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RALLY ENERGY PROVIDES OPERATIONS UPDATE AND CLOSES EQUITY PRIVATE PLACEMENT

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“RAL”-TSX Venture Exchange **“RLE”**-Frankfurt Stock Exchange **www.rallyenergy.com**

With ongoing operational and planning activities in Egypt, Pakistan and Canada, the Company would like to provide the following update:

- Second quarter 2005 average sales of 2,774 boe/d were achieved, up 26.6% compared to first quarter 2005 average sales of 2,191 boe/d.
- Production revenues increased substantially in the second quarter due to higher production and higher wellhead prices.
- The average oil equivalent wellhead price was US\$28.12 per barrel in the second quarter of 2005 up 26.7% from the first quarter 2005 wellhead price of US\$22.20 per barrel. The average June 2005 wellhead price was US\$31.02 per barrel, up 39.7% from the average in the first quarter of 2005.

EGYPT

- Issaran oilfield sales averaged 2,624 BOPD in the second quarter of 2005, up 21.7% compared to first quarter 2005 average sales of 2,156 BOPD.
- Second quarter average wellhead price at the Issaran oilfield was US\$27.35 per barrel, up 24.9% compared to the first quarter 2005 average wellhead price of US\$21.90 per barrel.
- Three new oil wells were drilled during the second quarter and well completion programs have been approved by Egyptian authorities.
- Workover and optimization design operations are continuing to improve production in several wells.
- A global field development plan is being finalized and is to be presented for approval to Egyptian authorities on August 24, 2005 in Cairo. The global plan includes specific vertical and horizontal well locations for 2005, an outline of plans for 2006 and 2007 and details of plans for continuing evaluation of the Upper Dolomite thermal recovery pilot project.
- Drilling plans for 2005 include the drilling of the first Company operated horizontal well.

PAKISTAN

- The Rodho 2 well was re-entered and deepened as a follow-up to the Rodho 3 Discovery well. The Rodho 2 deepening activities commenced on April 10 and continued until a package of four Lower Goru Sands, that appear to be similar to those encountered in the Rodho 3 well, was penetrated. Due to mechanical problems, only the upper most sand package (21 meters) of the four present was logged, cased and tested 1.28 MMcf/d of gas. As at Rodho 3 well (5.0 MMcf/d), the analysis of the test information indicates significant formation damage and the zone will require fracture stimulation.
- An appraisal program for the Rodho 2 and 3 discoveries on the Safed Koh Block is being prepared and will be submitted to the Ministry of Petroleum this month.
- The plan includes completion, stimulation and production testing of both the Rodho 3 and the Rodho 2 wells. Fourth quarter of this year is being targeted to commence this program.

CANADA

- Total Canadian production in the second quarter averaged 150 boe/d, up over four fold from 35 boe/d in the first quarter. The most significant contribution to this increase resulted from the commencement of Harmattan production during the quarter.
- Current Harmattan production from the 9-32 well has stabilized at 290 BOPD and 930 Mcf/d (223 boe/d net).
- Follow-up Harmattan well location 7-29 was cased and tested. The well did not encounter Glauconite channel sands, however, it tested significant amounts of gas from another formation. Additional work is required prior to announcing detailed results of this well.
- The Company expects to drill several additional wells in Harmattan during 2005.
- At Valhalla, discussions are ongoing with our partners to develop this acreage. We expect to drill one well during 2005.

CORPORATE

Concurrent with the preparation of global field development plans for Egypt, Pakistan and Canada, management is finalizing a three year financial plan. This plan will be presented for board review and approval at the next board of directors meeting this month. Details of the financial plan will be announced after partner and board approvals are secured.

FINANCING

The private placement announced, upon the appointment of Abby Badwi as President and CEO of the Corporation on July 18, 2005, closed on August 2, 2005. 732,000 common shares have been issued by the Corporation for gross proceeds of \$966,240. Mr. Badwi and his family have subscribed for 225,000 of these shares for \$297,000. No agent commissions were paid in connection with this offering.

Based in Calgary, Alberta, Canada, Rally Energy is an oil and gas exploration, development and production company. The Corporation'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, the Corporation holds a 22.5% interest in the Safed Koh Block, where it plans to participate in the development of large natural gas/condensate discoveries. In Canada, Rally Energy is active in Alberta and Saskatchewan with varied working interests in several producing properties.

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.