



August 1, 2007

**RALLY ANNOUNCES AGREEMENT TO BE ACQUIRED BY CITADEL CAPITAL COMPANY AND NATIONAL PETROLEUM COMPANY S.A.E.**

---

**Contact:** Abby Badwi, President & CEO  
Douglas Urch, Vice President, Finance & CFO

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

---

**"RAL"** - TSX Exchange

**"RLE"** - Frankfurt Stock Exchange

**[www.rallyenergy.com](http://www.rallyenergy.com)**

---

**Calgary, August 1, 2007** – 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.

*"We are pleased to announce that Rally has entered into the transaction with the Citadel/NPC group. Rally has built a tremendous asset base and delivered substantial shareholder value over the last two years. We believe the transaction, which is at a price per share above our all-time high, is in the best interest of Rally and delivers immediate and significant value to our shareholders",* stated Abby Badwi, President and CEO of Rally.

*"We are very excited about this transaction as it will significantly enhance NPC's daily production numbers, provide an entry into the heavy oil business, and offer NPC its first exposure outside of Egypt through Rally's Pakistani assets. Overall, we believe that Rally's assets are very complimentary with NPC's current assets which are primarily located in the Gulf of Suez and are exploratory in nature. NPC has been following Rally's development for some time and is particularly pleased that we are in discussions with Rally's management with respect to a management retention proposal following completion of the transaction",* says Karim Sadek, Managing Director of Citadel Capital and of NPC.

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.

### ***Information Concerning Citadel Capital and NPC***

Citadel Capital is a leading Cairo-based private equity firm focused on investment opportunities in the Middle East and North Africa region. Over the past three years, Citadel has executed a number of significant and successful private equity transactions in Egypt and the region, raising and investing over US\$3 billion in a variety of transactions focused on industries such as oil and gas, mining, cement, fertilizers, transportation and finance.

NPC is the upstream oil and gas vehicle established by Citadel Capital in late 2005. NPC operates through its wholly owned subsidiary, PETZED Investments and Project Management Ltd., five Egyptian Concessions on a 100% contractor share basis, comprised of four Gulf of Suez offshore concessions and one North Sinai onshore concession.

### ***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.

---

### ***FORWARD-LOOKING STATEMENTS***

*Except for statements of historical fact, all statements in this news release - 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. Rally disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*The TSX has neither approved nor disapproved of the contents of this news release.*