hazardous Substances and all laws and regulations with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Substances, and all laws relating to endangered or threatened species of fish, wildlife and plants and the management or use of natural resources;

“**Escrow Agreement**” means the escrow agreement dated as of the date hereof among Rally, Purchaser and McCarthy Tétrault LLP, in its capacity as escrow agent under such agreement;

“**Facility**” has the meaning ascribed thereto in Section 5.3;

“**Fairness Opinion**” means the opinion for which Rally has engaged Tristone as financial advisor to provide in connection with the Transaction;

“**Final Order**” means the order of the Court approving the Arrangement, as such order may be amended at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed on appeal;

“**Governmental Entity**” means any applicable (a) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign, (b) subdivision, agent, commission, board, or authority of any of the foregoing, (c) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing, including the Securities Authorities, or (d) self-regulatory organization or stock exchange, including, without limitation, the TSX;

“**GPC**” means The General Petroleum Company, a party to the Issaran PSA;

“**Guarantee Fee**” has the meaning ascribed thereto in Section 2.6(b);

“**Hazardous Substance**” means any pollutant, contaminant, waste of any nature, hazardous substance, hazardous material, toxic substance, dangerous substance or dangerous good as defined, judicially interpreted or identified in any Environmental Law, including any petroleum product or byproduct, solvent, flammable or explosive material, radioactive material, asbestos, lead paint, polychlorinated biphenyls (or PCBs), dioxins, dibenzofurans, heavy metals, radon gas, mould spores or mycotoxins;

“**IFC**” means the International Finance Corporation;

“**Intellectual Property**” has the meaning ascribed thereto in Section 3.1(v);

“**Interim Order**” means the interim order of the Court, as the same may be amended, containing declarations and directions in respect of Rally under the OBCA with respect to the Arrangement and the Rally Meeting;

“**Issaran PSA**” means the Petroleum Services Agreement dated May 6, 1998 between GPC and SPEL;

“**Laws**” means all laws, by-laws, rules, regulations, orders, rulings, ordinances, protocols, codes, guidelines, notices, directions and judgments of any Governmental Entity, including applicable corporate and securities laws and the rules and regulations of the TSX;

“**material adverse change**” or “**material adverse effect**” in respect of Rally means any change, effect, event, occurrence, circumstance or state of facts that, individually or in the aggregate, is, or could reasonably be expected to be, material and adverse to the business, operations or financial condition, assets, liabilities (contingent or otherwise) or prospects of Rally and the Rally Subsidiaries taken as a whole or that would prevent or significantly impede the completion of the Transaction, other than any change, effect, event, occurrence, circumstance or state of facts relating to:

- (a) a matter that has been Publicly Disclosed by Rally or otherwise disclosed in writing to Purchaser prior to the Delivery Time;
- (b) the oil and gas industry as a whole;
- (c) general economic, financial, currency exchange, securities or commodity market conditions in Canada or Pakistan;
- (d) any change in the market price of crude oil, natural gas or related hydrocarbons; and
- (e) any action taken by Rally with the prior written consent of Purchaser;

“**Material Contacts**” has the meaning ascribed thereto in Section 3.1(u);

“**material fact**” means a fact that would reasonably be expected to have a significant effect on the market price or value of the Rally Shares;

“**Misrepresentation**” means an untrue statement of a material fact, an omission to state a material fact required to be stated or an omission to state a material fact that is necessary to make a statement not misleading in light of the circumstances in which it was made;

“**Money Laundering Laws**” has the meaning ascribed thereto in Section 3.1(w);

“**Non-Completion Fee**” has the meaning ascribed thereto in Section 8.3(d);

“**Notice Period**” has the meaning ascribed thereto in Section 5.6(a)(ii)(A);

“**OBCA**” means the *Business Corporations Act* (Ontario), R.S.O. 1990, c. B-16, as amended;

“**Optionholder**” means a registered holder of Rally Options;

“**Parties**” has the meaning ascribed thereto in the Recitals;

“**Permits**” has the meaning ascribed thereto in Section 3.1(t);

“**person**” means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Entity, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative;

“**Physical Data Room**” means the physical data room established by Rally in connection with the Transaction at Rally’s Calgary offices;

“**Plan of Arrangement**” means the plan of arrangement that is being proposed by Rally substantially in the form and content of Schedule “A” annexed hereto and any amendment or variation thereto made in accordance with Article 5 of the Plan of Arrangement, Section 7.1 hereof or upon the direction of the Court in the Final Order;

“**Proposed Agreement**” has the meaning ascribed thereto in Section 5.6(a)(i);

“**Proxy Circular**” means the management information circular to be prepared by Rally for the Rally Meeting in accordance with Section 5.2(a)(i);

“**Publicly Disclosed by Rally**” means information disclosed by Rally in a public filing made with a Securities Authority subsequent to January 1, 2007 and prior to the date of this Agreement that has been filed on SEDAR and is accessible to the public on such system including without limitation, the Rally Financial Statements;

“**Rally Board**” means the board of directors of Rally;

“**Rally Disclosure Letter**” has the meaning ascribed thereto in Section 1.7;

“**Rally Financial Statements**” means the audited consolidated balance sheets and related consolidated statements of income and deficit and cash flow of Rally as at and for the fiscal years ending December 31, 2006 and 2005 and the notes thereto and auditor’s report thereon and the unaudited consolidated balance sheets and consolidated statements of earnings and retained earnings and consolidated statements of cash flow of Rally as at and for the three-month period ended March 31, 2007 and 2006 and the notes thereto;

“**Rally Meeting**” means the special meeting of Securityholders to be called and held in accordance with the Interim Order for the purpose of considering the Arrangement Resolution and any adjournments or postponements thereof;

“**Rally Options**” means the stock options of Rally outstanding under the Rally Stock Option Plan;

“**Rally SEDAR Documents**” has the meaning ascribed thereto in Section 3.1(s);

“**Rally Shares**” means the common shares in the capital of Rally and includes any common shares of Rally issued after the date hereof upon the due exercise of outstanding Rally Options;

“**Rally Stock Option Plan**” means the stock option plan of Rally dated April 27, 2007;

“**Release**” means any release, spill, emission, discharge, leaking, pumping, dumping, escape, injection, deposit, disposal, dispersal, leaching or migration into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater, and surface or subsurface strata) or into or out of any property, including the movement of Hazardous Substances through or in the air, soil, surface water, groundwater or property;

“**Relevant Foreign Jurisdiction**” means the British Virgin Islands, Egypt and Pakistan;

“**Representatives**” has the meaning ascribed thereto in Section 5.7;

“**RESK**” means Rally Energy Safed Koh Ltd., a corporation incorporated under the laws of the British Virgin Islands;

“**Royalty Interest**” has the meaning ascribed thereto in Section 3.1(r)(ii)(A);

“**Securities Authorities**” means the appropriate securities commission or similar regulatory authority in each of the provinces of Canada in which Rally is a reporting issuer;

“**Securityholders**” means, collectively the Shareholders and the Optionholders;

“**Share Consideration**” means, in respect of each Rally Share, the amount of \$7.30 in cash;

“**Shareholders**” means the registered holders of Rally Shares;

“**SPEL**” means Scimitar Production Egypt Ltd., a corporation incorporated under the laws of the British Virgin Islands;

“**Standstill Parties**” means the persons that are subject to confidentiality obligations, standstill obligations or similar obligations in respect of Rally or its Subsidiaries;

“**Subsidiary**” means, with respect to a specified body corporate: (a) any body corporate of which the specified body corporate is entitled to elect a majority of the board of directors thereof; or (b) any body corporate, partnership, joint venture or other entity over which it exercises direction or control or which is in a like relation to such a body corporate,

excluding any body corporate in respect of which such direction or control is not exercised by the specified body corporate as a result of existing contracts, agreements and commitments;

**“Superior Proposal”** means any *bona fide* written Acquisition Proposal made on an unsolicited basis after the date hereof by a third party (other than Purchaser or its affiliates), directly or indirectly, to acquire assets representing 20% or more of the assets of Rally or its Subsidiaries by reference to their book value (as reflected on the Rally Financial Statements) or more than 20% of the issued and outstanding Rally Shares or more than 20% of the issued and outstanding shares of any Subsidiary, or any other arrangement having a similar economic effect as any of the foregoing, that in the good faith determination of the Rally Board (after consultation with its financial advisors and outside legal counsel):

- (a) is not subject to any due diligence condition and is reasonably capable of being completed without undue delay, taking into account all relevant legal, financial, regulatory and other aspects of such proposal and the party making such proposal;
- (b) would, if consummated in accordance with its terms, result in a transaction more favourable to Shareholders from a financial point of view than the transactions contemplated by this Agreement; and
- (c) for which financing, to the extent required, is then committed on terms no less favourable in the aggregate (from the perspective of Rally) than the financing that Purchaser has put in place in connection with the Transaction;

**“Support Agreement”** means the agreement substantially in the form and content of Schedule “B” annexed hereto to be entered into with Purchaser by each member of the Rally Board and each senior officer of Rally as soon as practicable following the execution of this Agreement;

**“Tax”** and **“Taxes”** means all taxes, assessments, charges, dues, duties, rates, fees imposts, levies and similar charges of any kind lawfully levied, assessed or imposed by any Governmental Entity, including all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all capital taxes, gross receipts taxes, environmental taxes and charges, sales taxes, use taxes, *ad volorem* taxes, value added taxes, subsoil use or extraction taxes and ownership fees, transfer taxes (including, without limitation, taxes relating to the transfer of interests in real property or entities holding interests therein), franchise taxes, licence taxes, withholding taxes, health taxes, payroll taxes, employment taxes, Canada or Québec Pension Plan premiums, excise, severance, social security, workers’ compensation, employment insurance or compensation taxes, mandatory pension and other social fund taxes or premiums, stamp taxes, occupation taxes, premium taxes, property taxes, windfall profits taxes, alternative or add-on minimum taxes, goods and services tax, harmonized sales tax, custom duties or other taxes, fees, imports, assessments or charges, or any kind whatsoever, together with any interest and any penalties or additional amounts imposed by any taxing authority (domestic or foreign) on such entity,

and any interest, penalties, additional taxes and additions to tax imposed with respect to the foregoing;

“**Tax Act**” means the *Income Tax Act* (Canada);

“**Third Party Consents**” in respect of or in contemplation of the Transaction means all consents, approvals and waivers that are required under, or are necessary to ensure that, the Transaction, or the consummation thereof, does not result in a violation or breach of, or give rise to any termination or rights of first refusal or other buy-sell rights under, any contract, agreement, licence, franchise or permit to which Rally or any of its Subsidiaries is bound or is subject to or is the beneficiary;

“**Transaction**” means the Arrangement and the other transactions contemplated herein and in the Plan of Arrangement;

“**Tristone**” means Tristone Capital Inc.;

“**TSX**” means the Toronto Stock Exchange; and

“**Virtual Data Room**” means the electronic data room established by Rally in connection with the Transaction and accessible at <ftp://mail.rallyenergy.com>.

## 1.2 Certain Rules of Interpretation

In this Agreement:

- (a) Consent - Whenever a provision of this Agreement requires an approval or consent and such approval or consent is not delivered within the applicable time limit, then, unless otherwise specified, the Party whose consent or approval is required shall be conclusively deemed to have withheld its approval or consent.
- (b) Currency - Unless otherwise specified, all references to money amounts are to lawful currency of Canada.
- (c) Headings - Headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement.
- (d) Including - Where the word “including” or “includes” is used in this Agreement, it means “including (or includes) without limitation”.
- (e) No Strict Construction - The language used in this Agreement is the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against any Party.
- (f) Number and Gender - Unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

- (g) Severability - If, in any jurisdiction, any provision of this Agreement or its application to any Party or circumstance is restricted, prohibited or unenforceable, such provision shall, as to such jurisdiction, be ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other Parties or circumstances.
- (h) Statutory References - A reference to a statute includes all rules and regulations made pursuant to such statute and, unless otherwise specified, the provisions of any statute or regulation or rule which amends, supplements or supersedes any such statute or any such regulation or rule.
- (i) Time - Time is of the essence in the performance of the Parties' respective obligations.
- (j) Time Periods - Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next business day following if the last day of the period is not a business day.
- (k) Subsidiaries - To the extent any representations, warranties, covenants or agreements contained herein relate, directly or indirectly, to a Subsidiary of any Party, each such provision shall be construed as a covenant by such Party to cause (to the fullest extent to which it is legally capable) such Subsidiary to perform the required action.

### **1.3 Accounting Matters**

Unless otherwise stated, all accounting terms used in this Agreement in respect of Rally shall have the meanings attributable thereto under Canadian GAAP and all determinations of an accounting nature in respect of Rally or any of its Subsidiaries required to be made shall be made in a manner consistent with Canadian GAAP and on a basis consistent with the Rally Financial Statements.

### **1.4 Knowledge**

Any reference to the knowledge of Rally shall mean, unless otherwise specified, to the best of the knowledge, information and belief of Rally's senior officers (being Messrs. Badwi, McMurtrie and Urch) after reviewing all relevant records and making reasonable inquiries regarding the relevant matter.

### **1.5 Entire Agreement**

This Agreement, the Confidentiality Agreement and the Escrow Agreement constitute the entire agreement between the Parties, Citadel and NPC and cancel and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, between the

Parties, Citadel and NPC with respect to the subject matter hereof. There are no conditions, covenants, agreements, representations, warranties or other provisions, whether oral or written, express or implied, collateral, statutory or otherwise, relating to the subject matter hereof other than those contained in this Agreement, the Confidentiality Agreement or in the Escrow Agreement.

## **1.6 Material**

The terms “material” and “materially” shall, when used in this Agreement, be construed, measured or assessed on the basis of whether the matter would materially affect a Party and its Subsidiaries taken as a whole or would prevent or significantly impede the completion of the Transaction.

## **1.7 Disclosure in Writing**

The phrases “disclosed in writing”, “except as previously disclosed in writing” and similar expressions used in this Agreement shall be construed for purposes of this Agreement as referring to (i) the contents of a disclosure letter prepared by Rally and delivered (the time of actual delivery referred to herein as the “**Delivery Time**”) in a form and with contents that are acceptable to Purchaser prior to the execution and delivery of this Agreement (the “**Rally Disclosure Letter**”) and (ii) information contained in the Physical Data Room and the Virtual Data Room as of the Delivery Time (which information is itemized in Section 1.7 of the Rally Disclosure Letter).

## **1.8 Schedules**

The schedules to this Agreement, as listed below, are an integral part of this Agreement:

<b><u>Schedule</u></b>	<b><u>Description</u></b>
“A”	Plan of Arrangement
“B”	Support Agreement

## **ARTICLE 2 THE ARRANGEMENT**

### **2.1 Interim Order**

As soon as reasonably practicable following the execution of this Agreement, Rally shall apply to the Court in a manner acceptable to Purchaser, acting reasonably, pursuant to section 182 of the OBCA and, in co-operation with Purchaser and Acquiror, prepare, file and diligently pursue an application for the Interim Order providing, among other things:

- (a) for the class of persons to whom notice is to be provided in respect of the Arrangement and the Rally Meeting and for the manner in which such notice is to be provided;

- (b) that each Rally Option shall be entitled to one vote at the Rally Meeting and that in this regard, the Optionholders shall vote together with Shareholders, and not as a separate class;
- (c) that the requisite approval for the Arrangement Resolution shall be two-thirds of the votes cast on the Arrangement Resolution by:
  - (i) Shareholders present in person or represented by proxy at the Rally Meeting; and
  - (ii) Securityholders present in person or represented by proxy at the Rally Meeting voting together;
- (d) that, in all other respects, the terms, restrictions and conditions of Rally's articles and by-laws, including quorum requirements and all other matters, shall apply in respect of the Rally Meeting;
- (e) for the grant of the Dissent Rights; and
- (f) for the notice requirements with respect to the presentation of the application to the Court for the Final Order.

## **2.2 Final Order**

If the Interim Order is obtained and the Arrangement Resolution is passed at the Rally Meeting as provided for in the Interim Order, Rally shall as soon as reasonably practicable thereafter take all steps necessary or desirable to submit the Arrangement to the Court and diligently pursue an application for the Final Order pursuant to section 182 of the OBCA.

## **2.3 Articles of Arrangement and Effective Date**

Rally will carry out the terms of each of the Interim Order and the Final Order as soon as is reasonably practicable after the issuance of the Interim Order and Final Order, respectively, and subject to the satisfaction or waiver of the conditions set forth in Article 6 and Purchaser having deposited cash in immediately available funds (at Calgary) with the depositary for the Arrangement in an amount sufficient to pay all cash consideration payable by Purchaser to Securityholders under Sections 2(b) and 2(c) of the Plan of Arrangement, Rally shall send the Articles of Arrangement to the Director pursuant to subsection 183(1) of the OBCA to give effect to the Arrangement and implement the Plan of Arrangement. The Arrangement shall become effective at the Effective Time whereupon the steps comprising the Plan of Arrangement will be deemed to occur in the order and in the manner set out therein.

## **2.4 Rally Approval**

- (a) Rally represents to Purchaser that as of the date hereof the Rally Board:

- (i) has unanimously determined that the Arrangement is fair to the Shareholders and the Optionholders and is in the best interests of Rally and the Shareholders;
- (ii) has unanimously resolved to recommend in the Proxy Circular that the Shareholders and the Optionholders vote in favour of the Arrangement;
- (iii) has been advised by each member of the Rally Board and each senior officer of Rally (being Messrs. Badwi, Coady, Hibberd, Knoll, Mackenzie, Palmer, Tolley, Turnbull, Urch and McMurtrie) that each such person intends to vote all of the Rally Shares and Rally Options held by them in favour of the Arrangement Resolution and will so represent in the Proxy Circular and that each director and senior officer will, as soon as practicable following the execution of this Agreement, in good faith, negotiate and enter into a Support Agreement confirming such intention, substantially in the form and content of Schedule “B” annexed hereto; and
- (iv) Rally represents as of the date hereof that it has received a verbal Fairness Opinion of Tristone, given on the date hereof, to the effect that, as of such date, the Share Consideration is fair, from a financial point of view, to the Shareholders.

## **2.5 Options**

Each Rally Option that is in the money will, as part of the Arrangement, be acquired by Acquiror at its in-the-money value and each other Rally Option will be cancelled, in each case, in the manner specified in the Plan of Arrangement.

## **2.6 Guarantee of Purchaser**

- (a) Purchaser hereby unconditionally and irrevocably guarantees the due and punctual performance by Acquiror of each and every obligation of Acquiror arising under this Agreement and the Arrangement, including, without limitation, the payment of the Share Consideration pursuant to the Arrangement.
- (b) Concurrently with the execution of this Agreement or as soon as practicable thereafter, Purchaser will deposit with the escrow agent under the Escrow Agreement the amount of \$24,000,000 (the “**Guarantee Fee**”), to secure the performance of its obligations under this Agreement, all in accordance with the terms and conditions set out in the Escrow Agreement.

## **ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF RALLY**

### **3.1 Representations and Warranties**

Rally hereby represents and warrants to Purchaser and Acquiror each of the matters set forth in this Section 3.1, and acknowledges that each of Purchaser and Acquiror are relying upon

these representations and warranties in connection with the entering into of this Agreement. The Parties acknowledge and agree that each of the representations and warranties set forth in this Section 3.1 (other than Section 3.1(b) – Capitalization, Section 3.1(c) – Authority, Section 3.1(h) – Absence of Changes, Section 3.1(i) – Employment and Consulting Agreements, Section 3.1(p) – Tax Matters, Section 3.1(r) – Properties, Section 3.1(t) – Licences, Section 3.1(hh) – U.S. Securities Law Matters, Section 3.1(jj) – Reserve Report and Section 3.1(kk) – Interests in Production) are qualified by the information that has been Publicly Disclosed by Rally.

(a) ***Organization.***

- (i) Each of Rally and each of its Subsidiaries has been duly incorporated or formed under all applicable Laws, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as currently owned and conducted. All of the outstanding shares of capital stock and other ownership interests of each of Rally's Subsidiaries are validly issued, fully paid and non-assessable and all such shares and other ownership interests are owned directly or indirectly by Rally free and clear of all Encumbrances and there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of Rally's Subsidiaries except, in each case, pursuant to the restrictions on transfer contained in constating or foundation documents, or pursuant to existing financing arrangements involving the Subsidiaries, each of which is set forth in Section 3.1(a)(i) of the Rally Disclosure Letter.
- (ii) Rally has disclosed in Section 3.1(a)(ii) of the Rally Disclosure Letter, the names and jurisdictions of incorporation or organization of each of its Subsidiaries and also whether each Subsidiary is resident in Canada or a Relevant Foreign Jurisdiction, for purposes of the Tax Act and any relevant income tax treaty or convention. Each of Rally and each of its Subsidiaries is duly qualified or licensed to do business and is in good standing in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except where the failure to be so qualified, licensed or in good standing would not have a material adverse effect on Rally and its Subsidiaries taken as a whole.
- (iii) Except as described in Section 3.1(a)(iii) of the Rally Disclosure Letter, Rally is in physical possession of the share certificates of each of its Subsidiaries.

- (b) ***Capitalization.*** The authorized capital of Rally consists of an unlimited number of Rally Shares and an unlimited number of preferred shares, issuable in series. As of the date hereof, there are 115,623,760 Rally Shares and no preferred shares outstanding. As of the date hereof, there are 7,361,734 Rally Options outstanding, providing for the issuance of an aggregate of 7,361,734 Rally Shares upon the

exercise thereof. Except as described in the immediately preceding sentence, there are no options, warrants, purchase rights, subscription rights, conversion privileges, exchange rights or pre-emptive rights or other rights, agreements, arrangements or other commitments of a similar nature to which Rally or a Subsidiary is bound relating to the issued or unissued share capital of Rally or such Subsidiary or obligating Rally or any Subsidiary to issue any shares of, or other equity interest in, Rally or any Subsidiary or securities or obligations of any kind convertible into or exchangeable for any shares of Rally or any Subsidiary, nor are there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of Rally or any Subsidiary. All outstanding Rally Shares have been duly authorized and are validly issued and outstanding as fully paid and non-assessable shares, free of pre-emptive rights. There are no outstanding bonds, debentures or other evidences of indebtedness of Rally or any Subsidiary having the right to vote (or that are convertible for, exercisable into or exchangeable for securities having the right to vote) on any matter on which the holders of the Rally Shares may vote. There are no outstanding contractual obligations of Rally or any Subsidiary to repurchase, redeem or otherwise acquire any outstanding Rally Shares or any shares of any Subsidiary or any agreements or other arrangements regarding the voting or disposition of any outstanding Rally Shares or shares of any Subsidiary.

- (c) **Authority.** Rally has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by Rally and the consummation by Rally of the Transaction have been duly authorized by the Rally Board and no other corporate proceedings on the part of Rally are necessary to authorize this Agreement or the Transaction other than in connection with the approval by the Rally Board of the Proxy Circular and the approval of the Arrangement Resolution by Securityholders in the manner required by the Interim Order. This Agreement has been duly executed and delivered by Rally and constitutes a legal, valid and binding obligation of Rally, enforceable against Rally in accordance with its terms, subject to bankruptcy, insolvency, reorganization (under debtor or creditor Laws), fraudulent transfer, moratorium and other applicable Laws relating to or affecting creditors' rights generally, and to general principles of equity.
- (d) **No Breach.** Except as set forth in Section 3.1(d) of the Rally Disclosure Letter, the execution and delivery by Rally of this Agreement and performance by it of its obligations hereunder and the completion of the Transaction, will not:
- (i) result in a material violation or breach of, or constitute a material default (or an event which, with notice or lapse of time or both, would become a default) under, or give rise to any termination rights, or the amendment, acceleration or cancellation of or give rise to or change any rights or obligations of any person under any provision of:
    - (A) its or any Subsidiary's certificate of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder

agreement or any other agreement or understanding with any party holding an ownership interest in any Subsidiary;

(B) to the knowledge of Rally, any Canadian, Egyptian, Pakistan or British Virgin Islands Law; or

(C) any contract, agreement, lease, licence, concession, franchise or Permit to which Rally or any Subsidiary is a party or is bound or is subject or is a beneficiary of which;

(ii) give rise to any right of termination or acceleration of indebtedness, or cause any third party indebtedness owing by it to come due before its stated maturity or cause any available credit to cease to be available which is material to Rally and its Subsidiaries taken as a whole or prevents or materially impedes the completion of the Arrangement or the other elements of the Transaction; or

(iii) result in the imposition of, give rise to or trigger any Encumbrance upon any of its assets or the assets of any Subsidiary, or restrict, hinder, impair or limit the ability of Rally or any Subsidiary to carry on its business as and where it is now being carried on or prevents or materially impedes the completion of the Arrangement or the other elements of the Transaction.

(e) ***Consents and Approvals.***

(i) No consent, approval, order or authorization of, or declaration or filing with, any Governmental Entity is required to be obtained by Rally or any of its Subsidiaries in connection with the execution and delivery of this Agreement or the consummation by Rally of the transactions contemplated hereby other than:

(A) any Securityholder approvals required by the Interim Order,

(B) the Final Order,

(C) filings with the Director under the OBCA and filings with Securities Authorities and stock exchanges, and

(D) any other consents, approvals, orders, authorizations, declarations or filings which, if not obtained, would not, individually or in the aggregate, prevent or materially impede the completion of the Arrangement or the other elements of the Transaction or have a material adverse effect upon Rally.

(ii) No Third Party Consents are required, except where the failure to obtain such consent, approval, or authorization would not, individually or in the aggregate, prevent or materially impair the completion of the Arrangement

or the other elements of the Transaction or have a material adverse effect on Rally.

- (f) **No Defaults.** Except as set forth in Section 3.1(f) of the Rally Disclosure Letter, neither Rally nor any of its Subsidiaries is in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under any contract, agreement, concession or licence to which it is a party or by which it is bound which would, if terminated or upon exercise of a right made available to a third party solely by a reason of such a default, individually or in the aggregate, have a material adverse effect on Rally or prevent or materially impede the completion of the Arrangement or the other elements of the Transaction.
- (g) **No Breach of Laws.** Neither Rally nor any of its Subsidiaries is or has been in violation of any applicable Laws which could have a material adverse effect on Rally or prevent or materially impede the completion of the Arrangement or the other elements of the Transaction.
- (h) **Absence of Changes.** Except as Publicly Disclosed by Rally or as set forth in Section 3.1(h) of the Rally Disclosure Letter, since December 31, 2006:
  - (i) Rally and its Subsidiaries have conducted their businesses only in the ordinary and regular course of business consistent with past practice;
  - (ii) other than in the ordinary and regular course of business consistent with past practice, Rally and its Subsidiaries have not incurred any liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) which would, individually or in the aggregate, have a material adverse effect on Rally;
  - (iii) neither Rally nor any of its Subsidiaries has incurred or suffered individually or in the aggregate a material adverse change;
  - (iv) there has not occurred any damage, destruction or loss that is not fully covered by insurance (subject to normal deductibles) that would, individually or in the aggregate, have a material adverse effect on Rally;
  - (v) neither Rally nor any of its Subsidiaries have made any distributions or declared, set aside or paid any dividends, except for intercompany transfers or payments between Rally and its Subsidiaries;
  - (vi) neither Rally nor any of its Subsidiaries have split, consolidated, combined or reclassified any of their outstanding shares;
  - (vii) there has not occurred or arisen any individual capital expenditure or commitment, or a series of related capital expenditure or commitments by Rally or its Subsidiaries exceeding \$5,000,000 that is not expressly contemplated by the 2007 Capital and Operating Plan;

- (viii) there has not occurred any change in accounting methods or practices (including any change in revenue recognition, capitalization, depreciation or amortization policies or rates) by Rally except as may be required to comply with Canadian GAAP;
- (ix) there has not occurred any material revaluation by Rally of any of its assets;
- (x) there has not occurred any loan by Rally or its Subsidiaries to any person or entity, incurrence by Rally or its Subsidiaries of any indebtedness, issuance or sale of any debt securities of Rally or its Subsidiaries or guaranteeing of any debt securities of others, except for advances to employees for travel and business expenses in the ordinary and regular course of business consistent with past practices;
- (xi) neither Rally nor any of its Subsidiaries has acquired, agreed to acquire, disposed of or agreed to dispose of any person that would, individually or in the aggregate, have a material adverse effect on Rally;
- (xii) there has not occurred any increase in or modification of the compensation payable or to become payable by Rally or any of its Subsidiaries to any of their respective directors, officers or employees, or any grant to any such director, officer or employee of any increase in entitlements under, or general institution of, retention, severance or termination programs, in each case, other than annual increases consistent with past practice or as a result of promotions in the ordinary course of business;
- (xiii) neither Rally nor any of its Subsidiaries has commenced, participated or agreed to commence or participate in any bankruptcy, involuntary liquidation, dissolution, winding up, insolvency or similar proceeding;
- (xiv) the adoption by Rally or by any of its Subsidiaries of, or any increase in or modification of, any bonus, pension, retention, insurance or benefit arrangement (including the granting of stock options, restricted stock awards or stock appreciation rights) made to, for or with any of their respective directors, officers or employees, in each case, other than annual increases consistent with past practice, as required under Law or collective agreements, or as a result of promotions in the ordinary course of business and in a manner consistent with Rally's established compensation programs and past practices;
- (xv) neither Rally nor any of its Subsidiaries has entered into any interest rate, currency or commodity swaps, hedges or other similar financial instruments other than in the ordinary course of business and consistent with past practice; and
- (xvi) neither Rally nor any of its Subsidiaries has authorized, committed or agreed to take any of the foregoing actions set out in this Section 3.1(h).

(i) ***Employment and Consulting Agreements.***

- (i) Except as set forth in Section 3.1(i)(i) of the Rally Disclosure Letter, neither Rally nor any of its Subsidiaries is a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment or consulting agreement with, any of their respective directors, officers or consultants; the aggregate liability of Rally in connection with the arrangements disclosed in Section 3.1(i)(i) of the Rally Disclosure Letter does not exceed \$1,600,000.
- (ii) Except as set forth in Section 3.1(i)(ii) of the Rally Disclosure Letter, there are no contracts of employment or consulting entered into by Rally or any of its Subsidiaries with any of their respective employees or consultants which would entitle such employee or consultant to receive enhanced benefits or payments upon Rally entering into this Agreement or any of the other documents contemplated by this Agreement to which Rally is a party or upon the consummation of the Transaction.
- (iii) Neither Rally nor any of its Subsidiaries: (A) is party to any collective bargaining agreement; or (B) has any current, pending or threatened strikes (including official or unofficial strikes or other labour relations difficulties), work stoppage, slowdowns or lockouts, union representation or organizing activities or unlawful labour practices or actions.
- (iv) Neither Rally nor any of its Subsidiaries is subject to any material claim for wrongful dismissal, constructive dismissal or any other material tort claim, actual or threatened, or any litigation, actual or threatened, relating to employment or termination of employment of employees or independent contractors.

(j) ***Financial Statements.*** The Rally Financial Statements were prepared in accordance with Canadian GAAP and all applicable Laws and present fairly, in all material respects, the assets, liabilities (whether accrued, absolute, contingent or otherwise) and financial condition of Rally and its Subsidiaries on a consolidated basis as of the respective dates thereof and for the respective periods covered thereby applied on a basis consistent with the immediately prior period and throughout the periods indicated.

(k) ***Books and Records.*** The financial books, records and accounts of Rally and its Subsidiaries, in all material respects, (i) have been maintained in accordance with good business practices on a basis consistent with prior years; (ii) are stated in reasonable detail and accurately and fairly reflect the material transactions and dispositions of the assets of Rally and its Subsidiaries; and (iii) accurately and fairly reflect the basis for the Rally Financial Statements. Except as set forth in Section 3.1(k) of the Rally Disclosure Letter, Rally's and its Subsidiaries' corporate

records and minute books have been maintained substantially in compliance with applicable Laws and are complete and accurate in all material respects.

- (l) ***Litigation, Etc.*** Except as Publicly Disclosed by Rally or as set forth in Section 3.1(l) of the Rally Disclosure Letter: (i) there is no claim, action, proceeding, suit, arbitration or investigation pending or, to the knowledge of Rally, threatened against or relating to Rally or any of its Subsidiaries or affecting any of their properties or assets before any court or governmental or regulatory authority or body or other Governmental Entity or arbitral authority which would, if adversely determined, individually or in the aggregate, have a material adverse effect on Rally or prevent or delay the consummation of the Arrangement or the other elements of the Transaction; and (ii) neither Rally nor any of its Subsidiaries nor their respective properties or assets is subject to any outstanding judgment, order, writ, injunction or decree or arbitrator's decision which has or would, individually or in the aggregate, have a material adverse effect on Rally or prevent or delay consummation of the Arrangement or other elements of the Transaction.
- (m) ***Contingent Liabilities.*** Except as set forth in Section 3.1(m) of the Rally Disclosure Letter, neither Rally nor any of its Subsidiaries have any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) except (i) liabilities or obligations set forth in the audited consolidated balance sheet of Rally as of December 31, 2006 forming part of the Rally Financial Statements, or (ii) liabilities or obligations incurred since December 31, 2006 in the ordinary course of business consistent with past practice, none of which have had or would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Rally.
- (n) ***Environmental.*** Except as set forth in Section 3.1(n) of the Rally Disclosure Letter, all operations of Rally and its Subsidiaries have been, and are now, in compliance in all material respects with all Environmental Laws, except where the failure to be in compliance would not, individually or in the aggregate, have a material adverse effect on Rally. Rally and its Subsidiaries are in possession of, and in compliance with, all permits, authorizations, certificates, registrations, approvals and consents necessary under Environmental Laws to own, lease and operate their properties and to conduct their respective businesses as they are now being conducted or as proposed to be conducted, except where the failure to do so would not, individually or in the aggregate, have a material adverse effect on Rally. Neither Rally nor any of its Subsidiaries is subject to:
  - (i) any current or threatened proceeding, application, order or directive which relates to environmental health or safety matters, and which may require any material work, repairs, construction or expenditures; or
  - (ii) any demand or notice with respect to the breach of any Environmental Laws applicable to Rally or any of its Subsidiaries, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of Hazardous Substances,

which would, individually or in the aggregate, have a material adverse effect on Rally.

- (o) **Insurance.** Other than as contemplated in the Agreement, all policies of insurance in force as of the date hereof naming Rally or any of its Subsidiaries as an insured shall remain in full force and effect and shall not be cancelled or otherwise terminated as a result of the Arrangement or transactions contemplated hereby, other than such cancellations as would not, individually or in the aggregate, have a material adverse effect on Rally.
- (p) **Tax Matters.**
  - (i) Other than as set forth in Section 3.1(p)(i) of the Rally Disclosure Letter, Rally and each of its Subsidiaries have timely filed, or caused to be filed, all tax returns required to be filed by them (all of which returns were correct and complete in all material respects).
  - (ii) Other than as set forth in Section 3.1(p)(ii) of the Rally Disclosure Letter, Rally and each of its Subsidiaries have paid, collected, withheld or remitted, or caused to be paid, collected, withheld or remitted, all taxes that are due and payable, collectible and remittable in each case, except for any such tax returns or Taxes the non-filing or non-payment of which have not had a material adverse effect on Rally or which are being contested in good faith, and Rally has provided adequate accruals in accordance with Canadian GAAP in its most recently published consolidated financial statements for any Taxes for the period covered by such financial statements that have not been paid, whether or not shown as being due on any tax returns.
  - (iii) Other than as set forth in Section 3.1(p)(iii) of the Rally Disclosure Letter, there are no proceedings, investigations, audits or claims now pending or threatened against Rally or any of its Subsidiaries in respect of any Taxes, and there are no matters under discussion, audit or appeal with any governmental authority relating to Taxes.
  - (iv) Each of Rally and Scimitar Hydrocarbons Corporation is resident in Canada for the purposes of the Tax Act and any relevant income tax treaty or convention. Each of Rally's Subsidiaries other than Scimitar Hydrocarbons Corporation is resident in a Relevant Foreign Jurisdiction, and not resident in Canada, for the purposes of the Tax Act and any relevant income tax treaty or convention.
- (q) **Employee Benefits.** Except as set forth in Section 3.1(q) of the Rally Disclosure Letter, Rally has no pension or retirement income plans or other employee compensation or benefit plans, agreements, policies, programs, arrangements or practices, whether written or oral, which are maintained by or binding upon Rally or any of its Subsidiaries.

(r) ***Properties.***

- (i) Rally and its Subsidiaries have good and sufficient title or recognized ownership interest under applicable Law to or in the concessions, possessory interests, rights of occupation and other real property interests (including its oil and gas properties) required to produce, deliver and obtain the benefit of the sale of the petroleum, natural gas and related hydrocarbons, and that is necessary to permit the operation of their respective businesses as presently owned and conducted, and all such concessions, possessory rights, rights of occupation and other real property interests are set forth in Section 3.1(r)(i) of the Rally Disclosure Letter.
- (ii) All of the real property interests set out in Section 3.1(r)(i) of the Rally Disclosure Letter are free and clear of all Encumbrances other than:
  - (A) the royalty interests that are set forth in Section 3.1(r)(ii) of the Rally Disclosure Letter (the “**Royalty Interests**”),
  - (B) the credit facilities of Rally with the IFC,
  - (C) any Encumbrances created by the agreement, lease, deed or other instrument creating the real property interest in favour of Rally or its Subsidiary, or
  - (D) those Encumbrances that, in the aggregate, have not had and could not reasonably be expected to have a material adverse effect on Rally.
- (iii) Neither Rally nor any of its Subsidiaries is liable or responsible for any site reclamations, restoration costs or any other liability exceeding individually or in the aggregate \$1,000,000 in connection with any of the properties or assets that were sold, disposed of, transferred or conveyed by or on behalf of Rally or any of its Subsidiaries, affiliates or associates over the last five years.
- (iv) Neither Rally nor any of its Subsidiaries, have received any written, or to the knowledge of Rally, oral notice of any claims, demands, complaints, governmental investigations, site reclamations, restoration costs, actions, applications, suits, causes of action, orders or charges exceeding individually or in the aggregate \$1,000,000 with respect to the properties or assets that were sold, disposed of, transferred or conveyed by or on behalf of Rally or any of its Subsidiaries, affiliates or associates, over the last five years.
- (v) Other than as set forth in Section 3.1(r)(v) of the Rally Disclosure Letter, no Governmental Entity or other person has challenged, or, to the knowledge of Rally, has threatened to challenge, any of Rally’s

concessions, possessory rights, rights of occupation or other real property interests including those of its Subsidiaries.

- (s) **Reports.** Rally has, in accordance with applicable Laws, filed with the Securities Authorities and the TSX true and complete copies of all forms, reports, schedules, statements, material change reports, circulars, press releases, disclosures relating to options, prospectuses, other offering documents and all other documents required to be filed by it since December 31, 2004 (such forms, reports, schedules, statements and other documents, including any financial statements or other documents, including any schedules included therein, are referred to as the “**Rally SEDAR Documents**”). All of the Rally SEDAR Documents filed since January 1, 2007, the prospectuses filed by Rally on March 6, 2007 and on December 9, 2005, and any and all offering memorandums, registration statements or similar offering documents prepared or filed since December 31, 2004, at the time filed: (a) did not contain any Misrepresentation; and (b) complied in all material respects with the requirements of applicable securities Laws. Rally has not filed any confidential material change or similar report with any Securities Authorities, stock exchanges or other regulatory authority which at the date hereof remains confidential.
- (t) **Licences, etc.** Each of Rally and each of its Subsidiaries owns, possesses, or has obtained and is in compliance in all material respects with, all licences, permits (including Environmental Approvals), certificates, orders, grants, approvals and other authorizations (“**Permits**”) of or from any Governmental Entity necessary to conduct its businesses as now conducted or as proposed to be conducted, other than those the failure to own, possess, obtain or be in compliance with would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Rally. No suspension or cancellation of any of the Permits is pending, or to the knowledge of Rally, threatened except where the suspension or cancellation of any of the Permits has not had and would not be reasonably expected to have, individually or in the aggregate, a material adverse effect on Rally.
- (u) **Material Contracts.**
  - (i) Except as set forth in Section 3.1(u)(i) of the Rally Disclosure Letter or as Publicly Disclosed by Rally, there is no contract to which Rally or any of its Subsidiaries is a party or by which any of them or their respective properties or assets are bound that (i) if terminated, would reasonably be expected to have a material adverse effect on Rally; (ii) is a contract or group of related contracts which involves payments to or by Rally or any of the Rally Subsidiaries of more than \$5,000,000 per annum; (iii) is a contract that contains any non-competition obligations or otherwise restricts in any material way the business of Rally or any of its Subsidiaries; (iv) is a partnership or joint venture agreement in which Rally or any of its Subsidiaries participates as a general partner or joint venturer; (v) is a contract (other than a commercial or business contract that may contain basic indemnity provisions relating to the performance or breach by Rally or a Subsidiary of their respective obligations under such

contracts) pursuant to which Rally or any of its Subsidiaries provides an indemnification, guarantee or other like commitment or obligation to any other person (other than to Rally or a wholly-owned Subsidiary); or (vi) is a contract relating to the acquisition or disposition by Rally of oil and gas assets or properties entered into on or after January 1, 2005 (the contracts described in items (i) to (vi) are collectively referred to herein as, the “**Material Contracts**”).

- (ii) Except as set forth in Section 3.1(u)(ii) of the Rally Disclosure Letter, all Material Contracts are legal, valid, binding and in full force and effect and are enforceable by, as applicable, Rally and its Subsidiaries in accordance with their respective terms (subject to bankruptcy, insolvency and other applicable Laws affecting creditors’ rights generally, and to general principles of equity).
- (iii) Each of Rally and its Subsidiaries have, to the extent applicable, performed in all material respects all respective obligations required to be performed by them to date under the Material Contracts and are not, and are not to Rally’s knowledge alleged to be (with or without the lapse of time or the giving of notice, or both), in breach or default in any material respect thereunder.
- (v) **Intellectual Property.** Rally and its Subsidiaries own or possess the right to use all patents, patent rights, trademarks, trade-names, service marks, service names, copyrights, license rights, know-how (including trade secrets and other unpatented and unpatentable proprietary or confidential information, systems or procedures) and other intellectual property rights (the “**Intellectual Property**”) necessary to carry on their business in all material respects; none of Rally nor any of its Subsidiaries has infringed, or received notice of conflict with, any Intellectual Property of any other person or entity.
- (w) **Money Laundering.** To the knowledge of Rally, its operations and the operations of each of its Subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the money laundering statutes of all relevant jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any Government Entity (collectively, the “**Money Laundering Laws**”) and no action, suit or proceeding by or before any court or Government Entity or any arbitrator or non-governmental authority involving Rally or any of its Subsidiaries with respect to the Money Laundering Laws is pending or, to Rally’s knowledge, threatened.
- (x) **Foreign Corrupt Practices.** Neither Rally nor any of its Subsidiaries or, to the knowledge of Rally, any director or officer, or to the actual personal knowledge of Messrs. Badwi, McMurtrie and Urch, any agent, employee or affiliate of Rally or of any of its Subsidiaries has made any payment of funds out of Rally or any of its Subsidiaries or received or retained funds in a violation by such persons of any

applicable Law, rule or regulation prohibiting the payment of undisclosed commissions or bonuses or the making of bribe or incentive payments or other arrangements of a similar nature, including the *Corruption of Foreign Public Officials Act* (Canada); and Rally and each of its Subsidiaries have instituted and maintain policies and procedures designed to ensure continued compliance therewith.

(y) ***Internal Controls.***

- (i) Rally maintains a process designed by, or under the supervision of its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Rally; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that receipts and expenditures of Rally are being made only in accordance with authorizations of management and directors of Rally; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Rally's assets.
- (ii) Rally maintains procedures that are designed to provide reasonable assurance that information required to be disclosed by Rally in annual filings, interim filings or other reports filed or submitted by Rally under Canadian Securities Laws is recorded, processed, summarized and reported within the time periods specified under Canadian Securities Laws including, procedures designed to ensure that information required to be disclosed by Rally in annual filings, interim filings or other reports filed or submitted under Canadian Securities Laws is accumulated and communicated to Rally's management, including its Chief Executive Officer and Chief Financial Officer, or persons who perform similar functions, as appropriate to allow timely disclosure regarding required disclosure.

(z) ***Non-Arm's Length Transactions.*** Except as set forth in Section 3.1(z) or Section 3.1(i) of the Rally Disclosure Letter, there are no contracts or other transactions between Rally or any of its Subsidiaries, on the one hand, and any (i) officer or director of Rally or any of its Subsidiaries, (ii) any holder of record or beneficial owner of 5% or more of the voting securities of Rally, or (iii) any associate or affiliate of any such officer, director or beneficial owner, on the other hand.

(aa) ***Occupational Health and Safety.*** Rally and each of its Subsidiaries are in compliance with the requirements of all applicable Laws covering occupational health and/or safety, except for any non-compliance which would not be reasonably

expected to have, individually or in the aggregate, a material adverse effect on Rally.

- (bb) **Bank Act.** Neither the business nor any other activity carried on by Rally or any of its Subsidiaries consists of one or more of the activities referred to in any of paragraphs (a) to (h) of the definition of “financial services entity” in subsection 507(1) of the *Bank Act* (Canada).
- (cc) **Competition Act Assets and Revenues.** Rally and its affiliates had assets in Canada the aggregate book value of which was less than \$395,000,000 as at the end of their most recently completed fiscal years, and generated aggregate gross revenues from sales in, from or into Canada of less than \$385,000,000 during that period, determined in each case as prescribed by Section 109(1) in the *Competition Act* (Canada) and the Regulations thereunder.
- (dd) **Investment Canada Act (Canada).** Rally and its Subsidiaries had worldwide assets the aggregate book value of which was less than \$281,000,000 as at the end of their most recently completed fiscal years, determined as prescribed in the *Investment Canada Act* (Canada) and the Regulations thereunder.
- (ee) **Sensitive Sector Businesses.** Neither Rally nor any of its Subsidiaries is engaged in “sensitive sector” businesses, as that phrase is defined in section 14.1 of the *Investment Canada Act* (Canada).
- (ff) **Reporting Issuer Status.** Rally is a “reporting issuer” in compliance in all material respects with Canadian Securities Laws and the rules and policies of the TSX and the Rally Shares are listed and posted for trading on the TSX and not on any other stock exchange or quotation system, except for being listed on the “Open Market” of the Frankfurt Stock Exchange.
- (gg) **Shareholder Rights Plan.** There is not in effect with respect to Rally, and prior to the Effective Time Rally will not implement without the Purchaser’s consent, any shareholder rights plan or any other form of plan, agreement, contract or instrument that will trigger any rights to acquire Rally Shares or other securities of Rally or rights, entitlements or privileges in favour of any person upon the entering into of this Agreement.
- (hh) **U.S. Securities Law Matters.** Rally (i) is a “foreign private issuer” as defined in Rule 3b-4 under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), (ii) as at June 30, 2007, does not have actual knowledge that U.S. holders of Rally Shares hold 10% or more of the Rally Shares as calculated under instruction 2 to paragraph (d) of Rule 14d-1 of the Exchange Act, and (iii) the Rally Shares are not required to be registered, and are not registered, under the Exchange Act.
- (ii) **Oilfield Practice.** Other than set forth in Section 3.1(ii) of the Rally Disclosure Letter, during the period of time which Rally has owned oil and gas assets and properties, any and all operations of Rally including those of its Subsidiaries have

been conducted in accordance with good international oilfield practice, which practices will not to Rally's knowledge, result in material impairment of the oil and gas production from such assets or in the underlying petroleum reserves of such assets.

- (jj) **Reserve Report.** Other than set forth in Section 3.1(jj) of the Rally Disclosure Letter, Rally made available to DeGolyer and MacNaughton Canada Limited ("**D&M**"), prior to the issuance of their report dated March 14, 2007 evaluating Rally's oil and gas reserves as of December 31, 2006 (the "**D&M Report**"), all information requested by D&M and to the knowledge of Rally, no information provided to D&M contained a Misrepresentation as at its date of issuance. Rally has no knowledge of a material adverse change in any information provided to D&M since the date it was provided. Rally believes that the D&M Report (i) reasonably presented the quantity and pre-tax present worth values of oil and gas reserves as at December 31, 2006 based on the information available at the time the D&M Report was prepared and the assumptions as to commodity prices and costs contained therein and (ii) complies in all material respects with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*.
- (kk) **Interests in Production.** Other than the Royalty Interests, each of which is set forth in Section 3.1(r)(ii) of the Rally Disclosure Letter, Section 3.1(kk) of the Rally Disclosure Letter sets forth a complete list of all consulting agreements, marketing agreements, assistance agreements or similar agreements to which Rally or any of its Subsidiaries is a party pursuant to which either Rally or any of its Subsidiaries is required to make a payment to a third party based in whole or in part on levels of production, prices received for production, areas of land included within a concession or license area or similar arrangements.
- (ll) **Transport Pipeline.** To the knowledge of Rally, construction by Sui Northern Gas Pipelines Limited ("**Sui Northern**") of an 18 kilometre gas transport pipeline having a capacity of transporting volumes of Gas approximately 50 MMCF per day from the delivery point specified under the gas sale and purchase agreement to be entered into between Dewan Petroleum (Pvt.) Limited, Oil and Gas Investments Limited, RESK, Sui Northern and The President of the Islamic Republic of Pakistan to the injection point at Sui Northern's Dhodak-Kot Addu Gas transmission system has been completed.
- (mm) **Brokers.** Except for Tristone, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission, or to the reimbursement of any of its expenses, in connection with the Arrangement or the other elements of the Transaction, which fees and expenses for the Transaction will not exceed in the aggregate \$1,000,000, plus reasonable expenses.
- (nn) **Standstill Parties.** Each of the Standstill Parties, other than NPC, is set forth at Section 3.1(nn) of the Rally Disclosure Letter together with date of the agreement that gave rise to the obligations and the date that those obligations expire, and other than the Standstill Parties disclosed at Section 3.1(nn) of Rally Disclosure Letter,

there are no persons that owe confidentiality obligations, standstill obligations or similar obligations to Rally or its Subsidiaries.

- (oo) **Full Disclosure.** To the knowledge of Rally, Rally has not withheld from Purchaser, any material information or documents concerning Rally or any of its Subsidiaries or their respective assets or liabilities during the course of Purchaser's review of Rally and its assets other than as may relate to resolutions or minutes of any special committee of the Rally Board in connection with the value maximization efforts of Rally. No representation or warranty contained herein and no statement contained in any certificate provided or to be provided to Purchaser by Rally pursuant hereto contains or will contain any untrue statement of a material fact or omits to state a material fact which is necessary in order to make the statements herein or therein not misleading.

### **3.2 Survival of Representations and Warranties**

The representations and warranties of Rally contained in this Agreement shall survive the execution and delivery of this Agreement and shall expire and be terminated and extinguished at the Effective Time.

### **3.3 Disclaimer of Additional Representations and Warranties**

Purchaser agrees and acknowledges that, except as set forth in this Agreement or any certificate delivered by Rally in accordance with the terms of this Agreement, Rally makes no representation or warranty express or implied, at law or in equity, with respect to Rally, its Subsidiaries, their respective businesses, the past, current or future production, financial condition or any of their assets, liabilities or operations, or their past, current or future profitability or performance, individually or in the aggregate, and any such other representations or warranties are hereby expressly disclaimed.

## **ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF PURCHASER**

### **4.1 Representations and Warranties**

Purchaser hereby represents and warrants to Rally as follows, and acknowledges that Rally is relying upon these representations and warranties in connection with the entering into of this Agreement:

- (a) **Organization.** Each of Purchaser and Acquiror has been duly incorporated or formed under applicable Laws, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as currently owned and conducted. Acquiror is a wholly-owned indirect subsidiary of Purchaser that has been incorporated for the purpose of acquiring the Rally Shares and the Rally Options pursuant to the Arrangement and has carried on no other business.
- (b) **Authority.** Purchaser has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder and Acquiror has the

requisite corporate power and authority to perform its obligations hereunder. The execution and delivery of this Agreement by Purchaser, the performance by Purchaser of its obligations under this Agreement and the consummation by Purchaser of the transactions contemplated by this Agreement have been duly authorized by the Board of Directors of Purchaser, and no other corporate proceedings on the part of Purchaser are necessary to authorize this Agreement or the transactions contemplated hereby. Prior to the Effective Time, the performance by Acquiror of its obligations under this Agreement and the consummation by Acquiror of the transactions contemplated by this Agreement will have been duly authorized by the Board of Directors of Acquiror. This Agreement has been duly executed and delivered by Purchaser and constitutes a legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject to bankruptcy, insolvency, reorganization (under debtor or creditor Laws), fraudulent transfer, moratorium and other applicable Laws relating to or affecting creditors' rights generally, and to general principles of equity.

(c) ***No Breach.*** The execution and delivery by Purchaser of this Agreement and performance by Purchaser and Acquiror, of their respective obligations hereunder and the completion of the Arrangement and the other elements of the Transaction, will not result in a violation or breach of or give rise to any termination rights under any provision of:

- (i) their respective certificates of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder agreement or similar document; or
- (ii) any Law, regulation, order, judgment or decree to which they are subject;

which would, individually or in the aggregate, materially impede the completion of the Arrangement or the other elements of the Transaction.

(d) ***Consents and Approvals.***

- (i) No consent, approval, order or authorization of, or declaration or filing with, any Governmental Entity is required to be obtained by Purchaser or its Subsidiaries (which for this purpose includes Acquiror) in connection with the execution and delivery of this Agreement or the consummation by Purchaser of the transactions contemplated hereby other than:
  - (A) any approvals required by the Interim Order,
  - (B) the Final Order,
  - (C) filings which may be required under the OBCA, in the case of Acquiror and filings with and approvals required by the Securities Authorities and stock exchanges, and

- (D) any other consents, approvals, orders, authorizations, declarations or filings which, if not obtained, would not, individually or in the aggregate, prevent or materially impede the completion of the Arrangement or the other elements of the Transaction.
- (ii) No consent, approval, or authorization is required under any material contract, agreement, licence, franchise or permit to which Purchaser is bound or is subject in connection with the execution and delivery of this Agreement or the consummation by Purchaser of the transactions contemplated hereby, where failure to obtain such consent, approval or authorization would, individually or in the aggregate, prevent or materially impede the completion of the Arrangement and the other elements of the Transaction.
- (e) ***Litigation, Etc.*** There is no claim, action, proceeding, suit, arbitration or investigation pending or, to the knowledge of Purchaser, threatened against or relating to Purchaser or its Subsidiaries or affecting any of their properties or assets before any court or governmental or regulatory authority or body or other Governmental Entity or arbitral authority which would, if adversely determined, individually or in the aggregate, have a material adverse effect on Purchaser or prevent or delay the consummation of the Arrangement or the other elements of the Transaction; and (ii) neither Purchaser nor any Subsidiary nor their respective properties or assets is subject to any outstanding judgment, order, writ, injunction or decree or arbitrator's decision which has or would, individually or in the aggregate, have a material adverse effect on Purchaser or prevent or delay consummation of the Arrangement or other elements of the Transaction.
- (f) ***Brokers.*** Except for Citigroup Global Markets Limited, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission, or to the reimbursement of any of its expenses, in connection with the Arrangement or the other elements of the Transaction.
- (g) ***Sufficient Funds.*** Purchaser has sufficient funds or has made adequate arrangements to have financing in place in order that Acquiror will have, at the Effective Time, sufficient funds to complete the Arrangement, including to pay the aggregate Share Consideration and amounts due to the Optionholders in accordance with the terms of the Arrangement.
- (h) ***No Breach of Laws.*** Neither Purchaser nor any of its Subsidiaries is or has been in violation of any applicable Laws which could have a material adverse effect on Purchaser or prevent or materially impede the completion of the Arrangement or the other elements of the Transaction.
- (i) ***Investment Canada Act (Canada).*** Purchaser and Acquiror are each a WTO Investor as defined in the *Investment Canada Act (Canada)* and the Regulations thereunder.

- (j) ***Competition Act Assets and Revenues.*** Purchaser and its affiliates had assets in Canada the aggregate book value of which was less than \$5,000,000 as at the end of their most recently completed fiscal years, and generated aggregate gross revenues from sales in, from or into Canada of less than \$15,000,000 during that period, determined in each case as prescribed by Section 109(1) in the *Competition Act* (Canada) and the Regulations thereunder.

#### **4.2 Survival of Representations and Warranties**

The representations and warranties of Purchaser contained in this Agreement shall survive the execution and delivery of this Agreement and shall expire and be terminated and extinguished at the Effective Time.

### **ARTICLE 5 COVENANTS**

#### **5.1 Press Releases; Filings**

- (a) The Parties agree to use reasonable commercial efforts to consult with each other in issuing any press releases or otherwise making public statements with respect to this Agreement or the Arrangement. Each Party shall provide the other Parties with a reasonable period of time to review and comment on all such press releases or public statements prior to release thereof. The Parties agree to issue jointly or concurrently with the other Parties a press release with respect to this Agreement as soon as practicable, in a form acceptable to each Party. Each of the Parties agrees not to make any public statement that is inconsistent with such press release (other than to the extent superceded by a subsequent press release or public filing). The foregoing obligation is subject to applicable Law. The Purchaser acknowledges that Rally has periodic and timely disclosure obligations under Canadian Securities Laws.
- (b) Each of Purchaser and Acquiror will make all filings and applications and submissions of information under all Laws which are applicable in connection with the Transaction. Rally will use reasonable commercial efforts to (i) co-operate and assist Purchaser and Acquiror in the making of all such filings and submissions and the obtaining of any related consents, approvals or waivers required by Law or by contract; and (ii) assist Purchaser and Acquiror in any discussions which Purchaser and Acquiror may wish to have with any Governmental Entity or other party from whom any of the consents, approvals or waivers described in item (i) above are required, and upon the reasonable request of Purchaser, promptly provide all commercially reasonable assistance and furnish all commercially reasonably available information to Purchaser and Acquiror to defend, rebut or otherwise challenge any claims seeking to prevent, delay or interfere with this Agreement or the Arrangement.

- (c) For greater certainty, nothing in this Section 5.1 shall be interpreted in such a manner so as to give rise to a condition or termination right in favour of Purchaser or Acquiror as a result of a failure to obtain any such consent, approval or waiver.

## **5.2 Covenants of Rally**

Rally covenants and agrees that, without the prior written consent of Purchaser (such consent not to be unreasonably withheld or delayed) or except as expressly contemplated in this Agreement or the Plan of Arrangement, from the date hereof until the earlier of the Effective Date or the day upon which this Agreement is terminated:

- (a) in a timely and expeditious manner it will:
  - (i) in compliance with all applicable Laws, prepare the Proxy Circular and provide Purchaser and Acquiror with reasonable opportunity to review and comment on drafts thereof, shall consider all of Purchaser's and Acquiror's reasonable comments thereon, and shall file the Proxy Circular in all jurisdictions where the same is required to be filed by applicable Law and mail the same as ordered by the Interim Order and in accordance with all applicable Laws (provided that in any event Rally will have prepared all materials necessary for filing the application for the Interim Order with the Court and the Director within 21 days after the date of this Agreement), in all jurisdictions where the same is required and ensure that such Proxy Circular does not contain any Misrepresentation;
  - (ii) as soon as reasonably practicable after the execution of this Agreement but in any case on or before September 17, 2007 convene and conduct the Rally Meeting in accordance with the Interim Order, Rally's articles and by-laws and applicable Laws; and
  - (iii) provide notice to Purchaser and Acquiror of the Rally Meeting and allow Purchaser's and Acquiror's representatives to attend the Rally Meeting;
- (b) subject to Section 6.4 and Section 5.6(c), except as required for quorum purposes not postpone or cancel (or propose any such adjournment, postponement or cancellation) the Rally Meeting without Purchaser's and Acquiror's prior written consent, except as required by applicable Laws;
- (c) in a timely and expeditious manner, it will prepare (in consultation and in co-operation with Purchaser and Acquiror) and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Proxy Circular with respect to the Rally Meeting and mail the same as required by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable legal requirements on the date of mailing thereof;
- (d) except for non-substantive communications, it will furnish promptly to Purchaser and Acquiror, or provide Purchaser and Acquiror with reasonable access to review,

a copy of each proxy, notice, report, schedule or other document or communication delivered, filed or received by Rally in connection with the Arrangement, the Interim Order, the Rally Meeting or the Final Order or any filings under applicable Laws, other than filings which pursuant to applicable Law are confidential;

- (e) at the request of Purchaser or Acquiror, it will use commercially reasonable efforts to solicit from the Securityholders proxies in favour of the Arrangement Resolution, including, if so requested by Purchaser or Acquiror, using the services of dealers and proxy solicitation services, and to take all other action that is necessary, desirable or advisable to secure the approval of the Arrangement Resolution, unless and until the Rally Board has changed its recommendation in accordance with the terms of this Agreement pursuant to Section 5.6;
- (f) it will permit Purchaser and Acquiror and their counsel to review and comment upon drafts of all material to be filed by Rally with the Court in connection with the Arrangement, shall consider all of Purchaser's and Acquiror's reasonable comments thereon, and provide Purchaser and Acquiror and their counsel on a timely basis with copies of any notice of appearance and evidence served on Rally or its counsel in respect of the application for the Final Order or any appeal therefrom and of any notice (written or oral) received by Rally indicating any intention to oppose the granting of the Final Order or to appeal the Final Order;
- (g) give Purchaser and Acquiror prompt notice of any written notice relating to the exercise of Dissent Rights, withdrawal of such notice, and any other instruments received by Rally pursuant to any such Dissent Rights;
- (h) it shall not, directly or indirectly, whether by or through any Subsidiary, do or permit to occur any of the following:
  - (i) issue, sell, pledge, lease, dispose of, encumber or agree to issue, sell, pledge, lease, dispose of or encumber (or permit any of its Subsidiaries to issue, sell, pledge, lease, dispose of, encumber or agree to issue, sell, pledge, lease, dispose of or encumber) any shares of, or any options, warrants, calls, conversion privileges or similar rights of any kind to acquire any shares of it or any of its Subsidiaries, other than the issue of Rally Shares pursuant to the due exercise of Rally Options (whether vested or unvested), in each case currently outstanding in accordance with their current terms;
  - (ii) other than pursuant to obligations or rights under existing contracts, agreements and commitments (to the extent such rights have been exercised or initiated by other persons in accordance with their terms), sell, lease or otherwise dispose of (or permit any of its Subsidiaries to dispose of) any material assets or enter into any agreement or commitment in respect of any of the foregoing;

- (iii) amend or propose to amend its articles or by-laws or the articles, charter, by-laws or other similar organizational documents of any of its Subsidiaries or any of the terms of the Rally Options;
- (iv) split, combine, reclassify or amend the material terms of any of its outstanding securities or any securities of its Subsidiaries, or declare, set aside or pay any dividend or other distribution payable in cash, stock, property or otherwise with respect to the Rally Shares;
- (v) redeem, purchase or offer to purchase (or permit any of its Subsidiaries to redeem, purchase or offer to purchase) any Rally Shares (including by way of issuer bid) or other equity securities of it or any of its Subsidiaries, unless such redemption, purchase or offer to purchase is required by the terms of such securities or the Rally Options;
- (vi) repay, redeem, repurchase or retire, or otherwise make any payment in respect of any indebtedness for borrowed money of it or any of its Subsidiaries or any debt securities, or any rights, warrants, calls or options to acquire any debt securities of it or any of its Subsidiaries, other than as required by their terms as in effect on the date of this Agreement, or authorize, or make any commitment to make any new capital expenditure or expenditures in excess of \$5,000,000;
- (vii) reorganize, amalgamate or merge it or any of its Subsidiaries with any other person, corporation, partnership, joint venture or other business organization whatsoever;
- (viii) other than pursuant to obligations or rights under existing contracts, agreements and commitments on the date hereof (to the extent such obligations or rights have been exercised or initiated by other persons entitled to enforce such obligations or exercise such rights), acquire or agree to acquire any person, corporation, partnership, joint venture or other business organization (or material interest therein) or division, or acquire or agree to acquire any assets which, in each case are, individually or in the aggregate, material, including by merger, amalgamation, plan of arrangement, acquisition of shares or otherwise;
- (ix) incur or commit to provide guarantees for borrowed money, incur or assume any additional indebtedness for borrowed money, other than in the ordinary course and in a manner consistent with past practice;
- (x) except as required by Canadian GAAP or applicable Law make, change or revoke any material election relating to Taxes, change any annual accounting period, adopt or change any existing accounting practices, take any action, or omit to take any action, in either case inconsistent with past practice, relating to the filing of any tax return or the payment of any Tax, settle any material Tax claim or assessment in an amount that exceeds,

individually or in the aggregate, \$2,000,000 or surrender any right to claim a Tax refund;

- (xi) acquire (including by merger, amalgamation, plan of arrangement, consolidation or acquisition of stock or assets or any other business combination) any corporation, partnership, joint venture interest, other business organization or any division thereof or any assets except purchases of inventory in the ordinary course of business and in a manner consistent with past practice;
- (xii) pay, settle, discharge or satisfy any material claim, liability or obligation (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than in the ordinary course of business and in a manner consistent with past practice; or
- (xiii) except as otherwise provided in Section 5.8, amend, modify or terminate any insurance policy of Rally or any of its Subsidiaries in effect on the date hereof;

unless such action is required to complete the Arrangement and is expressly contemplated or permitted by this Agreement;

- (i) except as set forth in Section 3.1(i)(i) of the Rally Disclosure Letter, it shall not, and shall cause each of its Subsidiaries to not, enter into or modify any employment, severance, collective bargaining or similar agreements, policies or arrangements with, or grant any bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay to, or make any loan to, any of its employees, officers or directors;
- (j) it shall use its reasonable commercial efforts (and cause each of its Subsidiaries to use reasonable commercial efforts) to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;
- (k) it shall:
  - (i) continue to carry on its business and operations, and cause each of its Subsidiaries to continue to carry on their respective businesses and operations, in the usual and ordinary course in a manner consistent with past practice and in accordance with its 2007 Capital and Operating Plan and 2008 Capital and Operating Plan (respectively, the “**2007 Capital and Operating Plan**” and the “**2008 Capital and Operating Plan**”) copies of which are attached as Section 5.2(k) of the Rally Disclosure Letter, and

shall use its reasonable commercial efforts, and cause each of its Subsidiaries, to preserve intact its business organizations and goodwill, to maintain satisfactory relationships with customers, suppliers, agents, tenants, co-owners, landlords, employees and others having business relationships with it or its Subsidiaries;

- (ii) not take any action, or permit any of its Subsidiaries to take any action that would interfere with or be inconsistent with the completion of the transactions contemplated hereunder or would render, or that reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to the Effective Time if then made; and
- (iii) promptly notify Purchaser and Acquiror in writing of:
  - (A) any material adverse change, or any event, occurrence, development or change which would reasonably be expected to become a material adverse change, in respect of Rally or any Misrepresentation in any information that has been provided by Rally to Purchaser or Acquiror; and
  - (B) of any material Governmental Entity or material third party litigation, complaints, investigations or hearings (or communications indicating that the same may be contemplated);
- (l) it shall not and shall cause its Subsidiaries not to settle or compromise any claim brought by any present, former or purported holder of any of its securities;
- (m) except as previously disclosed in writing to Purchaser and Acquiror, it and its Subsidiaries shall not:
  - (i) authorize any waiver, release or relinquishment of any material contractual right; or
  - (ii) modify or terminate any contract, agreement, commitment or arrangement which modification or termination would be material to Rally or would have a material adverse effect on Rally;
- (n) as soon as reasonably practicable, it shall use all commercially reasonable efforts to satisfy (or cause the satisfaction of) the conditions precedent to its and Purchaser's and Acquiror's obligations hereunder set forth in Article 6 to the extent the same is within its control and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the Arrangement and the other elements of the Transaction, including using its commercially reasonable efforts to:
  - (i) effect all necessary registrations, filings and submissions of information requested by Governmental Entities required to be effected by it in

connection with the Arrangement and the transactions contemplated by this Agreement;

- (ii) oppose, lift or rescind any injunction or restraining order or other order, proceeding or action challenging or affecting this Agreement or the transactions contemplated hereby by seeking to restrain, enjoin or prohibit the consummation of the Arrangement in accordance with the terms hereof; and
- (iii) co-operate with Purchaser and Acquiror in connection with the performance by them of their obligations hereunder, including providing such information about Rally and its Subsidiaries as may be reasonably required by any potential lender to the Purchaser or Acquiror in connection with the funding of the consideration due to Securityholders under the Arrangement;
- (o) other than as expressly permitted by Section 5.5 or Section 5.6, it shall not take any action, refrain from taking any action (subject to its commercially reasonable efforts), or permit any action to be taken or not taken, inconsistent with this Agreement or which would reasonably be expected to materially impede the completion of the Transaction, however, in the event that Rally is required to take any such action or refrain from taking such action (subject to its commercially reasonable efforts), Rally shall immediately notify Purchaser and Acquiror in writing of such circumstances;
- (p) it shall not sell, pledge, lease, dispose of, encumber or agree to sell, pledge, lease, dispose of or encumber, any of its assets or properties in Egypt or Pakistan;
- (q) it shall use its commercially reasonable efforts to conduct its affairs and shall cause its Subsidiaries to conduct their affairs so that all of its representations and warranties contained herein (i) which are qualified by the expression “material”, “material adverse change” or “material adverse effect” shall be true and correct as of the Effective Date as if made on such date, and (ii) all other representations and warranties in this Agreement which are not so qualified shall be true and correct in all material respects on the Effective Date as if made on such date; and
- (r) it shall promptly advise Acquiror and Purchaser in writing:
  - (i) if it becomes aware that the Proxy Circular or any application for an order in connection with the Transaction contains any Misrepresentation or otherwise requires an amendment or supplement to the Proxy Circular or such application;
  - (ii) of any event, condition or circumstance that would be reasonably expected to cause any representation or warranty of Rally contained in this Agreement to be untrue or inaccurate in any respect on the Effective Date (or, in the case of any representation or warranty made as of a specified date, as of such specified date); and

- (iii) of any material breach by Rally of any covenant, obligation or agreement contained in this Agreement.

### 5.3 Financing Matters

National Oil Production Company S.A.E., the parent company of Acquiror, has entered into a facility agreement with Citibank, N.A. as the Mandated Lead Arranger and the other banks and financial institutions party thereto (collectively, the “**Lenders**”) dated July 25, 2007 pursuant to which the Lenders will provide an acquisition credit facility in the aggregate amount of U.S.\$450,000,000 (the “**Facility**”) on the terms described in such agreement. In connection with the Facility (including any additional Facility or substitute Facility (provided that any substitute Facility shall, in the aggregate, be no less advantageous to Rally)), Rally agrees to provide, and shall cause each of the Subsidiaries and their respective officers, employees, accountants and representatives to provide, at Purchaser’s sole cost and expense, such cooperation as Purchaser may reasonably request in connection with the arrangement, marketing, syndication and closing by Purchaser of the Facility (including any additional or substitute Facility (provided that any substitute Facility shall, in the aggregate, be no less advantageous to Rally)) and the related security arrangements.

### 5.4 General Covenants of Purchaser and Acquiror

Each of Purchaser and Acquiror covenants and agrees that, except as expressly contemplated by this Agreement, the Plan of Arrangement and the other elements of the Transaction (including financing transactions) necessary to implement the Arrangement, until the earlier of the Effective Date and the day upon which this Agreement is terminated:

- (a) in a timely and expeditious manner it shall take all such steps and do all such acts and things as are specified in the Interim Order, the Plan of Arrangement and the Final Order to be taken or done by Purchaser and Acquiror, as applicable;
- (b) Purchaser shall take all necessary action to ensure that Acquiror performs its obligations hereunder, including, without limitation, ensuring that Acquiror has sufficient funds to carry out its obligations under this Agreement, the Arrangement and the other elements of the Transaction and to pay related fees and expenses;
- (c) as soon as reasonably practicable, it shall use all commercially reasonable efforts to satisfy (or cause the satisfaction of) the conditions precedent to its and Rally’s obligations hereunder set forth in Article 6 to the extent the same is within its control and to take, or cause to be taken, all other actions and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the Arrangement and the other elements of the Transaction, including using its commercially reasonable efforts to:
  - (i) effect all necessary registrations, filings and submissions of information requested or required by Governmental Entities (including a post-closing notification under the *Investment Canada Act* (Canada) within 30 days of the Transaction having been completed);

- (ii) oppose, lift or rescind any injunction or restraining order or other order, proceeding or action challenging or affecting this Agreement or the transactions contemplated hereby by seeking to restrain, enjoin or prohibit the consummation of the Transaction in accordance with the terms hereof;
  - (iii) fulfill all conditions and satisfy all provisions of this Agreement required to be fulfilled or satisfied by the Acquiror and Purchaser; and
  - (iv) co-operate with Rally in connection with the performance by it of its obligations hereunder;
- (d) it shall not take any action, refrain from taking any action (subject to its commercially reasonable efforts), or permit any action to be taken or not taken, inconsistent with this Agreement or which would reasonably be expected to materially impede the completion of the Transaction, however, in the event that Purchaser or Acquiror is required to take any such action or refrain from taking such action (subject to its commercially reasonable efforts), it shall immediately notify Rally in writing of such circumstances;
- (e) except for non-substantive communications, it shall furnish promptly to Rally a copy of each notice, report, schedule or other document or communication delivered, filed or received by Purchaser or Acquiror in connection with the Arrangement or the Interim Order, any filings under applicable Laws and any dealings with Governmental Entities in connection with, or in any way affecting, the Transaction;
- (f) in a timely and expeditious manner, it shall provide to Rally all information as may be reasonably requested by Rally or as required by the Interim Order or applicable Laws with respect to Purchaser and Acquiror and their respective Subsidiaries and their respective businesses and properties for inclusion in the Proxy Circular or in any amendments or supplements to such Proxy Circular complying in all material respects with all applicable Laws on the date of mailing thereof and shall ensure such information does not contain any Misrepresentation; and
- (g) it shall promptly advise Rally in writing:
  - (i) of any event, condition or circumstance that might be reasonably expected to cause any representation or warranty of Acquiror or Purchaser contained in this Agreement or the Proxy Circular to be untrue or inaccurate on the Effective Date (or, in the case of any representation or warranty made as of a specified date, as of such specified date); and
  - (ii) of any material breach by Acquiror or Purchaser of any covenant, obligation or agreement contained in this Agreement.

## 5.5 Covenants Regarding Non-Solicitation

- (a) Rally shall not, directly or indirectly, through any officer, director, employee, representative or agent of Rally or any of the Rally Subsidiaries, affiliates, associates or otherwise:
  - (i) solicit, initiate, encourage or otherwise facilitate (including by way of furnishing information or entering into any form of agreement, arrangement or understanding) any inquiries or proposals regarding an Acquisition Proposal or potential Acquisition Proposal;
  - (ii) participate in any negotiations or discussions regarding, or provide any confidential information with respect to or otherwise co-operate in any way in connection with, any Acquisition Proposal or potential Acquisition Proposal;
  - (iii) withhold, withdraw or modify in a manner adverse to Purchaser and Acquiror the approval of the Rally Board of the transactions contemplated hereby;
  - (iv) approve or recommend any Acquisition Proposal or potential Acquisition Proposal; or
  - (v) cause Rally to enter into any agreement related to any Acquisition Proposal or potential Acquisition Proposal;

provided however that, notwithstanding the preceding part of this Section 5.5(a), nothing shall prevent the Rally Board, prior to the approval of the Arrangement Resolution by the Securityholders at the Rally Meeting, from considering, participating in discussions or negotiations in respect of or responding to an unsolicited *bona fide* written Acquisition Proposal from any person (but, subject to Section 5.6, not announce, approve, recommend, accept or enter into any agreement, arrangement or understanding with respect to such Acquisition Proposal), provided that:

- (A) the Rally Board determines in good faith, after consultation with its financial and outside legal advisors, that the Acquisition Proposal is a Superior Proposal;
- (B) the Rally Board after consultation with its outside legal advisors, determines in good faith that it is necessary for the Rally Board to take such action in order to avoid breaching its fiduciary duties; and
- (C) prior to entering into discussions or negotiations with any person regarding the Superior Proposal, Rally notifies Acquiror and Purchaser of its determination that such Acquisition Proposal

constitutes a Superior Proposal and otherwise complies with its obligations under this Section 5.5 and Section 5.6;

- (b) Forthwith upon execution of this Agreement, Rally shall cease and cause to be terminated any discussion, negotiations, solicitation, encouragement, or activity by Rally or its Subsidiaries, affiliates, associates, representatives or agents with any parties other than the other Parties hereto, with respect to any potential Acquisition Proposal, and in connection therewith, Rally will request (and exercise all rights it has to require) the return or destruction of information regarding Rally and its Subsidiaries previously provided to any such person or any other person. Unless the express terms of the applicable confidentiality and standstill agreements requires a release, waiver or modification as a result of the Transaction, Rally agrees not to release any third party from any confidentiality or standstill agreement to which such third party is a party, or modify or waive the terms thereof. Notwithstanding the foregoing, the Rally Board may release any Standstill Party from any confidentiality obligation or standstill obligation to which they are subject in respect of Rally (or waive or modify such obligation) in the event that the Rally Board determines, in its discretion, without breaching any provision of this Agreement, that such person is reasonably likely to make, or has made, a Superior Proposal (it being acknowledged and agreed that the release of any of the Standstill Parties as aforesaid, shall not in and of itself constitute a breach of this Agreement);
- (c) Promptly, and in any event within 24 hours, after the receipt by directors or senior officers of Rally or by its Subsidiaries, affiliates, associates, representatives or agents of any *bona fide* written Acquisition Proposal, or any material amendments to such Acquisition Proposal, or any request for non-public information relating to Rally or any of its Subsidiaries, Rally shall notify Acquiror and Purchaser at first orally and then in writing. Such written notice shall include a description of the terms and conditions of any inquiry or Acquisition Proposal or any amendment thereto, the identity of the person making such inquiry or Acquisition Proposal and provide such other details of the Acquisition Proposal or inquiry as Acquiror or Purchaser may reasonably request, including a copy of any written Acquisition Proposal. Rally shall, upon request of Acquiror or Purchaser, promptly inform Acquiror or Purchaser of the status, including any change to the material terms, of any such Acquisition Proposal;
- (d) If, prior to the approval of the Arrangement Resolution by the Securityholders at the Rally Meeting, Rally receives a request for material non-public information from a person who proposes an Acquisition Proposal in respect of Rally (the existence and content of which have been disclosed to Purchaser or Acquiror as aforesaid), and the Rally Board determines that such proposal is, or if consummated in the form proposed would be, a Superior Proposal pursuant to Section 5.5(a) then, and only in such case, the Rally Board may, subject to the execution of a confidentiality agreement, provide such person with access to information regarding Rally; provided, however, that:

- (i) Rally sends a copy of any such confidentiality agreement to Purchaser and Acquiror immediately upon its execution;
  - (ii) the confidentiality agreement in question contains terms and conditions that are no more favourable (as determined by the Rally Board, acting reasonably, after consultation with its financial and outside legal advisors) than the terms and conditions contained in the Confidentiality Agreement;
  - (iii) the confidentiality agreement provides a standstill provision in reasonably customary form pursuant to which such person unconditionally covenants not to acquire or offer to acquire any securities of Rally for a period of at least 12 months following execution of the confidentiality agreement other than pursuant to the Superior Proposal; and
  - (iv) Purchaser and Acquiror are provided with a list of, and access to, the information, if any, provided to such person that was not previously provided to Purchaser and Acquiror;
- (e) Rally shall reaffirm its recommendation of the transaction to be effected by the Arrangement by press release promptly after: (i) any Acquisition Proposal which is publicly announced is determined not to be a Superior Proposal; or (ii) Rally, Purchaser and Acquiror enter into an amended Agreement pursuant to Section 5.6(b) which results in the Acquisition Proposal not being a Superior Proposal; and
- (f) Rally shall ensure that its officers, directors and employees and its Subsidiaries and any financial advisors or other advisors or representatives retained by it are aware of the provisions of this Section 5.5 and use its reasonable commercial efforts to ensure that such persons comply with these provisions.

## 5.6 Notice by Rally of Superior Proposal Determination

- (a) Rally covenants that:
- (i) it shall not, other than as expressly permitted by Sections 5.6(a)(ii)(A) through (E), accept, approve, recommend or enter into any agreement in respect of an Acquisition Proposal (a “**Proposed Agreement**”) (other than a confidentiality agreement in accordance with Section 5.5(d)) on the basis that it would constitute a Superior Proposal; and
  - (ii) Rally’s Board will not withdraw, modify or change its recommendation concerning the Arrangement after the public announcement of an Acquisition Proposal that is a Superior Proposal in respect of which no Proposed Agreement has been or is proposed to be entered into (an “**Announced Acquisition Proposal**”) or recommend any Announced Acquisition Proposal unless:

- (A) it has provided Purchaser and Acquiror with written notice that the Rally Board has determined that it has received a Superior Proposal and, in the case of clause (a)(i) above, it has provided Acquiror and Purchaser with a copy of any Proposed Agreement executed by the party making such Superior Proposal not less than four business days prior to its proposed execution by Rally, and in the case of clause (a)(ii) above, it has provided Purchaser and Acquiror with not less than four business days written notice that the Rally Board intends to withdraw, modify or change its recommendation regarding the Arrangement following the public announcement of an Announced Acquisition Proposal or to recommend any Announced Acquisition Proposal (either such four business day period, the “**Notice Period**”);
  - (B) it has complied with Section 5.5 with respect thereto;
  - (C) the approval of the Arrangement by the Securityholders has not yet occurred;
  - (D) it has complied with the other provisions of this Section 5.6; and
  - (E) before entering to any Proposed Agreement, this Agreement shall have been terminated pursuant to Section 8.1(e).
- (b) During the Notice Period, Rally acknowledges that Acquiror shall have the opportunity, but not the obligation, to offer to amend the terms of this Agreement and the Arrangement. The Rally Board will review any offer by Purchaser or Acquiror to amend the terms of this Agreement in good faith in order to determine, in its discretion in the exercise of its fiduciary duties, whether any such amended offer upon acceptance by Rally would result in such Superior Proposal ceasing to be a Superior Proposal. If the Rally Board so determines, it will enter into an amended agreement with Acquiror reflecting Purchaser’s or Acquiror’s amended proposal. If: (i) Purchaser or Acquiror do not offer to amend the terms of this Agreement and the Arrangement; or (ii) Purchaser or the Acquiror provides an amended proposal and the Rally Board determines, in good faith and after consultation with its financial and outside legal advisors that such Superior Proposal continues to be a Superior Proposal and therefore rejects the amended proposal; and (iii) Rally has complied with Section 5.5 and the other requirements of this Section 5.6, Rally shall be entitled to enter into the Proposed Agreement and withdraw, modify or change its recommendation concerning the Arrangement and recommend the Superior Proposal.
- (c) If Rally provides Acquiror with notice under Section 5.6(a) on a date that is less than four business days before the date of the Rally Meeting, subject to applicable Laws, Rally shall postpone or adjourn the Rally Meeting to a date that is at least seven business days but not more than 10 business days after the scheduled date of the Rally Meeting.

- (d) Rally also acknowledges and agrees that each successive modification of any Acquisition Proposal shall constitute a new Acquisition Proposal for purposes of the requirement under Section 5.6(a) to initiate an additional four business day notice period.

## 5.7 Access to Information

- (a) Subject to Section 5.7(b) and applicable Laws, upon reasonable notice, Rally shall (and shall cause each of its Subsidiaries to) afford Purchaser's and Acquiror's officers, employees, counsel, accountants and other authorized representatives and advisors ("**Representatives**") reasonable access, during normal business hours from the date hereof and until the earlier of the Effective Time or the termination of this Agreement, to its and its Subsidiaries financial or accounting records, properties, books, contracts and records (including technical, geological, petrophysical and engineering data) as well as to its management and other personnel, and, during such period, Rally shall (and shall cause each of its Subsidiaries to) furnish promptly to Purchaser and Acquiror all information concerning Rally's and its Subsidiaries business, operations, properties and personnel as Purchaser and Acquiror may reasonably request. Nothing in the foregoing shall require Rally to disclose information subject to a written confidentiality agreement with third parties, or customer-specific or competitively sensitive information relating to areas or projects where Purchaser, Acquiror or any of their respective affiliates is a direct competitor. Rally agrees to consult and cooperate in a reasonable manner with Purchaser and Acquiror with respect to (i) any of the foregoing matters, (ii) any matters relating to material litigation to which Rally is a party, and (iii) all field development plans with respect to Rally's operations in Egypt and Pakistan, in order to achieve maximum increase in production and reserves in the shortest possible time.
- (b) Each of Purchaser and Acquiror acknowledges that information provided by Rally to it under Sections 5.5(c), 5.5(d) and 5.7 is subject to the terms of the Confidentiality Agreement which shall remain in full force and effect notwithstanding any other provision of this Agreement or any termination of this Agreement.

## 5.8 Directors' and Officers' Insurance

- (a) Purchaser and Acquiror shall ensure that the by-laws of Rally and any corporation continuing following any amalgamation, merger, plan of arrangement, consolidation or winding-up of Rally with or into one or more other persons (a "**Continuing Corporation**") shall, subject to applicable Law, contain provisions with respect to indemnification that are substantially similar to those set forth in Rally's by-laws, which provisions shall not, except to the extent required by Law, be amended, repealed or otherwise modified for a period of six years from the Effective Date in any manner that would materially and adversely affect the rights thereunder of individuals who, immediately prior to the Effective Time, were directors, officers, employees or agents of Rally, and, subject to applicable Law,

Purchaser and Acquiror shall ensure that the obligations of Rally under any indemnification agreements between Rally and its directors and certain officers continue in place and are assumed by, if applicable, any Continuing Corporation.

- (b) Each of Purchaser and Acquiror agrees that Rally shall, prior to the Effective Time, purchase and maintain for the period from the Effective Time until six years after the Effective Time on a “trailing” (or “run-off”) basis, a directors’ and officers’ insurance policy for all present and former directors and officers of Rally, covering claims made prior to or within six years after the Effective Time, on terms and conditions which are no less advantageous to the directors and officers of Rally than Rally’s existing directors’ and officers’ insurance policies and providing no less than \$25,000,000 of coverage for all such present and former directors and officers of Rally provided, however, that in purchasing and maintaining such policy, Rally shall not pay more than \$500,000 unless Purchaser consents otherwise.

## **5.9 Additional Covenants of Rally**

Rally covenants to use its commercially reasonable efforts from the execution of this Agreement until the Effective Time to:

- (a) pursuant to the Pakistan Petroleum (Exploration and Production) Rules, 2001, work with Purchaser to obtain the consent of the Government of Pakistan in connection with the disposition of the share capital of a working interest holder or its parent company, that will occur with respect to RESK in connection with the Transaction, in form and substance satisfactory to Purchaser, acting reasonably, provided, however, that the failure to obtain such consent shall not constitute a failure to satisfy the condition at Section 6.3(d);
- (b) if requested by Purchaser, work with Purchaser to:
  - (i) obtain a grant from the Government of Pakistan to each of RESK, Dewan Petroleum Private Limited and Oil and Gas Investments Limited of a new Development and Production Lease in proportion to the respective working interests held by each party under Development and Production Lease No. 172/PAK/2006 dated April 22, 2006, in form and substance substantially similar to the existing lease referenced above and satisfactory to Purchaser and Acquiror, acting reasonably, or
  - (ii) implement such other reasonable remedial measures to achieve substantially the same result,

provided, however, that the failure to obtain such grant or result shall not constitute a failure to satisfy the condition at Section 6.3(d);
- (c) to the extent required, work with Purchaser to obtain the consent of the Government of Pakistan to file amended Deeds of Assignment in respect of the Development and Production Lease No. 172/PAK/2006 dated April 22, 2006, in

form and substance satisfactory to Purchaser and Acquiror, acting reasonably, that corrects the typographical error in the original Deeds of Assignment that referred to the incorrect lease number, provided, however, that the failure to obtain such consent shall not constitute a failure to satisfy the condition at Section 6.3(d);

- (d) cause SPEL to obtain the approval of GPC for the first five-year extension of the initial term of the commercial development period contemplated under the Issaran PSA, extending the expiry date of the Issaran PSA from October 18, 2021 to October 18, 2026, provided, however, that the failure to obtain such approval shall not constitute a failure to satisfy the condition at Section 6.3(d); and
- (e) resist any challenge to the rights of RESK under the Petroleum Exploration License No. 299/PAK/2002, its rights in respect of the Safed Koh Concession or its rights under the related Development and Production Lease and, to the extent any such challenge is commenced, shall, if requested by Purchaser, attempt to resolve such dispute, in a manner satisfactory to Purchaser, acting reasonably.

### **5.10 Merger of Covenants**

The covenants set out in this Agreement (except for Sections 5.7(b), 5.8, 5.10 and 9.1 which shall survive the completion of the Arrangement and except for Sections 5.7(b), 5.10 and 8.2 which shall survive the termination of this Agreement) shall not survive the completion of the Arrangement, and shall expire and be terminated without recourse between the Parties upon such completion.

## **ARTICLE 6 CONDITIONS**

### **6.1 Mutual Conditions**

The obligations of Rally, Purchaser and Acquiror to complete the Arrangement and the other transactions contemplated herein are subject to the fulfilment of the following conditions at or before the Effective Time or such other time as is specified below:

- (a) the Interim Order shall have been granted in form and substance satisfactory to the Parties, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;
- (b) the Arrangement Resolution shall have been approved by the Securityholders at the Rally Meeting, in accordance with the Interim Order;
- (c) the Final Order shall have been granted in form and substance satisfactory to the Parties, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;
- (d) the Articles of Arrangement shall be in form and substance consistent with this Agreement and satisfactory to the Parties, acting reasonably;

- (e) the Effective Date shall occur on or before November 30, 2007, subject to any extension available to a Party pursuant to Section 6.4;
- (f) this Agreement shall not have been terminated pursuant to Article 8;
- (g) there shall be no action taken under any existing applicable Laws or any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or governmental authority or similar agency, domestic or foreign, that:
  - (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated herein which are necessary to complete the Arrangement; or
  - (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated herein; and
- (h) Rally shall have obtained all consents, approvals and authorizations (including, without limitation, the TSX, securities commission and other regulatory approvals) required or necessary in connection with the transactions contemplated herein on terms and conditions satisfactory to Rally and Purchaser, acting reasonably, and all applicable domestic and foreign statutory or regulatory waiting periods to the transactions contemplated under the Arrangement shall have expired or been terminated, and no objection or opposition shall have been filed, initiated or made by any regulatory authority during any applicable statutory or regulatory period.

The foregoing conditions are for the mutual benefit of Rally on the one hand and Purchaser and Acquiror on the other hand and may be waived, in whole or in part, by the Parties, at any time. If any of the said conditions precedent shall not be complied with or waived as aforesaid on or before November 30, 2007 then, subject to Section 6.4, any Party may rescind and terminate this Agreement by written notice to the other Parties in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of such rescinding Party's breach of this Agreement.

## **6.2 Rally Conditions**

The obligation of Rally to complete the Arrangement and the other transactions contemplated herein is subject to the fulfilment of the following additional conditions at or before the Effective Time or such other time as specified below:

- (a) the representations and warranties made by Purchaser in this Agreement which are qualified by the expression "material", "material adverse change" or "material adverse effect" shall be true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties expressly speak as of an earlier date, in which event such representations and warranties shall be true and correct as of such earlier date) and all other representations and warranties made by Purchaser in this Agreement which are not so qualified shall be true and correct in all material respects as of the date of this Agreement and as of

the Effective Date as if made on such date (except to the extent that such representations and warranties expressly speak of an earlier date, in which event, such representations and warranties shall be true and correct in all material respect as of such earlier date), and Purchaser shall have provided to Rally a certificate of two authorized persons certifying such accuracy on the Effective Date;

- (b) each of Purchaser and Acquiror shall have complied in all material respects with its covenants herein, and each of Purchaser and Acquiror shall have provided to Rally a certificate of two authorized persons dated as of the Effective Date certifying that it has so complied with its covenants herein;
- (c) on or before the date that this Agreement is executed, Acquiror shall have provided written evidence reasonably satisfactory to Rally that it has access to the funds necessary to complete the transactions contemplated hereby;
- (d) each director and senior officer of Rally shall have received a release substantially as set forth in Section 6.3(g); and
- (e) two weeks prior to closing of the Transaction, Purchaser shall have provided Rally with a list of the senior officers and consultants that it requests to continue in office following the Effective Time.

The foregoing conditions precedent are for the exclusive benefit of Rally and may be waived, in whole or in part, by Rally in writing at any time. If any of the said conditions shall not be complied with or waived by Rally on or before November 30, 2007, then subject to Section 6.4, Rally may rescind and terminate this Agreement by written notice to Purchaser and Acquiror in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of Rally's breach of this Agreement.

### **6.3 Purchaser and Acquiror Conditions**

The obligation of Purchaser and Acquiror to complete the Arrangement and the other transactions contemplated herein is subject to the fulfilment of the following additional conditions at or before the Effective Time or such other time as specified below:

- (a) except with respect to information that has been Publicly Disclosed by Rally prior to the date hereof or disclosed in writing prior to the date hereof, the representations and warranties made by Rally in this Agreement which are qualified by the expression "material", "material adverse change" or "material adverse effect" shall be true and correct as of the date of this Agreement and as of the Effective Date as if made on such date (except to the extent that such representations and warranties expressly speak of an earlier date, in which event, such representations and warranties shall be true and correct as of such earlier date) and all other representations and warranties made by Rally in this Agreement which are not so qualified shall be true and correct in all material respects as of the date of this Agreement and as of the Effective Date as if made on such date (except to the extent that such representations and warranties expressly speak of an earlier date, in which event, such representations and warranties shall be true and correct

in all material respect as of such earlier date), and Rally shall have provided to Purchaser and Acquiror a certificate of two qualified officers certifying such accuracy on the Effective Date;

- (b) from the date hereof up to and including the Effective Time, there shall not have occurred or have been disclosed to the public a material adverse change in respect of Rally (it being understood and agreed that for the purposes of this Section 6.3(b), a material adverse change shall not include a change, effect, event, occurrence, circumstance or state of facts relating to general political conditions in Pakistan) that has not been Publicly Disclosed by Rally prior to the date hereof or disclosed to Purchaser or Acquiror in writing prior to the date hereof, and Rally shall have provided to Purchaser and Acquiror a certificate of two qualified officers to such effect on the Effective Date;
- (c) Dissent Rights shall not have been exercised in respect of more than 5% of Rally Shares (on a fully-diluted basis);
- (d) Rally shall have complied in all material respects with its covenants herein, and Rally shall have provided to Purchaser and Acquiror a certificate of two qualified officers dated as of the Effective Date certifying that Rally has so complied with its covenants herein;
- (e) the Rally Board shall have adopted all necessary resolutions, and all other necessary corporate and judicial action shall have been taken by Rally, to permit the consummation of the Arrangement;
- (f) the Rally Board shall not have approved or recommended any Acquisition Proposal;
- (g) Rally shall have delivered to Purchaser resignations of all individuals who are currently directors or officers of Rally or any of its Subsidiaries, except to the extent that Rally shall have been otherwise notified by Purchaser, together with duly executed comprehensive mutual releases from each such individual of all of their claims, respectively, against Rally and its Subsidiaries (except for any claims of unpaid remuneration, including bonus, severance and change of control payments) on the one hand, and from Rally and its Subsidiaries of all of its claims against each director and senior officer of Rally, except for claims relating to fraud, intentional misrepresentation or wilful misconduct;
- (h) no person other than Acquiror and Purchaser shall have entered into a definitive agreement or an agreement in principle with Rally with respect to a confidentiality agreement or an Acquisition Proposal since the date of this Agreement;
- (i) any consents, waivers, permits, orders and approvals of any Governmental Entity and the expiry of any waiting periods, in connection with, or required to permit, the consummation of the Arrangement, the failure of which to obtain would render completion of the Arrangement unlawful or impractical, shall have been obtained

or satisfied on terms that would not reasonably be expected to have a material adverse effect on Purchaser, Acquiror or Rally;

- (j) the Commissioner of Competition appointed under the *Competition Act* (Canada) shall not have filed an application or threatened to file an application for an order under Part VIII of the *Competition Act* (Canada), or any such application, order or threat shall have been rescinded;
- (k) Rally shall have provided Purchaser and Acquiror with evidence satisfactory to them, acting reasonably, that any and all Encumbrances held by the IFC shall have been discharged, together with a payout letter from the IFC; and
- (l) there shall not be pending or, to the knowledge of Rally, threatened, any suit, action or proceeding by any person, including a Governmental Entity:
  - (i) seeking to prohibit or restrict the acquisition by Acquiror of any Rally Shares or Rally Options, seeking to restrain or prohibit the consummation of the Arrangement or any of the other elements of the Transaction or seeking to obtain from Rally, Purchaser or Acquiror any material damages directly or indirectly in connection with the Arrangement,
  - (ii) seeking to prohibit or materially limit the ownership or operation by Acquiror, Purchaser or any of their respective affiliates of Rally or any material portion of the business or assets of Rally or any of its Subsidiaries or to compel Purchaser or Acquiror to dispose of or hold separate any portion of the business or assets of Rally or any of its Subsidiaries,
  - (iii) seeking to impose limitations on the ability of Purchaser, Acquiror or any of their respective affiliates to acquire or hold, or exercise full rights of ownership of the Rally Shares, including the right to vote on all matters properly presented to the shareholders of Rally,
  - (iv) seeking to prohibit Purchaser, Acquiror or any of their respective affiliates from effectively controlling in any material respect the business or operations of Rally or any of its Subsidiaries, or
  - (v) which, if successful, in the judgement of Acquiror or Purchaser is reasonably likely to have a material adverse effect on Purchaser, Acquiror, Rally or any of its Subsidiaries.

The foregoing conditions precedent are for the exclusive benefit of Purchaser and Acquiror and may be waived, in whole or in part, by Purchaser and Acquiror in writing at any time. If any of the said conditions shall not be complied with or waived by Purchaser and Acquiror on or before November 30, 2007, then subject to Section 6.4, Purchaser and Acquiror may rescind and terminate this Agreement by written notice to Rally in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of Purchaser's or Acquiror's breach of this Agreement; provided, however, that unless the failure to satisfy the conditions under Section

6.3(a) or 6.3(d) constitutes a material adverse change, neither Purchaser nor Acquiror may rescind and terminate this Agreement.

#### **6.4 Notice and Cure Provisions**

Each Party will give prompt notice to the other Parties of the occurrence, or failure to occur, at any time from the date hereof until the Effective Date, of any event or state of facts which occurrence or failure would, or would reasonably be likely to:

- (a) cause any of the representations or warranties of any other Party contained herein to be untrue or inaccurate in any material respect on the date hereof or on the Effective Date, as applicable;
- (b) result in the failure to comply with or satisfy any covenant or agreement to be complied with or satisfied by any other Party prior to the Effective Date; or
- (c) result in the failure to satisfy any of the conditions precedent in its favour contained in Sections 6.1, 6.2 or 6.3, as the case may be.

Subject as herein provided, a Party may elect not to complete the transactions contemplated hereby pursuant to the conditions precedent in its favour contained in Sections 6.1, 6.2 and 6.3, as applicable, or exercise any termination right arising therefrom provided, however, that: (A) forthwith and in any event prior to the filing of the Final Order and Articles of Arrangement for acceptance by the Director, the Party intending to rely thereon has delivered a written notice to the other Parties specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the Party delivering such notice is asserting as the basis for the non-fulfilment of the applicable condition precedent or termination right, as the case may be, and (B) if any such notice is delivered, and a Party is proceeding diligently to cure such matter, if such matter is capable of being cured, the other Parties may not terminate this Agreement until the later of November 30, 2007 and the expiration of a period of 30 days from such notice. If such notice has been delivered prior to the date of the Rally Meeting, Rally shall have the right, but not the obligation, to postpone such meeting until the expiry of such period.

#### **6.5 Merger of Conditions**

The conditions set out in Sections 6.1, 6.2 and 6.3 shall be conclusively deemed to have been satisfied, waived or released upon the filing of Articles of Arrangement as contemplated by this Agreement, and the issuance of a Certificate of Arrangement under the OBCA. Rally acknowledges and agrees that it shall have no right to file Articles of Arrangement unless such conditions have been satisfied, fulfilled or waived.

## **ARTICLE 7 AMENDMENT**

### **7.1 Amendment**

Subject to the provisions of the Interim Order and the Plan of Arrangement, this Agreement may, at any time and from time to time before or after the holding of the Rally Meeting, be amended by mutual written agreement of the Parties without further notice to or authorization on the part of the Securityholders, and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the Parties;
- (b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the Parties; and
- (d) waive compliance with or modify any conditions precedent herein contained;

provided, however, that any such change, waiver or modification does not: (i) invalidate any required Securityholder approval of the Arrangement; or (ii) after the holding of the Rally Meeting, result in an adverse change in the quantum or form of consideration payable to Securityholders pursuant to the Arrangement.

### **7.2 Mutual Understanding Regarding Amendments**

In addition to the transactions contemplated hereby or at the request of a Party, the Parties will continue from and after the date hereof and through and including the Effective Date, to use their respective commercially reasonable efforts to maximize present and future planning opportunities for Purchaser and Acquiror and for Rally and its Subsidiaries as and to the extent that the same shall not prejudice any Party or its securityholders. Without limiting the generality of the foregoing, Rally shall assist and co-operate with Purchaser and Acquiror in determining whether the Canadian tax “bump” rules would apply on a reorganization following the Effective Date involving Acquiror, Rally and Scimitar Hydrocarbons Corporation (including, without limitation, successive amalgamations of Acquiror, Rally and the amalgamated corporation and Scimitar Hydrocarbons Corporation) to include the amount determined under paragraph 88(1)(d) of the Tax Act when calculating the tax cost of capital property held by each successive amalgamated corporation (including shares of Rally’s Subsidiaries held by such corporations) pursuant to paragraph 88(1)(c) of the Tax Act, and the form of transaction structure necessary to achieve the application of the Canadian tax “bump” rules as described above. Such planning opportunities shall be implemented only upon the prior written agreement of the Parties. The Parties will ensure that such planning activities do not impede the progress of the Arrangement in any material way. If Rally effects any transaction contemplated hereby or upon Purchaser’s or Acquiror’s request before the Effective Date for such purposes, Purchaser and Acquiror will be responsible for any structuring and unwinding costs if the Arrangement is not effected, including

the reasonable fees and disbursements of legal counsel, accountants and any other advisors of Rally.

The Parties mutually agree that if a Party proposes any other amendment or amendments to this Agreement or to the Plan of Arrangement, Rally on the one hand and Purchaser and Acquiror on the other hand will act reasonably in considering such amendment and if the other Party or Parties and their securityholders are not prejudiced by reason of any such amendment, the other Party or Parties will co-operate in a reasonable fashion with the Party proposing the amendment so that such amendment can be effected subject to applicable Laws and the rights of the securityholders.

Rally covenants and agrees to co-operate with Purchaser and Acquiror, upon their request, in invoking at Purchaser's and Acquiror's request a right of first refusal or right of first offer mechanism in favour of the co-owners, joint venturers or partners of one or more Rally properties contained in any co-ownership, joint venture, partnership or similar agreements to which Rally or any of its Subsidiaries is a party in order to give the other co-owners, joint venturers or partners the right to purchase Rally's or its Subsidiary's interests in the affected properties if such rights are triggered as a result of the Arrangement or if Purchaser and Acquiror choose to offer such rights to such co-owners, joint venturers or partners.

## **ARTICLE 8 TERMINATION**

### **8.1 Termination**

This Agreement may be terminated at any time prior to the Effective Date:

- (a) by mutual written consent of the Parties;
- (b) as provided in Sections 6.1, 6.2 and 6.3, subject to Section 6.4;
- (c) by Purchaser and Acquiror if, prior to the Effective Time:
  - (i) the Rally Board shall have withdrawn, withheld, qualified or modified in a manner adverse to Purchaser its recommendation of the Arrangement and this Agreement;
  - (ii) the Rally Board shall have approved or recommended any Acquisition Proposal;
  - (iii) Rally shall have breached Section 5.5 or Section 5.6;
  - (iv) after a period of five business days after public announcement of an Acquisition Proposal, the Rally Board shall have failed to reaffirm its recommendation of the Arrangement and this Agreement; or

- (v) Purchaser requests that the Rally Board reaffirm its recommendation of the Arrangement and this Agreement and the Rally Board shall not have done so by the third business day following receipt of such request;
- (d) by Purchaser and Acquiror or by Rally if the Rally Meeting shall have been held and completed and the approval of the Arrangement by Securityholders in the manner required by Section 6.1(b) shall not have occurred;
- (e) subject to prior payment by Rally to Purchaser or Acquiror of the amount payable under Section 8.2, by Rally, as contemplated by Section 5.6(a)(ii)(E) after following the protocol prescribed by paragraphs (A) through (D) of Section 5.6(a)(ii); or
- (f) by Purchaser and Acquiror if the Rally Meeting has not occurred on or before September 17, 2007.

## 8.2 Break Fee

If:

- (a) this Agreement is terminated by Rally pursuant to Section 8.1(e);
- (b) this Agreement is terminated by Purchaser and Acquiror pursuant to Section 8.1(c); or
- (c) this Agreement is terminated by Purchaser, Acquiror or Rally pursuant to Section 8.1(d) or 8.1(f) and,
  - (i) after the date of this Agreement and prior to such termination (in the case of Section 8.1(f)) or prior to the date of the Rally Meeting (in the case of Section 8.1(d)), an Acquisition Proposal is made or publicly disclosed and not publicly withdrawn prior to such date; and
  - (ii) concurrently with such termination or within 12 months following such termination, Rally enters into or submits to the Shareholders for approval, an agreement with respect to an Acquisition Proposal, or an Acquisition Proposal is consummated;

then Rally shall pay to Purchaser, in the case of Section 8.2(a) prior to termination of this Agreement, in the case of Section 8.2(b) within five business days following the termination of this Agreement, and in the case of Section 8.2(c) within five business days of the entering into an agreement with respect to an Acquisition Proposal, the submission of such a proposal to shareholders or the consummation of the Acquisition Proposal, as applicable, the amount of \$24,000,000 in immediately available funds to an account designated by Purchaser and Acquiror (the “**Break Fee**”). For greater certainty, the Parties agree that Rally shall not be obligated to make more than one payment pursuant to this Section 8.2. In addition, Rally agrees to indemnify and to reimburse Purchaser, to a maximum of \$12,000,000 in connection with the fees and expenses incurred by Purchaser, or its affiliates, in putting in place the hedging arrangements

(the “**Hedging Costs**”) that are a condition precedent to the obligations of the lender under the Facility (including any additional or substitute Facility (provided that any substitute Facility shall, in the aggregate, be no less advantageous to Rally)) to advance funds under such facility, in the event that, prior to the Effective Time, the Agreement is terminated in the circumstances set forth in Sections 8.1(c), 8.1(d), 8.1(e) or 8.1(f) (provided that in the case of Section 8.1(f) the events in Sections 8.2(c)(i) and 8.2(c)(ii) have occurred).

For certainty, the obligation of Rally to indemnify Purchaser as aforesaid, shall only apply to the extent that the Hedging Costs exceed \$24,000,000, and thereafter, on a dollar for dollar basis to a maximum indemnity of \$12,000,000. In the event that Rally is required to make an indemnification payment to Purchaser under this section, such payment shall be paid in the same manner and at the same time as the Break Fee or the Non-Completion Fee (as the case may be) provided that prior to the time of payment, Purchaser shall have provided reasonable evidence to Rally of the amount of the Hedging Costs.

### **8.3 Non-Completion Fee**

- (a) Subject to Section 6.4, Purchaser will pay to Rally a fee of \$2,000,000 if Rally terminates this Agreement pursuant to Section 8.1(b) as a result of a condition contained in either Section 6.2(a), 6.2(b) or 6.2(c) not being satisfied;
- (b) Subject to Section 6.4, Rally will pay to Purchaser a fee of \$6,000,000 if either Purchaser or Acquiror terminates this Agreement pursuant to Section 8.1(b) as a result of a condition contained in any of Sections 6.1(b), 6.3(a) or 6.3(d) not being satisfied;
- (c) The Parties acknowledge and agree that the payment of the fee specified in either (a) or (b), as the case may be, above represents a genuine pre-estimate of “out-of-pocket” expenses with respect to the termination of this Agreement as a result of the failure to satisfy the applicable condition; and
- (d) Purchaser, Acquiror and Rally, agree that the fee specified in (a) or (b) above (a “**Non-Completion Fee**”) will be paid upon the occurrence of any such termination of the Agreement and in any event within five business days after the termination of the Agreement to the account designated by the Party entitled to receive the payment. For greater certainty, the Parties agree that Purchaser and Acquiror, on the one hand, and Rally, on the other hand, shall not be obligated to make more than one payment pursuant to this Section 8.3.

### **8.4 Effect of Termination**

In the event of termination in accordance with Section 8.1, written notice shall be provided forthwith by the terminating Party to the other Parties, specifying the provision pursuant to which the termination is being made and except as expressly provided in Section 5.9 or Section 8.3, each Party shall be deemed to have released, remised and forever discharged the other Parties in respect of any and all claims arising in respect of this Agreement; provided that no Party will be relieved from liability for any breach of any covenant, representation or warranty contained in this Agreement prior to such termination; however Rally will be relieved from

liability for any breach of any covenant, representation or warranty in this Agreement upon payment of the Break Fee and any Party paying a Non-Completion Fee pursuant to Section 8.3 or a Guarantee Fee pursuant to the Escrow Agreement shall also be relieved from liability for any breach of any covenant, representation, warranty or other agreement contained in this Agreement prior to such termination upon payment of such fee. Notwithstanding anything in this Section 8.4 to the contrary, payment by Rally and acceptance by Purchaser of the amounts required to be paid pursuant to Section 8.2 shall not be in lieu of any damages or any other payment or remedy available in the event of any wilful or intentional breach by Rally of any of its obligations under this Agreement. In the event this Agreement is terminated as aforesaid Purchaser shall forthwith return to Rally all materials or copies of materials delivered by Rally and destroy any copies thereof, except for any materials that are necessary in connection with disputes relating to the Transaction.

## ARTICLE 9

### REPRESENTATIONS, WARRANTIES AND COVENANTS OF CITADEL AND NPC

#### 9.1 Representations, Warranties and Covenants

Citadel and NPC are parties to this Agreement solely for the purpose of making the following representations, warranties and covenants:

- (a) Citadel and NPC jointly and severally represent, warrant and covenant to Rally (and acknowledges that Rally is relying on such representations, warranties and covenants in connection with the entering into of this Agreement) that in order to complete the Transaction, Purchaser will require US \$375,439,305 in equity investments which amount will be financed as follows:
  - (i) as to US \$40,000,000 from an equity investment in Purchaser made by Citadel;
  - (ii) as to US \$120,000,000 from an equity investment in Purchaser made by NPC;
  - (iii) as to US \$142,000,000 from irrevocable equity contributions to Purchaser (the "**Equity Contributions**") from certain entities that have agreed to co-invest with Citadel and NPC in connection with the Transaction (the "**Co-Investors**"); and
  - (iv) as to the remaining US \$73,439,305 from a subordinated shareholder financing that has been irrevocably committed by Citadel, NPC and the Co-Investors (the "**Subordinate Shareholder Financing**").
- (b) Citadel and NPC jointly and severally represent, warrant and covenant to Rally (and acknowledges that Rally is relying on such representations, warranties and covenants in connection with the entering into of this Agreement) that:

- (i) the Equity Contributions and the Subordinate Shareholder Financing, in addition to being irrevocable commitments will not, at the Effective Time, be subject to any conditions;
- (ii) Citadel's and NPC's commitments to subscribe for equity of Purchaser in the manner described in clauses (a)(i) and (a)(ii) above and their obligations in connection with the Subordinate Shareholder Financing are irrevocable and at the Effective Time, will not be subject to any conditions;
- (iii) Purchaser will have, at the Effective Time, sufficient financial resources to complete the Transaction in the manner contemplated in this Agreement; and
- (iv) the financial statements of Citadel as at, and for the year ended December 31, 2006 that were provided to Rally were prepared in accordance with Egyptian accounting standards and comply with applicable Egyptian Laws and regulations and present fairly, in all material respects, the assets, liabilities (whether accrued, absolute, contingent or otherwise) and financial condition of Citadel as of the respective dates thereof and for the respective periods covered thereby applied on a basis consistent with the immediately prior period and throughout the periods indicated. In addition, nothing has occurred since December 31, 2006 which would materially impair Citadel's ability to fund its portion of the equity investment in Purchaser referred to in Section 9.1(a)(i) above and its portion of the Subordinate Shareholder Financing.

## **ARTICLE 10 GENERAL**

### **10.1 Expenses**

- (a) The Parties agree that all out-of-pocket third party transaction expenses incurred in connection with this Agreement and the other elements of the Transaction, including legal fees, financial advisor fees and all disbursements by advisors, shall be paid by the Party incurring such expenses, whether or not the Arrangement is consummated. It is understood and agreed that Purchaser and Acquiror shall be responsible for any expenses incurred in connection with the planning activities pursuant to Section 7.2, whether or not the Arrangement is consummated.
- (b) Section 10.1 of the Rally Disclosure Letter sets forth Rally's good faith estimate of the aggregate out-of-pocket expenses that it and its Subsidiaries will incur in connection with this Agreement and the other elements of the Transaction through to the Effective Date.

### **10.2 Remedies**

The Parties acknowledge and agree that an award of money damages would be inadequate for any breach of this Agreement by any Party or its representatives and advisors and that such

breach would cause the non-breaching Party irreparable harm. Accordingly, the Parties agree that, in the event of any such breach or threatened breach of this Agreement by one of the Parties, Rally (if either Purchaser or Acquiror is the breaching Party) or Acquiror and Purchaser (if Rally is the breaching Party) will be entitled, without the requirement of posting a bond or other security, to seek equitable relief, including injunctive relief and specific performance. Subject to any other provision hereof including, without limitation, Article 8, such remedies will not be the exclusive remedies for any breach of this Agreement but will be in addition to all other remedies available at law or in equity to each of the Parties.

### 10.3 Notices

Any notice, consent, waiver, direction or other communication required or permitted to be given under this Agreement by a party shall be in writing and may be given by delivering same or sending same by facsimile transmission or by delivery addressed to the party to which the notice is to be given at its address for service herein. Any notice, consent, waiver, direction or other communication aforesaid shall, if delivered, be deemed to have been given and received on the date on which it was delivered to the address provided herein (if a business day, and if not, the next succeeding business day) and if sent by facsimile transmission be deemed to have been given and received at the time of receipt (if a business day, and if not, the next succeeding business day) unless actually received after 4:00 p.m. (local time) at the point of delivery in which case it shall be deemed to have been given and received on the next succeeding business day.

The address for service of each of the parties hereto shall be as follows:

if to Purchaser:

Logria Corporation  
Geneva Place Waterfront Drive  
P.O. Box 3469  
Roadtown, Tortola, British Virgin Islands

Attention: Karim Sadek, Director and Shereef El-Prince, Director

with a copy to:

Logria Corporation  
Four Seasons Nile Plaza  
1089 Corniche El Nile, 3<sup>rd</sup> Floor  
Garden City, Cairo, Egypt, 11519

Attention: Karim Sadek, Director and Shereef El-Prince, Director  
Facsimile No.: 202-2791-4448

with an additional copy to:

Osler, Hoskin & Harcourt LLP

Suite 2500, 450 – 1st Street S.W.  
Calgary, Alberta  
T2P 5H1

Attention: Frank Turner and Andrea Whyte  
Facsimile No.: 403-260-7024

if to Citadel or NPC:

c/o Citadel Capital  
Four Seasons Nile Plaza  
1089 Corniche El Nile, 3<sup>rd</sup> Floor  
Garden City, Cairo, Egypt, 11519

Attention: Karim Sadek, Managing Director  
Facsimile No.: 202-2791-4448

with a copy to:

Osler, Hoskin & Harcourt LLP  
Suite 2500, 450 – 1st Street S.W.  
Calgary, Alberta  
T2P 5H1

Attention: Frank Turner and Andrea Whyte  
Facsimile No.: 403-260-7024

if to Rally:

Rally Energy Corp.  
Suite 400, 444 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 2T8

Attention: Abdel Badwi, President and Chief Executive Officer  
Facsimile No.: 403-538-3705

with a copy to:

McCarthy Tétrault LLP  
Suite 3300, 421-7th Avenue S.W.  
Calgary, Alberta  
T2P 4K9

Attention: Peter Goode and Rick Pawluk  
Facsimile No.: 403-260-3501

#### **10.4 Further Assurances**

Each Party shall, from time to time, and at all times hereafter, at the request of the other Party, but without further consideration, do all such other acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof including, without limitation, the Plan of Arrangement.

#### **10.5 Governing Law**

This Agreement shall be governed by, and be construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable therein, except that the Plan of Arrangement, Interim Order and Final Order shall be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. Each party hereby irrevocably attorns to the jurisdiction of the Courts of the Province of Alberta in respect of all matters arising under or in relation to this Agreement. Notwithstanding the foregoing, at the request of any party, the parties will meet in good faith to discuss whether it is more appropriate to settle a dispute arising out of or relating to this Agreement under the Rules of Arbitration (the “Rules”) of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.

#### **10.6 Execution in Counterparts**

This Agreement may be executed by the parties in counterparts and may be executed and delivered by facsimile and all such counterparts and facsimiles together constitute one and the same agreement.

#### **10.7 Waiver**

No investigations made by or on behalf of any of the parties, at any time, shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation or warranty made by Rally or Purchaser in or pursuant to this Agreement. No waiver of any condition or other provision, in whole or in part, shall constitute a waiver of any other condition or provision (whether or not similar) nor shall such waiver constitute a continuing waiver unless otherwise expressly provided. No waiver by any party shall be effective unless in writing and any waiver shall affect only the matter, and the occurrence thereof, specifically identified and shall not extend to any other matter or occurrence.

#### **10.8 Enurement and Assignment**

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned by any party without the express prior written consent of the other parties, which consent may be unreasonably withheld, provided, however, that Purchaser may assign any of or all its rights, interests and obligations under this Agreement to Acquiror or any other direct or indirect wholly-owned subsidiary of Purchaser without the prior written consent of Rally.

**[Remainder of page intentionally left blank]**



**IN WITNESS WHEREOF** the parties hereto have executed this Arrangement Agreement as of the date first written above.

**LOGRIA CORPORATION**

Per: \_\_\_\_\_  
Name:  
Title:

Per: \_\_\_\_\_  
Name:  
Title:

**CITADEL CAPITAL COMPANY**

(solely for the purpose of making the representations, warranties and covenants contained in Article 9)

Per: \_\_\_\_\_  
Name:  
Title:

Per: \_\_\_\_\_  
Name:  
Title:

**NATIONAL PETROLEUM COMPANY S.A.E.**

(solely for the purpose of making the representations, warranties and covenants contained in Article 9)

Per: \_\_\_\_\_  
Name:  
Title:

Per: \_\_\_\_\_  
Name:  
Title:

**RALLY ENERGY CORP.**

Per: \_\_\_\_\_

Name:

Title:

Per: \_\_\_\_\_

Name:

Title:

**SCHEDULE “A”****PLAN OF ARRANGEMENT UNDER SECTION 182  
OF THE *BUSINESS CORPORATIONS ACT* (ONTARIO)****ARTICLE 1  
INTERPRETATION****1.1 Definitions**

In this Plan of Arrangement, unless there is something in the subject matter or context is inconsistent therewith, the following terms shall have the following meanings, respectively:

“**Acquiror**” means 2141997 Ontario Inc. a corporation existing under the laws of the Province of Ontario as an indirect wholly-owned subsidiary of Purchaser for purposes of participating in the Arrangement;

“**Arrangement**” means the arrangement involving Purchaser, Acquiror, Rally and its Securityholders under the provisions of section 182 of the OBCA, on the terms and subject to the conditions set forth herein and in this Plan of Arrangement;

“**Arrangement Agreement**” means the arrangement agreement made between Purchaser, Rally, Citadel Capital Company and National Petroleum Company S.A.E. dated August 1, 2007 providing for, among other things, the Arrangement, and all amendments thereto;

“**Arrangement Resolution**” means the special resolution approving the Plan of Arrangement to be considered by the Securityholders at the Rally Meeting;

“**Articles of Arrangement**” means the articles of arrangement of Rally in respect of the Arrangement that are required by the OBCA to be sent to the Director after the Final Order is made in order to give effect to the Arrangement;

“**Business Day**” means any day on which commercial deposit taking banks are generally open for ordinary banking business in Calgary, Alberta, Cairo, Egypt and London, England excepting Fridays, Saturdays, Sundays or a day generally observed as a holiday in such locations under applicable laws;

“**Certificate of Arrangement**” means the certificate giving effect to the Arrangement, issued by the Director pursuant to subsection 183(2) of the OBCA after the Articles of Arrangement have been filed;

“**Court**” means the Superior Court of Justice (Ontario);

“**Depositary**” means Valiant Trust Company or such other entity that may be appointed by Rally for purposes of receiving deposits of certificates formerly representing Rally Shares;

“**Director**” means the Director appointed pursuant to section 278 of the OBCA;

“**Dissent Rights**” means the rights of dissent exercisable by registered holders of Rally Shares in respect of the Arrangement pursuant to Section 3.1 of this Plan of Arrangement;

“**Effective Date**” means the date shown on the Certificate of Arrangement issued in connection with the Arrangement;

“**Effective Time**” means the first moment in time in Calgary, Alberta on the Effective Date;

“**Eligible Rally Option**” means a Rally Option with an Exercise Price that is less than \$7.30 as of the Effective Date;

“**Exercise Price**” means the price at which a Rally Option may be exercised in accordance with its terms;

“**Final Order**” means the order of the Court approving the Arrangement, as such order may be amended at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed on appeal;

“**Ineligible Option**” means a Rally Option with an Exercise Price that is equal to or greater than \$7.30 as of the Effective Date;

“**Information Circular**” means the Management Information Circular of Rally dated August ●, 2007;

“**Interim Order**” means the interim order of the Court, as the same may be amended, containing declarations and directions in respect of Rally under the OBCA with respect to the Arrangement and the Meeting;

“**Letter of Transmittal**” has the meaning ascribed thereto in Section 4.2 of this Plan of Arrangement;

“**Meeting**” means the special meeting of Securityholders to be called and held in accordance with the Interim Order for the purpose of considering the Arrangement Resolution and any adjournments or postponements;

“**OBCA**” means the *Business Corporations Act* (Ontario), R.S.O. 1990, c. B-16, as amended;

“**Optionholder**” means a registered holder of one or more Rally Options;

“**Purchaser**” means Logria Corporation, a corporation existing under the laws of the British Virgin Islands;

“**Plan of Arrangement**” means this plan of arrangement as the same may be amended from time to time in accordance with the terms of Article 5 hereof or the direction of the Court in the Final Order;

“**Rally**” means Rally Energy Corp., a corporation existing under the OBCA;

“**Rally Shares**” means the common shares in the capital of Rally;

“**Rally Dissenting Shareholder**” means a Shareholder who duly exercises such holder’s Dissent Rights;

“**Rally Stock Option Plan**” means the stock option plan of Rally dated April 27, 2007;

“**Rally Option**” or “**Rally Options**” means a stock option or stock options of Rally outstanding under the Rally Stock Option Plan;

“**Securityholders**” means, collectively, the Shareholders and the Optionholders;

“**Shareholder**” means a registered holder of Rally Shares; and

“**Tax Act**” means the *Income Tax Act* (Canada).

## 1.2 Principles of Interpretation

In this Plan of Arrangement, unless otherwise expressly stated or the context otherwise requires:

- (a) Currency - Unless otherwise specified, all references to money amounts are to lawful currency of Canada.
- (b) Headings - Headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement.
- (c) Including - Where the word “including” or “includes” is used in this Plan of Arrangement, it means “including (or includes) without limitation”.
- (d) Number and Gender - Unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.
- (e) Statutory References - A reference to a statute includes all rules and regulations made pursuant to such statute and, unless otherwise specified, the provisions of any statute or regulation or rule which amends, supplements or supersedes any such statute or any such regulation or rule.

## ARTICLE 2 THE ARRANGEMENT

### 2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant to the provisions of the Arrangement Agreement and constitutes an arrangement as referred to in section 182 of the OBCA.

This Plan of Arrangement, upon the filing of the Articles of Arrangement and the issuance of the Certificate of Arrangement, will become effective on, and be binding on and after, the Effective Time on all persons affected by this Plan of Arrangement, including the Securityholders, Rally and its Subsidiaries, Purchaser and Acquiror.

The Articles of Arrangement and the Certificate of Arrangement shall be filed and issued, respectively, with respect to this Arrangement in its entirety. The Certificate of Arrangement shall be conclusive evidence that the Arrangement has become effective and that each of the provisions of Section 2.2 has become effective in the sequence and at the times set out therein.

## **2.2 The Arrangement**

Commencing at the Effective Time, subject to the Dissent Rights referred to in Section 3.1, the following shall occur and be deemed to occur in the following order without any further act or formality and, except as otherwise noted in this Section 2.2, with each transaction or event being deemed to occur immediately after the occurrence of the transaction or event immediately preceding it:

- (a) Each Rally Option that has not yet vested in accordance with the provisions of the Rally Stock Option Plan shall be deemed to vest and each Rally Option held by an Optionholder that has not been duly exercised prior to the Effective Time shall be treated as follows:
  - (i) Each Eligible Rally Option shall represent the right to receive from the Acquiror an amount in cash equal to \$7.30 less the Exercise Price; and
  - (ii) Each Ineligible Rally Option shall be deemed at all times after the Effective Time to be terminated and of no further force and effect;
- (b) Each Eligible Rally Option will be transferred to and acquired by Acquiror in exchange for an amount in cash equal to \$7.30 less the Exercise Price of the Eligible Rally Option whereupon such option shall be cancelled and of no further force and effect;
- (c) Each Rally Share issued and outstanding at the Effective Time (other than those held by Rally Dissenting Shareholders) will be transferred to and acquired by Acquiror in exchange for an amount in cash equal to \$7.30 for each Rally Share so transferred; and
- (d) Upon the transfer of Rally Shares pursuant to Section 2.2(c), the name of each Shareholder (including for this purpose, each Dissenting Shareholder) will be removed from the register of Shareholders and Acquiror will be added to the register of Shareholders.

### **ARTICLE 3 RIGHTS OF DISSENT**

#### **3.1 Rights of Dissent**

- (a) Registered holders of Rally Shares may exercise Dissent Rights pursuant to and in the manner set forth in section 185 of the OBCA and in this Section 3.1 in connection with the Arrangement Resolution as the same may be modified by the Interim Order or the Final Order; provided that, notwithstanding subsection 185(6) of the OBCA, the written objection to the Arrangement Resolution referred to in subsection 185(6) of the OBCA must be received by Rally before 5:00 p.m. (Calgary time) on the Business Day immediately preceding the Meeting or by the Chairman of the Meeting, before commencement of the Meeting.
- (b) Registered holders of Rally Shares who duly exercise such Dissent Rights and who:
  - (i) are ultimately entitled to be paid the fair value of their Rally Shares shall be deemed to have transferred such shares to Acquiror on the Effective Date contemporaneously with the step of this Plan of Arrangement set out in Section 2.2(c) becoming effective; or
  - (ii) are ultimately not entitled to be paid the fair value for their Rally Shares shall be deemed to have transferred such shares to Acquiror at the same time as the other transfers of Rally Shares to Acquiror are effective pursuant to Section 2.2(c) of this Plan of Arrangement and shall receive an amount in cash equal to \$7.30 from Acquiror for each Rally Share so deemed to have been transferred;

but in no case shall Rally, Purchaser, Acquiror or any other person be required to recognize such holders as holders of Rally Shares after the Effective Time, and the names of such holders shall be deleted from the register of Shareholders on the Effective Date.
- (c) In addition to any other restrictions in section 185 of the OBCA, none of the following shall be entitled to exercise Dissent Rights: (i) Optionholders; and (ii) Shareholders who vote in favour of the Arrangement Resolution.

### **ARTICLE 4 CERTIFICATES**

#### **4.1 Exchange of Certificates for Cash**

- (a) At, or prior to the Effective Time, Acquiror shall deposit cash in immediately available funds (at Calgary) with the Depository, in an amount sufficient to pay all cash consideration payable by it to Securityholders under Sections 2(b) and (c) this Plan of Arrangement. From and after the deposit of such cash, the Depository shall be considered to hold such funds for the sole benefit of the Securityholders;

- (b) Upon surrender to the Depository for cancellation of a certificate which immediately prior to the Effective Time represented outstanding Rally Shares that were exchanged for cash under this Plan of Arrangement, together with such other documents or instruments as would have been required to effect the transfer of such Rally Shares under the articles and by-laws of Rally, together with such additional documents and instruments as the Depository may reasonably require, the holder of such surrendered certificate or other instrument shall be entitled to receive in exchange therefor, and the Depository shall deliver to such holder, the cash which such holder has the right to receive pursuant to Section 2.2(c) or Section 3.1(b)(ii) hereof, net of any applicable withholding taxes;
- (c) All amounts payable to Optionholders pursuant to Section 2.2(b) hereof shall be paid to such Optionholders by the Depository as soon as practicable following the Effective Time and in any event, within five Business Days following the Effective Date;
- (d) The cash deposited with the Depository shall be held in an interest bearing account, and any interest earned upon such funds shall be for the account of Acquiror; and
- (e) Until surrendered as contemplated by this Section 4.1, each certificate or other instruments which immediately prior to the Effective Time represented Rally Shares shall be deemed at all times after the Effective Time to represent only the right to receive upon such surrender a cash payment in lieu of such certificates as contemplated in this Section 4.1.

#### **4.2 Lost Certificates**

In the event that any certificate which, immediately prior to the Effective Time, represented one or more outstanding Rally Shares transferred pursuant to Section 2.2(c) or Section 3.1(b)(ii) shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to have been lost, stolen or destroyed, and upon compliance with such other requirements as may be set out in the letter of transmittal enclosed with the Information Circular (the “**Letter of Transmittal**”), the Depository will pay in exchange for such lost, stolen or destroyed certificate, cash deliverable in accordance with such holder’s Letter of Transmittal. When authorizing such payment and delivery in exchange for such lost, stolen or destroyed certificate, the person to whom such cash is to be delivered shall, as a condition precedent to the delivery of such cash, give a bond satisfactory to Acquiror and the Depository in such sum as Acquiror may direct, or otherwise indemnify Acquiror in a manner satisfactory to Acquiror, against any claim that may be made against Acquiror in respect of the certificate alleged to have been lost, stolen or destroyed.

#### **4.3 Extinction of Rights**

If any Shareholder fails for any reason to deliver to the Depository for cancellation the certificates formerly representing Rally Shares (or an affidavit of loss and bond or other indemnity pursuant to Section 4.2), together with such other documents or instruments required

for such Shareholder to receive payment for Rally Shares, on or before the sixth anniversary of the Effective Date, such Shareholder shall be deemed to have donated and forfeited to Acquiror any cash, net of any applicable withholding or other Taxes, held by the Depository in trust for such Shareholder to which such Shareholder would otherwise be entitled. At and after the Effective Time, and until surrendered in accordance with Section 4.1, any certificate formerly representing Rally Shares shall represent only the right to receive the consideration provided in the Plan of Arrangement; provided that such certificates shall, on the sixth anniversary of the Effective Date, cease to represent a claim of any nature whatsoever and shall be deemed to have been surrendered to Acquiror and shall be cancelled.

#### **4.4 Withholding Rights**

Rally, Acquiror and the Depository shall be entitled to deduct and withhold from any consideration otherwise payable to any holder of Rally Shares or Eligible Rally Options such amounts as any of Rally, Acquiror or the Depository is required or permitted to deduct and withhold with respect to such payment under the Tax Act, the United States Internal Revenue Code of 1986, as amended, or any provision of applicable federal, provincial, state, local or foreign tax law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the Rally Shares or Eligible Rally Options, as the case may be, in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

### **ARTICLE 5 AMENDMENTS**

#### **5.1 Amendments to Plan of Arrangement**

- (a) Purchaser, Acquiror and Rally reserve the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Date, provided that each such amendment, modification and/or supplement must be (i) set out in writing, (ii) approved by the other parties (such parties being comprised of Rally, Acquiror and Purchaser), (iii) filed with the Court and, if made following the Meeting, approved by the Court, and (iv) communicated to Securityholders if and as required by the Court.
- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by Purchaser, Acquiror or Rally at any time prior to or at the Meeting (provided that the other parties shall have consented thereto) with or without any other prior notice or communication, and if so proposed and accepted by the persons voting at the Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement that is approved by the Court following the Meeting shall be effective only if it is consented to by each of Purchaser, Acquiror and Rally.

- (d) Notwithstanding clauses (a), (b) and (c) of this Section 5.1, no amendment, modification or supplement to this Plan of Arrangement may, after the holding of the Rally Meeting, result in an adverse change in the quantum or form of consideration payable to Securityholders pursuant to the Arrangement.

**[Remainder of Page Intentionally Left Blank]**

**SCHEDULE "B"**  
**SUPPORT AGREEMENT**

August 1, 2007

To: Logria Corporation  
Geneva Place Waterfront Drive  
P.O. Box 3469  
Roadtown, Tortola, British Virgin Islands

Attention: Karim Sadek, Director and Shereef El-Prince, Director

Dear Sirs:

**Re: Support Agreement**

Logria Corporation ("**Purchaser**") and Rally Energy Corp. ("**Rally**"), among others, have entered into an arrangement agreement dated August 1, 2007 (the "**Arrangement Agreement**"), pursuant to which they have agreed to, among other things, propose a transaction to securityholders of Rally, which, if consummated, would result in a subsidiary of Purchaser acquiring all of the outstanding common shares and the in-the-money options of Rally (the "**Transaction**"). Capitalized terms used in this Support Agreement, but not defined herein, shall have the respective meanings given to such terms in the Arrangement Agreement.

The undersigned is the beneficial owner of and/or exercises control and direction over the common shares and options of Rally specified below (the "**Locked-up Securities**"). In consideration of Purchaser entering into the Arrangement Agreement and participating in the Transaction, the undersigned in his capacity as a securityholder of Rally, and not in his capacity as an officer or director of Rally (the "**Supporting Securityholder**") hereby undertakes to take certain actions and do certain things to support the Transaction.

From the date hereof until the earlier of: (i) the Effective Time; or (ii) the date on which the Arrangement Agreement is terminated in accordance with its terms, the Supporting Securityholder hereby agrees:

- (a) not to sell, assign, transfer, gift, pledge, hypothecate, encumber or otherwise dispose of any of the Locked-up Securities (other than the exercise of options into common shares in accordance with the terms of such options in which event the common shares so issued will become Locked-up Securities) or agree to do any of the foregoing;
- (b) not to grant any proxies or powers of attorney, or deposit any of the Locked-up Securities into a voting trust or enter into a voting agreement, pooling agreement, understanding or arrangement;

- (c) to vote (or cause to be voted) all of the Locked-up Securities at the Rally Meeting:
  - (i) in favour of the Arrangement Resolution;
  - (ii) against any Acquisition Proposal or Superior Proposal;
  - (iii) against any action that is intended or would reasonably be expected to impede, interfere with, delay, postpone or discourage the Transaction; and
  - (iv) against any action that would result in any breach of any representation, warranty, covenant or agreement or any other obligation of Rally under the Arrangement Agreement;
- (d) not to take any action which may in any way adversely affect the success of the Transaction and to use its reasonable best efforts to support the Transaction; and
- (e) not to, directly or indirectly, make or participate in or take any action that may result in an Acquisition Proposal or any other activity or act with respect to the acquisition of effective control of Rally by any person, or engage in any discussion, negotiation or inquiries relating thereto or accept any Acquisition Proposal,

provided nothing herein shall restrict or limit the actions of any director or officer of Rally required to: (i) be taken in the discharge of his fiduciary duties as a director or officer of Rally; or (ii) respond or take any necessary action as is required by Law or as is permitted under the Arrangement Agreement.

In the event of termination of this Support Agreement, this Support Agreement shall forthwith be of no further force and effect and there shall be no continuing obligation or liability on the part of either the Supporting Securityholder or the Purchaser.

This Support Agreement may be signed in counterparts which together shall be deemed to constitute one valid and binding agreement and delivery of such counterparts may be effected by means of telecopier.

This Support Agreement shall be governed by, and be construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable therein.

**[Remainder of page intentionally left blank]**

SIGNED, SEALED & DELIVERED  
In the presence of:

\_\_\_\_\_  
**Witness**

\_\_\_\_\_  
**Name:**

**LOCKED-UP SECURITIES**

<u>Number of Common Shares</u>	<u>Number of Options</u>

For the purposes of this Support Agreement, the term “Locked-up Securities” shall include the Common Shares listed above and all other Common Shares over which the Supporting Securityholder acquires beneficial ownership or control or direction after the date hereof whether by exercise of options or otherwise.

Accepted and Agreed as of this ● day of August, 2007.

**LOGRIA CORPORATION**

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name:

Title: