



April 25, 2005

Rally Energy Reports 2004 Profit and Record Operating Results

Contact: Lamont Tolley, President & CEO
Douglas C. Urch, Vice President, Finance & CFO

Tel: (403) 538-0000
Fax: (403) 538-3705

“RAL”-TSX Venture Exchange

“RLE”-Frankfurt Stock Exchange

www.rallyenergy.com

REPORT TO SHAREHOLDERS

2004 marked the beginning of a period of sustained effort to unlock the tremendous potential of the Issaran oilfield in Egypt. Operating and financial results for 2004 reflect major improvements. Oil equivalent sales increased 74% to 1,978 boe/d, up from 1,135 boe/d in 2003. Revenue doubled to \$22.4 million from \$11.2 million in 2003 and cash flow from operations more than tripled to \$8.3 million (\$0.12/share) compared to \$2.4 million (\$0.04/share) in 2003. Even though revenue in 2004 increased 99% compared to 2003, operating expenses of \$4.1 million (\$5.72/boe) increased only 28% from the \$3.2 million (\$7.78/bbl) reported for 2003. Net income of \$1.24 million (\$0.02/share) was achieved in 2004, compared to a loss of \$5.2 million (\$0.09/share) in 2003.

In 2004, capital expenditures increased to \$15.6 million, up 26% from 2003 expenditures of \$12.4 million. Increased capital program funding in 2004 was financed primarily from internally generated cash flow of \$8.3 million and from the disposition of a time-limited Issaran production royalty for \$3.9 million. Capital expenditures of \$11.6 million in Egypt represented the largest portion of these expenditures, with \$4.0 million spent on Canadian programs and the remainder spent in Pakistan. In Egypt, Rally Energy drilled 16 wells in the Issaran field. In Western Canada, our eight-well drilling program resulted in a significant new core area development opportunity. Of particular note are the increases we experienced in recognized reserves. Our 2004 drilling programs substantially increased proved, probable and possible reserves to 9.7 million boe, up from 4.2 million boe in 2003. Highlights of our reserves increases are as follows:

- In Egypt, proved oil reserves nearly tripled to 4.0 million bbls, probable reserves increased over 30% to 3.3 million bbls and possible reserves increased nine-fold to 1.6 million bbls.
- In Canada, Rally Energy's activities established 388,000 boe of proved reserves and 420,000 boe of probable reserves, a 13-fold increase from 2003.
- Total proved and probable reserves additions of 4.8 million boe exceeded 2004 production of 724,000 boe by a factor of 6.6 times.
- In 2004, reserves were added at a finding and development cost of \$4.78/boe on a proved plus probable basis and \$5.21/boe on a proved basis.
- Total proved and probable reserves at December 31, 2004 were estimated to have a value of \$122 million discounted at 5% (\$108 million discounted at 10%) with Canadian reserves accounting for approximately 14% of those estimated values.

Our year-end 2004 reserves do not include any reserves for our 22.5% working interest in the Safed Koh Block discovery in Pakistan. This significant discovery has confirmed the presence of hydrocarbons in the deeper horizons of the Block. The gas bearing structure encountered by the Rodho 3 well has an aerial extent of approximately 14 square kilometres with a large vertical closure of over 450 metres. The presence of this substantial gas reservoir establishes very attractive exploration potential in two additional structures in the Safed Koh Block, the largest of which, Afiband, has an aerial extent of approximately 50 square kilometres with vertical closure of approximately 400 metres at depths somewhat shallower than that encountered in the Rodho Structure.

In the Issaran oilfield, we are currently focused on methodically establishing drilling, completion and production techniques best suited to ensuring optimal production from both old and new wells. The learning curve associated with this process has delayed our efforts to progress quickly with new drilling and rapid completions in our high potential multi-layered horizons. It has also been necessary to demonstrate to The General Petroleum Co. S.A.E. that our refocused efforts, which differ significantly from earlier approaches, represent an optimal approach for Issaran field development. The assembling of production data from new wellbores, the development of technical support to justify commingling of production in existing wellbores, together with twinning of wells for uphole production, has generally resulted in our being asked to test secondary target formations for extended periods of time. Once the collection and analysis of data has been completed, we expect completions and on-stream production schedules to be compressed significantly. We also expect to be in a position to proceed with the twinning of existing wellbores and the commingling of production from different formations in existing wellbores.

As part of our ongoing field development activities, our production and reservoir management practices are now beginning to benefit from the use of detailed production records from fractured Dolomite Formations and from the Nukhul Formation. Based on pump efficiency and capacity evaluations, we are now managing wells more aggressively with existing equipment. Also, we have initially identified five existing wells capable of sustaining higher production levels with larger capacity pumps and equipment. We expect larger pumps and equipment to be installed by mid-year on these wells.

2005 Outlook

At this time we are producing in excess of 3,000 boe/d. We are confident that sustained production and reserves growth in Egypt can be achieved since the developed portion of the Issaran field, representing only a portion of our contract area, has an estimated 558 million barrels of oil-in-place. During 2005, we intend to increase reserves and production through an active 21-well drilling program in the Issaran oilfield. Planned 2005 drilling is focused primarily in the northern area of the Issaran oilfield, targeting multi-layered, fracture enhanced pay zones. To date in 2005, three new wells have been drilled. Each of these wells, when brought fully on-stream, is expected to add significantly to our production. In the southern area of the Issaran oilfield, we are continuing with our steam-assisted experimental production programs. One additional cycle of steam will be introduced into the Lower Dolomite test area over the next 60 days, after which, we intend to commence steam injection for the Upper Dolomite Pilot Program.

In Pakistan, as a follow-up to our Rodho 3 discovery, we commenced re-entry of the Rodho 2 well on April 10, 2005. Once the Rodho 2 re-entry and deepening is completed, we expect to stimulate the Lower Goru Formation in the Rodho 2 and Rodho 3 wells through fracing. In addition, we will explore the very large Afiband structure in the third quarter of this year through the deepening of an existing wellbore, as was done with Rodho 3. We expect to see the Safed Koh Block emerge as an important contributor to Rally Energy's future reserves increases and cash flow.

In Western Canada, an active development program can reasonably be expected to add new reserves and production in 2005. The focus of our 2005 Canadian activities will be centered on the Harmattan area in Alberta, with at least two additional development wells and two exploration wells being planned for locations targeting multi-zone pay potential.

We are confident 2005 will be a very good year for Rally Energy.

FINANCIAL and OPERATING HIGHLIGHTS
For the Years ended December 31
All amounts in Canadian funds

	2004	2003	2004/03 % Change
FINANCIAL:			
Revenue	\$22,391,900	\$11,238,300	99%
Cash Flow	\$ 8,282,600	\$ 2,402,000	245%
Per Share	\$0.12	\$0.04	200%
Net Income (Loss)	\$ 1,238,500	\$ (5,231,000)	
Per Share	\$0.02	(\$0.09)	
Capital Expenditures	\$15,648,900	\$12,409,600	26%
Cash	\$ 358,200	\$ 2,260,400	
Working Capital	\$ (345,200)	\$ 499,300	
Total Assets	\$43,116,300	\$34,799,600	24%
Shareholders' Equity	\$28,183,100	\$24,047,100	17%
Common Shares Outstanding:			
Basic	74,350,379	71,389,740	4%
Diluted	86,678,136	85,528,742	1%
OPERATIONS:			
Production (boe/d)	1,978	1,135	74%
Average Selling Price (\$/boe)	\$30.93	\$27.13	14%
Netback (\$/boe)	\$17.30	\$13.70	26%
Reserves - (mboe)			
Proved	4,355	1,448	201%
Probable	3,714	2,561	45%
Total Proved plus Probable	8,069	4,009	101%

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements including expectations of future production, cash flow and earnings. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated. These risks include, but are not limited to: the risks associated with the oil and gas industry (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price, price and exchange rate fluctuation and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Additional information on these and other factors that could affect the Corporation's operations or financial results are included in the Corporation's reports on file with Canadian securities regulatory authorities: www.sedar.com.

The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.