



August 9th, 2007

Rally Energy Reports Record Revenue and Earnings for Second Quarter 2007

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

Rally Energy (the "Corporation") is pleased to announce the following operational and financial results for the period ended June 30, 2007:

HIGHLIGHTS

	Quarter ended June 30			Six Months ended June 30		
	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>2007</u>	<u>2006</u>	<u>Change</u>
Production (boe/d)	5,909	4,575	29%	6,101	3,663	67%
Average Price (\$/boe)	47.98	47.09	2%	44.23	44.75	(1)%
Revenue (\$ million)	25.8	19.6	32%	48.8	29.7	64%
Cash Flow (\$ million)	10.9	8.4	30%	19.7	11.8	67%
Net Earnings (\$ million)	5.8	4.2	38%	10.4	5.1	104%
Capital Expenditures (\$ million)	20.4	7.1	187%	47.5	14.2	235%

Rally Energy reported record earnings of \$10.4 million (\$0.10/share) for the six months ended June 30, 2007, an increase of 104% from \$5.1 million (\$0.06/share) for the comparable 2006 period. Cash flow increased by 67% to \$19.7 million (\$0.18/share) for the first six months of 2007 as compared to \$11.8 million (\$0.13/share) for the first six months of 2006.

Working capital at the end of the first quarter was \$8.5 million with no bank debt. An additional \$12.1 million was held in drilling and facilities inventory to be used for future capital expenditures in Egypt and Pakistan.

EGYPT

Average production during the second quarter was 5,900 boe/d. Eleven wells were drilled during the same period and were completed as oil wells.

Average production in July 2007 was 5,894 boe/d with approximately 1,000 boe/d from 12 thermal wells. Drilling of four new thermal wells and construction of a third 2,500 boe/d central production facility in the Issaran Field are currently underway.

PAKISTAN

Natural gas production from the Salsabil Field commenced on June 29, 2007 at a gross rate of 9.5 mmcf/d from one well and current production is 20 mmcf/d (6 mmcf/d, 1,000 boe/d net) from two wells.

The Al-Baraka-1 exploration well commenced drilling on July 20, 2007 and has run first intermediate casing at 358 meters. The well is expected to reach its projected total depth of 2,200 meters by early September.

CORPORATE

Current corporate production is approximately 6,900 boepd.

On July 24, 2007, the Corporation closed a transaction with an independent public company to dispose of its remaining Canadian oil and gas properties at Gold Creek for \$1.5 million. The agreement has an effective date of April 1, 2007.

On August 1, 2007, the Corporation announced that it has entered into an Arrangement Agreement whereby Logria Corporation ("Purchaser"), a subsidiary of National Petroleum Company S.A.E. and an affiliate of Citadel Capital Company, will acquire the Corporation in a transaction valued at approximately \$898 million. Under the terms of the Arrangement Agreement, the Purchaser will acquire all of the issued and outstanding common shares of the Corporation at a price of \$7.30 per share in cash and all outstanding in-the-money options for their in-the-money value pursuant to a plan of arrangement. The Transaction will have to be approved by 66 2/3% of the votes cast by Rally's security-holders at a special meeting to be held in mid-September. Closing is subject to certain other conditions, including court approval.

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 30% interest in the Safed Koh Block, where it is participating in the development of a large natural gas/condensate discovery.

ADVISORY

Except for statements of historical fact, all statements in this news release - including, without limitation, statements regarding production estimates, potential reserves 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 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.

In conformity with Canadian Securities Administrators National Instrument 51-101, natural gas volumes have been converted to equivalent barrels of oil ("boe") using a conversion ratio of six thousand cubic feet ("mcf") to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe's may be misleading, particularly if used in isolation.

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

RALLY ENERGY CORP.
Management's Discussion and Analysis ("MD&A")
For the Three Months ended June 30, 2007

This discussion and analysis outlines management's assessment of the consolidated financial and operating results of Rally Energy Corp. ("Rally Energy" or the "Corporation") and its subsidiaries, including its future opportunities and risks, and should be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2006. Additional information regarding the Corporation can be found at www.sedar.com and www.rallyenergy.com.

These financial statements and the accompanying interim consolidated balance sheet as at June 30, 2007 and the interim consolidated statements of operations and deficit and cash flows for the three month period then ended, are the responsibility of the Corporation's management.

The financial information contained herein has been prepared by management and includes the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Unless otherwise indicated, all dollar amounts in this report are in thousands of Canadian dollars. The majority of the Corporation's production is heavy oil (reported in barrels), however, the Corporation also uses the "barrels of oil equivalent" ("BOE") reference in this report to reflect natural gas sales. All BOE conversions are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil, representing the approximate energy equivalency. This MD&A is dated August 9, 2007.

Non-GAAP Measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by Canadian GAAP such as cash flow, cash flow per share, cash flow from operations, and netback from operations. Therefore, they are considered non-GAAP measures and may not be comparable to similar information presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. Management's use of these measures is disclosed further in this MD&A.

Forward-Looking Statements

This disclosure contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, including the impact of general economic conditions in all the jurisdictions in which the Corporation operates, changes in industry conditions, changes in laws and regulations including the adoption of new environmental laws, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and the Corporation's ongoing ability to obtain financing for its operations. Rally Energy's actual results, performance or achievements could differ materially from those expressed in or implied by these forward-looking statements. Accordingly, no assurance can be given that any of the events anticipated will transpire or occur, or that benefits, including the amount of revenues or proceeds, will be derived therefrom. These factors, many of which are outside the control of the Corporation, are discussed further in the December 31, 2006 MD&A and in the 2006 Annual Information Form filed on April 30, 2007.

Production, Revenue and Netback

(thousands of dollars, unless otherwise stated)

	2007				2006			
	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
Production:								
Oil (bbls/d)	5,901		6,294		5,289		5,658	
Natural gas (mcf/d)	48		-		258		348	
Total BOE (boe/d)	5,909		6,294		5,332		5,716	
		<u>\$/boe</u>		<u>\$/boe</u>		<u>\$/boe</u>		<u>\$/boe</u>
Gross revenue	\$25,798	\$47.98	\$23,037	\$40.67	\$19,420	\$39.58	\$25,708	\$48.89
Production entitlement								
- GPC (Egypt)	(7,327)	(13.63)	(6,630)	(11.70)	(5,692)	(11.61)	(7,397)	(14.08)
Overriding royalty								
(Egypt)	(471)	(0.87)	(416)	(0.74)	-	-	-	-
Marketing fees	(353)	(0.66)	(448)	(0.79)	(247)	(0.50)	(257)	(0.49)
Royalties (Canada)	(5)	(0.01)	(1)	-	(35)	(0.07)	(108)	(0.21)
Royalties (Pakistan)	(1)	-	-	-	-	-	-	-
Operating expenses	(4,971)	(9.25)	(5,062)	(8.94)	(4,612)	(9.40)	(3,601)	(6.85)
Netback from operations	\$12,670	\$23.56	\$10,480	\$18.50	\$8,834	\$18.00	\$14,345	\$27.26

	2006				2005			
	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
Production:								
Oil (bbls/d)	4,509		2,676		2,656		2,558	
Natural gas (mcf/d)	396		388		462		330	
Total BOE (boe/d)	4,575		2,741		2,733		2,613	
		<u>\$/boe</u>		<u>\$/boe</u>		<u>\$/boe</u>		<u>\$/boe</u>
Gross revenue	\$19,605	\$47.09	\$10,061	\$40.79	\$10,019	\$39.85	\$10,698	\$44.51
Production entitlement								
- GPC (Egypt)	(5,585)	(13.41)	(2,695)	(10.93)	(2,631)	(10.47)	(2,898)	(12.07)
Overriding royalty								
(Egypt)	(1,061)	(2.55)	(611)	(2.48)	(255)	(1.02)	(629)	(2.62)
Marketing fees	(213)	(0.51)	(171)	(0.69)	(159)	(0.63)	(103)	(0.43)
Royalties (Canada)	(105)	(0.25)	(142)	(0.57)	(143)	(0.57)	(104)	(0.43)
Operating expenses	(2,898)	(6.96)	(2,122)	(8.60)	(2,098)	(8.35)	(1,672)	(6.96)
Netback from operations	\$9,743	\$23.41	\$4,320	\$17.52	\$4,733	\$18.81	\$5,292	\$22.00

Gross revenue for the second quarter of 2007 was \$25.8 million (\$47.98/boe; production of 5,909 boe/d), up 32% from \$19.6 million (\$47.09/boe; production of 4,575 boe/d) for the second quarter of 2006. For the six months ended June 30, 2007, gross revenue increased 64% to \$48.8 million (\$44.23/boe; production of 6,101 boe/d) from \$29.7 million (\$44.75/boe; production of 3,663 boe/d) for the comparable 2006 period. The revenue increase is primarily attributable to significantly higher production from the Issaran oilfield in Egypt and the June 29, 2007 commencement of gas production from the Salsabil field in Pakistan. New production from the Corporation's ongoing drilling program and thermal recovery, coupled with ongoing production optimization, resulted in consistently higher production levels and additional reserves.

Heavy oil produced from the Issaran oilfield is marketed as the Ras Gharib blend. In the first six months of 2007, the Corporation's realized wellhead oil price represented 62% of the Brent oil price as compared to 58% for the comparable 2006 period.

Production Entitlements, Marketing Costs and Royalties

For the quarter ended June 30, 2007, the production entitlement of The General Petroleum Co. SAE ("GPC") totaled \$7.3 million (\$13.63/boe), representing 28% of gross revenue. For the corresponding 2006 period, GPC's entitlement was \$5.6 million (\$13.41/boe), representing 28% of gross revenue. For the six months ended June 30, 2007, GPC's production entitlement totaled \$14.0 million (\$12.64/boe) as compared to \$8.3 million (\$12.49/boe) for the 2006 six month period.

Revenue-based royalty payment obligations of \$471,000 (\$0.87/boe) for the 2007 second quarter decreased from \$1,061,000 (\$2.55/boe) in the 2006 second quarter, a significant reduction on a per-barrel of production basis. For the six months ended June 30, 2007, the obligations totaled \$0.9 million (\$0.80/boe) as compared to \$1.7 million (\$2.52/boe) for the comparable 2006 period. Commencing January 1, 2007, the revenue-based royalty declined from 10% of Issaran oil revenues (net of marketing fees and GPC entitlement) to 2.6%. The 2.6% entitlement continues to December 31, 2012. No revenue-based royalty is charged on production above 7,000 boe/d.

Pursuant to the terms of certain marketing agreements pertaining to Issaran oil sales, marketing fees, linked to realized oil prices and production, of \$353,000 (\$0.66/boe) were paid during the second quarter of 2007 as compared to \$213,000 (\$0.51/boe) for the comparable 2006 period. For the six months ended June 30, 2007, the marketing fees totaled \$0.8 million (\$0.73/boe) as compared to \$0.4 million (\$0.58/boe) for the 2006 six month period. The obligations increased commensurate with higher Issaran production.

Operating Expenses

For the second quarter of 2007, operating expenses were \$5.0 million (\$9.25/boe), up from \$2.9 million (\$6.96/boe) for the 2006 second quarter. Operating expenses for the six months ended June 30, 2007 were \$10.0 million (\$9.09/boe) as compared to \$5.0 million (\$7.57/boe) for the comparable 2006 period. On a general basis, costs have increased commensurate with the higher oil production in 2007 and are lower, on a per-unit basis, than costs reported in the fourth quarter of 2006 (\$9.40/boe). Primary contributors to operating expenses are workovers, diesel fuel costs, trucking costs and health, safety and environmental programs. Diesel fuel is used for generators that provide electricity for field operations in the Issaran oilfield. In the second quarter of 2007, Rally Energy commenced utilization of lower cost natural gas from nearby sources as an alternative, cheaper than diesel, fuel supply for steam generation and some generators. Trucking rates for the Corporation's Issaran oil deliveries are expected to decline, on a per-unit basis, in future quarters as a result of completion of the new Central Production Facility, commissioned in April 2007, which allows for shipping of oil with lower water cuts.

General and Administrative Expenses

(thousands of dollars, unless otherwise stated)

		Three months ended June 30			
		<u>Total</u>	<u>Capitalized</u>	<u>Expensed</u>	<u>\$/boe</u>
2007	Canada	\$ 1,686	\$ 204	\$ 1,482	\$2.76
	Egypt	708	-	708	1.32
	Pakistan	257	181	76	0.13
	Total	<u>\$ 2,651</u>	<u>\$ 385</u>	<u>\$ 2,266</u>	<u>\$4.21</u>
	2006	Canada	\$ 2,240	\$ 201	\$ 2,039
	Egypt	371	-	371	0.89
	Pakistan	148	109	39	0.09
	Total	<u>\$ 2,759</u>	<u>\$ 310</u>	<u>\$ 2,449</u>	<u>\$5.88</u>
		Six months ended June 30			
		<u>Total</u>	<u>Capitalized</u>	<u>Expensed</u>	<u>\$/boe</u>
2007	Canada	\$ 2,951	\$ 392	\$ 2,559	\$2.32
	Egypt	1,353	-	1,353	1.23
	Pakistan	470	324	146	0.13
	Total	<u>\$ 4,774</u>	<u>\$ 716</u>	<u>\$ 4,058</u>	<u>\$3.68</u>
	2006	Canada	\$ 3,244	\$ 396	\$ 2,848
	Egypt	645	-	645	0.97
	Pakistan	212	157	55	0.08
	Total	<u>\$ 4,101</u>	<u>\$ 553</u>	<u>\$ 3,548</u>	<u>\$5.35</u>

For the six months ended June 30, 2007, consolidated general and administrative (“G&A”) expenses were \$4.1 million (\$3.68/boe) as compared to \$3.5 million (\$5.35/boe) for the comparable 2006 period. For the second quarters, G&A costs were \$2.3 million (\$4.21/boe) and \$2.4 million (\$5.88/boe) for 2007 and 2006, respectively. G&A cost changes are primarily attributable to staff additions and wage increases. Non-cash expenses included in expensed G&A related to the valuation of share options vesting during the six months ended June 30, 2007, were \$0.7 million as compared to \$1.6 million for the 2006 comparable period. Exclusive of the non-cash component, G&A costs for the six months ended June 30, 2007 were \$3.4 million (\$3.05/boe) and \$2.0 million (\$2.98/boe) for the comparable 2006 period.

Interest and Finance Charges

(thousands of dollars, unless otherwise stated)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Interest expense	\$ 74	\$ 110	\$ 546	\$ 163
Accretion expense on debentures	-	13	-	26
Amortization of deferred charge	252	106	505	119
Total expense	326	229	1,051	308
Interest income	225	13	315	22
Loss on foreign exchange	(1,450)	(91)	(1,430)	(105)
Loss on asset disposition	-	(36)	-	(36)
Total income (expense)	(1,225)	(114)	(1,115)	(119)
Net expense	\$ 1,551	\$ 343	\$ 2,166	\$ 427
\$/boe	\$2.88	\$0.82	\$1.96	\$0.64

Total interest and finance charges increased to \$2.2 million during the six months ended June 30, 2007 from \$427,000 in the comparable 2006 quarter primarily as a result of non-cash foreign exchange losses related to the appreciating Canadian currency. Included in the 2007 amount are \$505,000 (2006 - \$119,000) of non-cash deferred charges related to the revolving credit facility. For the 2007 second quarter, interest and finance charges were \$1.6 million compared to \$343,000 for the 2006 second quarter. The revolving credit facility was entirely paid down on March 26, 2007, therefore no ongoing interest expenses are currently being incurred, only minimal standby charges.

Depletion, Depreciation and Accretion

(thousands of dollars, unless otherwise stated)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Depletion, depreciation and accretion	\$ 3,072	\$ 2,738	\$ 6,479	\$ 5,008
\$/boe	\$5.71	\$6.58	\$5.87	\$7.55

Total depletion, depreciation and accretion (“DD&A”) charges for the six months ended June 30, 2007 were \$6.5 million (\$5.87/boe), of which depletion pertaining to producing properties in Egypt represented \$6.0 million. The remainder represents fixed asset depreciation. For the six months ended June 30, 2006, DD&A charges totaled \$5.0 million (\$7.55/boe). DD&A charges for the second quarter of 2007 were \$3.1 million (\$5.71/boe) and \$2.7 million (\$6.58/boe) for the 2006 second quarter.

The significant increase in the Corporation's proved reserve base at December 31, 2006, as evaluated by DeGolyer and MacNaughton Canada Limited, an independent reservoir evaluation firm, including the anticipated future capital requirements, has resulted in a lower consolidated DD&A rate for 2007.

Capital Invested

During the first six months of 2007, Rally Energy drilled 19 successful oil wells (19 net) in Egypt. The Corporation also drilled a water disposal well and six water supply wells for use in the thermal recovery program. In Pakistan, Rally Energy participated (30%) in drilling a development well that was abandoned due to drilling problems encountered; a new well is expected to be drilled during the third quarter. Capital expenditures totaled \$47.5 million during the first six months of 2007, up from \$14.2 million for the comparable 2006 period.

(thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Egypt				
Drill, complete and workovers	\$ 8,812	\$ 4,761	\$ 17,363	\$ 10,191
Facilities, equipment and other	5,745	574	9,662	1,069
Thermal project	1,687	360	4,631	704
Inventory change	(60)	205	4,359	16
Capitalized admin. costs	204	-	392	-
Total	\$ 16,388	\$ 5,900	\$ 36,407	\$ 11,980
Canada				
Drill, complete and workovers	\$ 47	\$ 792	\$ 65	\$ 1,545
Facilities, equipment and other	23	114	185	119
Capitalized admin. costs	-	201	-	396
Total	\$ 70	\$ 1,107	\$ 250	\$ 2,060
Pakistan				
Drill and complete	\$ -	\$ -	\$ 434	\$ -
Facilities, equipment and other	3,964	(37)	8,882	27
Inventory change	(198)	-	1,240	-
Capitalized admin. costs	178	109	324	157
Total	\$ 3,944	\$ 72	\$ 10,880	\$ 184
Grand Total				
Drill, complete and workovers	\$ 8,860	\$ 5,553	\$ 17,863	\$ 11,736
Facilities, equipment and other	9,731	651	18,728	1,215
Thermal project	1,687	360	4,631	704
Inventory change	(258)	205	5,599	16
Capitalized admin. costs	382	310	716	553
Total	\$ 20,402	\$ 7,079	\$ 47,537	\$ 14,224

Included in the above amounts are capital-related inventory costs of \$12.1 million at June 30, 2007 (2006 - \$1.8 million) for supplies and equipment intended to be used for future capital expenditures in Egypt and Pakistan.

At June 30, 2007 the Corporation continued to meet the asset impairment test for the capitalized costs and no ceiling test write-down was required.

Cash Flow from Operations

Cash flow from operations represents net earnings plus items not affecting cash which include accretion, depletion, depreciation and other non-cash items. For the quarter ended June 30, 2007, Rally Energy's cash flow from operations was \$10.9 million (\$0.09/share), an increase of 31% compared to \$8.4 million (\$0.09/share) for the 2006 second quarter. For the six months ended June 30, 2007, cash flow from operations increased by 67% to \$19.7 million (\$0.18/share) as compared to \$11.8 million (\$0.13/share) for the comparable 2006 period.

Net Earnings

Rally Energy recorded net earnings of \$5.8 million (\$0.05/share) for the second quarter of 2007, a 37% increase over net earnings of \$4.2 million (\$0.05/share) for the comparable 2006 quarter. For the six months ended June 30, 2007, Rally Energy's net earnings were \$10.4 million (\$0.10/share) as compared to \$5.1 million (\$0.06/share) for the first six months of 2006.

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, unless otherwise stated)

	<u>Revenue</u>	<u>Cash flow from operations</u>	<u>\$/share - basic</u>	<u>Earnings (loss)</u>	<u>\$/share - basic</u>
2007: Q2	\$25,798	\$10,942	\$0.09	\$ 5,781	\$0.050
Q1	\$23,037	\$8,792	\$0.09	\$ 4,665	\$0.045
2006: Q4	\$19,420	\$6,347	\$0.06	\$ 1,534	\$0.016
Q3	\$25,708	\$13,092	\$0.14	\$ (505)	\$(0.000)
Q2	\$19,605	\$8,362	\$0.09	\$ 4,213	\$0.046
Q1	\$10,061	\$3,445	\$0.04	\$ 866	\$0.010
2005: Q4	\$10,019	\$3,405	\$0.05	\$ 618	\$0.007
Q3	\$10,693	\$4,387	\$0.05	\$ 1,334	\$0.016

Liquidity and Capital Resources

At June 30, 2007, Rally Energy had cash and cash equivalents of \$10.7 million and has a fully available US\$20 million reserve-based revolving bank credit facility with the International Finance Corporation (a member of the World Bank group). At December 31, 2006, the Corporation had cash and cash equivalents of \$17.7 million and was utilizing the entire US\$20 million facility debt. Increased drilling activity, equipment additions and well optimization programs during 2007 have resulted in a higher level of accounts payable as compared to June 30, 2006, but lower than at December 31, 2006. Working capital at June 30, 2007 was \$8.5 million, as compared to working capital of \$3.3 million at December 31, 2006.

On March 13, 2007, the Corporation issued 11 million common shares at \$5.00 per share for gross proceeds of \$55 million, pursuant to the terms of a short-form prospectus. Agent commissions of \$2.8 million were paid in relation to common share subscriptions. Proceeds of the Offering are being used to fund the Corporation's exploration and development programs in Egypt and Pakistan, for potential acquisitions, and for general corporate purposes.

During the six months ended June 30, 2007, Rally Energy received proceeds of \$2.8 million from the exercise of an aggregate of 2,553,266 common share options at an average price of \$1.10/share. Subsequent to June 30, 2007, the Corporation received \$156,000 pursuant to the exercise of 260,000 common share options (at an average price of \$0.60/share).

Financial Reporting

Effective January 1, 2007, Rally Energy adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3251, *Equity*; Section 3865, *Hedges*; Section 1530, *Comprehensive Income*; and Section 3861, *Financial Statements – Disclosure and Presentation*. These standards have been adopted prospectively. See Note 1 to the consolidated financial statements.

Accounting Changes

The Corporation also adopted, effective January 1, 2007, the revised recommendations of CICA Section 1506, *Accounting Changes*. The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more relevant and reliable financial information. Accounting policy changes must be applied retrospectively unless it is impractical to determine the period or cumulative impact of the change in policy. Additionally, when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity must disclose that fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the entity's financial statements in the period of initial application.

Disclosure Controls and Procedures

Rally Energy's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in Multilateral Instrument 52-109. The Corporation's CEO and CFO have designed disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that information to be disclosed by Rally Energy is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The CEO and CFO have also designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. During the period ended June 30, 2007, there have been no changes to Rally Energy's internal controls over financial reporting that have materially, or are reasonably likely to, materially affect the internal controls over financial reporting.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, error or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met.

2007 OUTLOOK

The 2007 capital program is expected to include drilling up to 30 conventional and 30 thermal wells in Egypt and a development and an exploration well in Pakistan. To facilitate the drilling programs, a second rig has been contracted in Pakistan (August 2007 commencement), and two additional rigs have been contracted in Egypt (October 2007 and March 2008 commencement). In Egypt, additional thermal and production facilities are also planned to accommodate higher production expected from phased development of the CSS thermal expansion program. The Corporation has now finalized an order for eight 50 MMBTU steam generators, with delivery commencing in November 2007, that will satisfy field requirements into 2009. In addition to the existing 10 CSS wells at December 31, 2006, the 2007 drilling program will increase the CSS program to a total of 40 CSS wells by the end of 2007. In Pakistan, production facilities will be completed to accommodate gas production from the Salsabil development program. Exploration drilling results on the Safed Koh Concession will determine any additional production facility requirements.

Rally Energy Corp.
Consolidated Balance Sheets
(unaudited)

June 30,
2007 December 31,
2006

Assets

Current

Cash and cash equivalents	\$ 10,695,527	\$ 17,743,645
Restricted cash (Note 2)	432,872	1,169,768
Accounts receivable	25,287,112	20,594,214
Inventory (Note 4)	1,051,222	617,427
Prepaid expenses and deposits	577,829	627,228
	38,044,562	40,752,282

Long-term investments (Note 3)

1,905,500 1,905,500

Property, plant and equipment (Note 4)

130,913,188 89,853,531

Deferred costs (Note 6)

2,063,366 2,568,325

\$ 172,926,616 **\$ 135,079,638**

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities		
– operations	\$ 8,421,044	\$ 6,780,795
– capital	21,133,850	30,626,765
	29,554,894	37,407,560

Asset retirement obligations (Note 5)

842,171 770,740

Long-term debt (Note 6)

- 23,308,000

30,397,065 **61,486,300**

Shareholders' equity

Equity instruments (Note 7(a))	131,843,910	73,248,886
Contributed surplus (Note 7(e))	3,025,300	3,130,482
Retained earnings (deficit)	7,660,341	(2,786,030)
	142,529,551	73,593,338

\$ 172,926,616 **\$ 135,079,638**

The accompanying notes are an integral part of these consolidated financial statements.

Rally Energy Corp.
Consolidated Statements of Earnings and Retained Earnings (Deficit)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Oil and gas revenue	\$ 25,797,838	\$ 19,605,132	\$ 48,834,859	\$ 29,666,579
Less: Royalties and related credits	(8,156,518)	(6,964,098)	(15,651,723)	(10,583,517)
	17,641,320	12,641,034	33,183,136	19,083,062
Operating expenses	4,971,464	2,897,946	10,033,519	5,019,866
	12,669,856	9,743,088	23,149,617	14,063,196
Expenses				
Administrative expenses:				
Administration	1,874,418	1,157,407	3,372,020	1,974,357
Stock-based compensation	391,690	1,291,508	686,330	1,573,910
	2,266,108	2,448,915	4,058,350	3,548,267
Interest expense	73,362	110,406	545,783	163,352
Depletion, depreciation and accretion	3,072,442	2,738,046	6,479,193	5,008,341
Amortization of deferred charges	251,900	105,630	505,347	118,851
Accretion expense on convertible debentures	-	13,221	-	26,445
	5,663,812	5,416,218	11,588,673	8,865,256
Income before other items and taxes	7,006,044	4,326,870	11,560,944	5,197,940
Other items				
Interest income	224,730	13,037	315,168	22,468
Foreign exchange gain (loss)	(1,449,430)	(90,505)	(1,429,741)	(105,214)
Loss on asset disposition	-	(35,856)	-	(35,856)
	(1,224,700)	(113,324)	(1,114,573)	(118,602)
Net earnings	5,781,344	4,213,546	10,446,371	5,079,338
Other comprehensive income	-	-	-	-
Comprehensive earnings	5,781,344	4,213,546	10,446,371	5,079,338
Retained earnings (deficit), beginning of period	1,878,997	(8,027,893)	(2,786,030)	(8,893,685)
Retained earnings (deficit), end of period	\$ 7,660,341	\$ (3,814,347)	\$ 7,660,341	\$ (3,814,347)
Net earnings per share (Note 7(f))				
Basic	\$ 0.050	\$ 0.046	\$ 0.095	\$ 0.055
Diluted	\$ 0.049	\$ 0.043	\$ 0.093	\$ 0.053

The accompanying notes are an integral part of these consolidated financial statements.

Rally Energy Corp.
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Cash flows from operating activities				
Net earnings for the period	\$ 5,781,344	\$ 4,213,546	\$ 10,446,371	\$ 5,079,338
Non-cash items:				
Stock-based compensation	391,690	1,291,508	686,330	1,573,910
Accretion expense on convertible debentures	-	13,221	-	26,445
Amortization of deferred charges	251,900	105,630	505,347	118,851
Depletion, depreciation and accretion	3,072,442	2,738,046	6,479,193	5,008,341
Unrealized foreign exchange loss	1,444,656	-	1,616,723	-
	<u>10,942,032</u>	<u>8,361,951</u>	<u>19,733,964</u>	<u>11,806,885</u>
Changes in non-cash working capital balances:				
Accounts receivable	(3,091,589)	(7,608,889)	(4,692,898)	(8,411,307)
Inventory	(494,053)	(142,786)	(433,795)	(194,196)
Prepaid expenses and deposits	172,702	68,736	49,399	(42,634)
Accounts payable - operations	1,961,080	1,458,855	1,640,249	846,501
	<u>9,490,172</u>	<u>2,137,867</u>	<u>16,296,919</u>	<u>4,005,249</u>
Cash flows from investing activities				
Oil and gas assets	(20,456,735)	(7,079,587)	(44,351,059)	(14,224,247)
Restricted cash decrease (increase)	196,385	(752,618)	736,896	(752,618)
Changes in accounts payable - capital	(5,133,890)	841,101	(10,368,923)	2,858,112
	<u>(25,394,240)</u>	<u>(6,991,104)</u>	<u>(53,983,086)</u>	<u>(12,118,753)</u>
Cash flows from financing activities				
Issuance of equity instruments (Note 7(a))	1,133,137	1,240,410	54,736,362	1,380,016
Bank debt increase (decrease)	-	(2,349,306)	-	-
Long-term debt increase (decrease)	-	11,194,500	(23,308,000)	11,194,500
Increase in deferred financing charges	580	(698,010)	(388)	(698,010)
Redemption of convertible debentures	-	(7,006)	-	(7,006)
Changes in accounts payable - financing	62,895	-	(49,210)	-
	<u>1,196,612</u>	<u>9,380,588</u>	<u>31,378,764</u>	<u>11,869,500</u>
Foreign exchange gain (loss) on cash held in a foreign currency	<u>(670,920)</u>	<u>(10,010)</u>	<u>(740,715)</u>	<u>(40,294)</u>
Increase (decrease) in cash	(15,378,376)	4,517,341	(7,048,118)	3,715,702
Cash and cash equivalents, beginning of period	<u>26,073,903</u>	<u>-</u>	<u>17,743,645</u>	<u>801,639</u>
Cash and cash equivalents, end of period	\$ 10,695,527	\$ 4,517,341	\$ 10,695,527	\$ 4,517,341

The accompanying notes are an integral part of these consolidated financial statements.

The interim consolidated financial statements of Rally Energy Corp. (the "Corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada on a consistent basis with the audited consolidated financial statements for the fiscal year ended December 31, 2006, unless otherwise stated below. The disclosure which follows does not conform in all respects to the requirements of generally accepted accounting principles ("GAAP") for annual consolidated financial statements and, as such, should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual report for the year ended December 31, 2006.

1. Changes in Accounting Policies

- (a) Effective January 1, 2007 the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*. The Corporation has adopted these standards prospectively and the comparative interim consolidated financial statements have not been restated. Transition amounts have been recorded in accumulated other comprehensive income.

The adoption of these standards has had no material impact on net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

(i) Financial instruments

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Held-for-trading

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are accounted for at fair value with the change in the fair value recognized in net earnings during the period. Cash and cash equivalents, and restricted cash are classified as held-for-trading as at January 1, 2007.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. When a decline in fair value is determined to be other than temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. Gains and losses realized on disposal of available-for-sale securities are recognized in other income. Long-term investments are classified as available-for-sale as at January 1, 2007.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Corporation has the intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. There were no financial assets classified as held-to-maturity.

1. Changes in Accounting Policies (continued)

Loans and receivables

Loans and receivables are accounted for at amortized cost. This classification is consistent with the classification under the prior accounting standards. Accounts receivable are classified as loans and receivables as at January 1, 2007.

Other liabilities

Other liabilities are accounted for at amortized cost and include all liabilities, other than derivatives. This classification is consistent with the classification under the prior accounting standards. Accounts payable and accrued liabilities and long-term debt are classified as other liabilities.

(ii) Derivative instruments and hedging activities

The Corporation did not have any outstanding derivative or hedging contracts during the second quarter ended June 30, 2007.

(iii) Embedded derivatives

Embedded derivatives are derivatives embedded in a host contract. The embedded derivatives are measured at their fair value with subsequent changes recognized directly in earnings. The Corporation has elected July 10, 2002 as its transition date for accounting for any potential embedded derivatives. No material embedded derivatives requiring separate recognition and measures were identified. The adoption of this new standard had no impact on the Corporation's consolidated financial statements.

(iv) Determination of fair value

The Corporation's financial instruments recognized in the Consolidated Balance Sheet consist of cash and cash equivalents, restricted cash, accounts receivable, long-term investments, current liabilities, and long-term debt. Unless otherwise noted, carrying values reflect the current fair value of the financial instruments. The estimated fair values of recognized financial instruments have been determined based on the Corporation's assessment of available market information and appropriate methodologies, or through comparisons to similar instruments. The current fair value of short-term financial instruments is equal to their carrying value due to their short-term nature; long-term debt will fluctuate with market rates and therefore, approximate fair value.

(v) Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income and represents the change in shareholders' equity, which results from transactions and events from sources other than the Corporation's shareholders. These transactions and events include changes in the currency translation adjustment and unrealized gains and losses resulting from changes in fair value of available-for-sale financial instruments and the effective portion of the change in fair value of any designated cash flow hedges. The adoption of this new standard had no impact on the Corporation's consolidated financial statements.

1. Changes in Accounting Policies (continued)

- (b) Effective January 1, 2007 the Corporation adopted the revised recommendations of CICA Section 1506, *Accounting Changes*.
- (i) The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more relevant and reliable financial information. Accounting policy changes must be applied retrospectively unless it is impractical to determine the period or cumulative impact of the change in policy. Additionally, when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity must disclose that fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the entity's financial statements in the period of initial application.
- (ii) As of January 1, 2008, the Corporation will be required to adopt two new CICA requirements, Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*, which will replace current Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements. The Corporation is assessing the impact of these new standards in its consolidated financial statements and anticipates that the main impact will be in terms of additional disclosures required.
- (iii) As of January 1, 2008 the Corporation will be required to adopt CICA Section 1535, *Capital Disclosures*, which requires entities to disclose their objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Corporation is assessing the impact of this new standard on its consolidated financial statements and anticipates that the main impact will be in terms of additional disclosures required.

2. Restricted Cash

As security for letters of credit issued for work commitments in Pakistan, \$432,872 is held on deposit with a Foreign chartered bank. The funds are invested in an interest-bearing revolving term deposit and will expire on February 1, 2008.

3. Long-term Investments

The Corporation holds minority equity positions in a private independent company and a public independent company. At June 30, 2007, the valuation was reviewed by management and considered adequate.

4. Property, Plant and Equipment

The Corporation holds various working interests in developed and undeveloped petroleum and natural gas properties and facilities through a Petroleum Service Agreement in Egypt, a Concession Agreement in Pakistan and working interests in Canada. The carrying amounts of these assets are as follows:

	June 30, 2007	December 31, 2006
Petroleum and natural gas assets	\$ 177,738,658	\$ 130,283,985
Furniture, machinery and equipment	4,978,244	4,896,264
	182,716,902	135,180,249
Accumulated depletion, depreciation and write-downs	(51,803,714)	(45,326,718)
Net book value	\$ 130,913,188	\$ 89,853,531

4. Property, Plant and Equipment (continued)

During the three and six months ended June 30, 2007, the Corporation capitalized general and administrative expenditures, which were included in petroleum and natural gas assets as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
Egypt	\$ 204,271	\$ -	\$ 391,906	\$ -
Pakistan	180,915	108,382	324,268	156,828
Canada	-	201,458	-	395,925
	\$ 385,186	\$ 309,840	\$ 716,174	\$ 552,753

No interest has been capitalized.

At June 30, 2007, the Corporation held \$13,150,063 (December 31, 2006 - \$7,117,814) of inventory available for future capital expenditures in Egypt and Pakistan. Of this amount, (i) \$12,098,841 (December 31, 2006 - \$6,500,387) relates to capital equipment, primarily pipe, and is included in property and equipment and (ii) \$1,051,222 (December 31, 2006 - \$617,427) represents consumable supplies to be used in oilfield operations and is recorded as inventory under current assets. Capital inventory is being utilized in the Corporation's ongoing drilling program. No amortization has been taken on such inventory.

5. Asset Retirement Obligations

The Corporation has asset retirement obligations in Egypt (resulting from the PSA), Pakistan (resulting from the Concession Agreement) and in Canada, from net ownership interests in petroleum and natural gas assets. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations and time frame, as follows.

	<u>June 30, 2007</u>	<u>Cost Incurrence</u>		<u>December 31, 2006</u>
		<u>Range</u>	<u>Majority</u>	
Egypt	\$1,407,206	2015-2018	2021	\$1,222,824
Pakistan	223,734	2015-2020	2020	39,332
Canada	40,000	2009-2014	2014	40,000
	\$1,670,940			\$1,302,156

A credit-adjusted risk-free rate of 7% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligations. A reconciliation of the discounted asset retirement obligations is provided below:

	Six months ended June 30, 2007	Year ended December 31, 2006
<i>Asset retirement obligations</i>		
Balance, beginning of period	\$ 770,740	\$ 590,382
Liability adjustments from prior period	-	57,829
Liability adjustments from disposition of assets	-	(186,486)
Liabilities incurred in period, net	62,567	282,591
Accretion expense	8,864	26,424
Balance, end of period	\$ 842,171	\$ 770,740

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Six months ended June 30, 2007 (unaudited)

6. Long-term Debt

The Corporation has a reserve-based US\$20 million revolving credit facility with the International Finance Corporation (“IFC”) (a member of the World Bank Group) that matures on October 15, 2009. At June 30, 2007, the entire facility remains available. Setup costs pertaining to these facilities have been recorded as deferred financing costs and will be amortized over the life of the facility.

7. Equity Instruments

(a) Issued and outstanding

	<u>Six months ended</u> <u>June 30, 2007</u>		<u>Year ended</u> <u>December 31, 2006</u>	
	<u>Number of</u> <u>Shares</u>	<u>Amounts</u>	<u>Number of</u> <u>Shares</u>	<u>Amounts</u>
Common shares				
Balance, beginning of period	100,697,648	\$ 75,524,480	91,025,379	\$56,908,614
Private placement (Note 7(c))	1,372,846	3,116,360	-	-
Prospectus issue (Note 7(d))	11,000,000	55,000,000	-	-
Stock options exercised	2,553,266	3,612,699	1,484,093	1,589,758
Debentures converted	-	-	1,188,176	1,743,993
Warrants exercised	-	-	7,000,000	15,282,115
	<u>115,623,760</u>	<u>137,253,539</u>	<u>100,697,648</u>	<u>75,524,480</u>
LESS: Share issue costs		<u>(5,409,629)</u>	-	<u>(2,275,594)</u>
		<u>131,843,910</u>	<u>100,697,648</u>	<u>73,248,886</u>
Share purchase warrants – common shares				
Balance, beginning of period	-	-	4,000,000	904,242
Issued	-	-	3,000,000	2,217,873
Exercised	-	-	(7,000,000)	(3,122,115)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of period, all equity instruments		<u><u>\$131,843,910</u></u>		<u><u>\$73,248,886</u></u>

(b) Options

The shareholders of the Corporation have annually approved a formal stock option plan under which directors, officers, employees and consultants are eligible to receive grants. Stock option agreements have vesting periods varying from immediate to three years and expiration terms of up to five years.

For the six months ended June 30, 2007, there were 3,444,000 options granted with an average exercise price of \$4.83/share and an estimated fair value of \$1.73/share using the Black-Scholes option pricing model. In the pricing model, assumptions were as follows: risk free interest rate was 5.0%; average volatility was 47%; and an expected life was 5 years. The stock-based compensation expense associated with the value ascribed to options granted is recorded as contributed surplus. The Corporation recorded an expense for options issued and vested as noted below.

	<u>Three months ended</u> <u>June 30</u>		<u>Six months ended</u> <u>June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Stock-based compensation expense	\$ 391,690	\$ 1,291,508	\$ 686,330	\$ 1,573,910

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Six months ended June 30, 2007 (unaudited)

7. Equity Instruments (continued)

	Six months ended June 30, 2007		Year ended December 31, 2006	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
Outstanding, beginning of period	6,862,666	\$2.45	7,356,759	\$1.02
Granted	3,444,000	\$4.83	1,165,000	\$2.36
Cancelled	(391,666)	\$3.93	(1,484,093)	\$0.73
Exercised	(2,553,266)	\$1.10	(175,000)	\$1.34
Outstanding, end of period	<u>7,361,734</u>	<u>\$2.88</u>	<u>6,862,666</u>	<u>\$1.30</u>

(c) Private placement

On March 2, 2007, having received the requisite approvals from relevant Pakistan government agencies to close a property purchase, the purchase price of US\$11.4 million accrued at December 31, 2006 was satisfied by way of US\$8.55 million in cash and 1,372,846 common shares of Rally Energy Corp. The shares are subject to a four month hold, and were valued at \$2.27 per share, the prevailing price when announced in June 2006.

(d) Prospectus issue

On March 13, 2007, the Corporation issued 11 million common shares at \$5.00 per share for gross proceeds of \$55 million, pursuant to the terms of a short-form prospectus. Agent commissions of \$2.8 million and \$264,694 of other share issue costs were incurred in relation to common share subscriptions.

(e) Contributed surplus

	Six months ended June 30, 2007	Year ended December 31, 2006
	Balance, beginning of period	\$ 3,130,482
Stock-based compensation expense	686,330	2,103,992
Options exercised, transferred to share capital	(791,512)	(504,592)
Debentures exercised, transferred to share capital	-	(437,000)
Balance, end of period	<u>\$ 3,025,300</u>	<u>\$ 3,130,482</u>

(f) Per share amounts

Earnings per share figures have been calculated using the weighted average number of common shares outstanding during the periods. Diluted per share amounts reflect the potential dilution that could occur if in-the-money securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Anti-dilutive options or instruments are not included in the calculation.

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Six months ended June 30, 2007 (unaudited)

7. Equity Instruments (continued)

The following table summarizes the calculation of basic and diluted net earnings per share.

	Three months ended June 30	
	2007	2006
Net earnings available to common shareholders	\$ 5,781,344	\$ 4,213,546
Weighted-average number of common shares outstanding – basic	115,386,789	92,498,721
Dilution effect of stock options	3,768,312	3,198,639
Dilution effect of warrants	-	1,391,373
Weighted-average number of common shares outstanding – diluted	119,155,101	97,088,733
Net earnings per share (\$/share)		
Basic	\$0.050	\$0.046
Diluted	\$0.049	\$0.043

	Six months ended June 30	
	2007	2006
Net earnings available to common shareholders	\$10,446,371	\$ 5,079,338
Weighted-average number of common shares outstanding – basic	109,614,994	91,799,988
Dilution effect of stock options	2,702,032	2,686,018
Dilution effect of warrants	-	798,176
Weighted-average number of common shares outstanding – diluted	112,317,026	95,284,182
Net earnings per share (\$/share)		
Basic	\$0.095	\$0.055
Diluted	\$0.093	\$0.053

Outstanding stock options are the only instruments that are currently dilutive to earnings per share. At June 30, 2007, no stock options were antidilutive and excluded from the computation of diluted earnings per share.

8. Related Party Transactions

For the three and six months ended June 30, 2007 and 2006, the Corporation paid consulting fees to a company, whose principal is a director of the Corporation. The transactions occurred in the normal course of business operations and represent consideration established and agreed to by the related parties which is similar to those negotiated with third parties.

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Administrative expenses	\$ 36,063	\$ 39,375	\$ 77,713	\$ 94,675
Capitalized	-	39,375	-	101,625
	\$ 36,063	\$ 78,750	\$ 77,713	\$ 196,300

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Six months ended June 30, 2007 (unaudited)

9. Commitments

The Corporation has committed to purchase steam generators and related facilities that will be delivered during 2007 and 2008 for use in the Issaran oilfield. Current obligations related to these commitments are approximately US\$2 million based on the current construction progress and the total obligation under this contract would be US\$7.2 million.

The Corporation has signed agreements to contract additional drilling rigs that will commence operation in 2007 and 2008, for its operations in Egypt and Pakistan. Current obligations related to all drilling rig contracts is approximately US\$13 million payable up to and including March 2010.

10. Segmented Information

The Corporation operates in the petroleum and natural gas industry and has operations in Egypt, Pakistan and Canada. Its reportable segments are identified on a geographic basis. Gross revenue for the three and six months ended June 30 and capital assets are summarized on a country basis below:

	Egypt	Canada	Pakistan	Total
Three months ended June 30, 2007				
Gross revenue	\$ 25,774,881	\$ 16,018	\$ 6,939	\$ 25,797,838
Net earnings (loss)	\$ 7,368,371	\$ (1,694,226)	\$ 107,199	\$ 5,781,344
Three months ended June 30, 2006				
Gross revenue	\$ 18,982,754	\$ 622,378	\$ -	\$ 19,605,132
Net earnings (loss)	\$ 6,375,691	\$ (2,134,268)	\$ (27,877)	\$ 4,213,546
Six months ended June 30, 2007				
Gross revenue	\$ 48,807,723	\$ 20,197	\$ 6,939	\$ 48,834,859
Net earnings (loss)	\$ 13,248,315	\$ (2,987,165)	\$ 185,221	\$ 10,446,371
Six months ended June 30, 2006				
Gross revenue	\$ 28,156,614	\$ 1,509,965	\$ -	\$ 29,666,579
Net earnings (loss)	\$ 8,470,912	\$ (3,349,268)	\$ (42,306)	\$ 5,079,338
Property and equipment				
June 30, 2007	\$ 97,666,021	\$ 822,299	\$ 32,424,868	\$ 130,913,188
June 30, 2006	\$ 38,737,045	\$ 17,118,201	\$ 1,822,008	\$ 57,677,254

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Six months ended June 30, 2007 (unaudited)

11. Statement of Cash Flows and Non-Cash Transactions

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
(a) Interest paid	\$ 16,392	\$ 118,012	\$ 484,541	\$ 229,427
(b) Taxes paid	\$ -	\$ -	\$ -	\$ -
	June 30, 2007		December 31, 2006	
(c) Cash and cash equivalents				
Cash	\$ 10,695,527		\$ 9,549,396	
Term deposits	-		8,194,249	
Cash and cash equivalents	\$ 10,695,527		\$ 17,743,645	

12. Subsequent Events

- (a) On July 24, 2007, the Corporation closed a transaction with an independent public company to dispose of certain Canadian oil and gas properties for \$1.5 million. The agreement has an effective date of April 1, 2007. A director and officer of the Corporation is also a director of the purchaser. The transaction was done on similar terms and conditions as those entered into with unrelated parties and measured at the exchange amount, the amount of consideration established and agreed to by the parties.
- (b) On August 1, 2007, the Corporation announced that it has entered into an Arrangement Agreement whereby Logria Corporation ("Purchaser"), a subsidiary of National Petroleum Company S.A.E. and an affiliate of Citadel Capital Company, will acquire the Corporation in a transaction valued at approximately \$898 million. Under the terms of the Arrangement Agreement, the Purchaser will acquire all of the issued and outstanding common shares of the Corporation at a price of \$7.30 per share in cash and all outstanding in-the-money options for their in-the-money value pursuant to a plan of arrangement. 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. In the event a superior proposal is accepted the Corporation will be required to pay a \$24 million termination fee to the Purchaser, and, in certain circumstances, will indemnify the Purchaser for certain costs incurred in connection with the transaction for up to an additional \$12 million. There can be no assurances this transaction will be completed or completed as described.
- (c) Subsequent to June 30, 2007, 260,000 options in the Corporation were exercised into 260,000 common shares at \$0.60 per share.