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RALLY ENERGY REPORTS RECORD REVENUES, CASH FLOW AND NET INCOME IN THE THIRD QUARTER OF 2005

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REPORT TO OUR SHAREHOLDERS

Record results for the third quarter of 2005 reflect our growing financial strength in a strong oil price environment. Sales averaged 2,613 boe/d in the third quarter, up 5% from the first six month average of 2,484 boe/d. These sales, combined with substantially higher prices, resulted in record quarterly revenue of \$10.7 million, record quarterly cash flow of \$4.4 million (\$0.05/share) and record quarterly earnings of \$1.3 million (\$0.02/share). Highlights of the third quarter are as follows:

- Record third quarter revenue of \$10.7 million (\$44.51/boe) was up 21% compared to the second quarter (\$8.8 million, \$34.91/boe) and up 99% compared to the first quarter (\$5.4 million, \$27.23/boe).
- Average realized oil equivalent wellhead prices of \$44.51 per barrel in the third quarter were up 27% from the second quarter and up 63% from the first quarter.
- Cash flow from operations increased to \$4.4 million (\$0.05/share), up 36% from \$3.2 million (\$0.04/share) reported in the second quarter and up over five-fold from the \$0.9 million (\$0.01/share) reported in the first quarter.
- Sales averaged 2,613 boe/d, up 5% from the first six month average of 2,484 boe/d but down slightly from the second quarter average of 2,774 boe/d due primarily to delays in equipment deliveries that have now been partially rectified.
- Net income of \$1.3 million (\$0.02 per share) was achieved in the third quarter of 2005 compared to a loss of \$0.4 million ((\$0.01)/share) for the first six months of 2005.

Rally Energy's financial results for the third quarter do not yet reflect the momentum of our efforts to increase production. Equipment delivery delays experienced in Egypt in the third quarter prevented us from placing new Issaran wells on-stream in a timely manner and also interfered with our ongoing production maintenance and optimization programs. This has now been partially rectified and has allowed us to increase Company production to a current level in excess of 3,000 boe/d.

In the third quarter of 2005, Rally Energy's capital expenditures were \$5.0 million compared to expenditures of \$5.6 million in the second quarter. Capital expenditures of \$4.5 million in Egypt represented the largest portion of the 2005 third quarter expenditures, with \$0.3 million spent on Pakistan programs and \$0.2 million spent in Canada.

- In Egypt, we drilled three new wells in the Issaran field and continued with approved well completion programs. Third quarter Issaran oil sales averaged 2,410 bbls/d, and an additional 400 bbls/d of production was added during October.
- In Western Canada, no new wells were drilled during the quarter. Western Canadian production averaged 203 boe/d during the third quarter.
- In Pakistan, we continued with successful testing programs and extended flow tests on the Rodho 2 and 3 wells and now expect a “Commerciality Declaration” for the Rodho field to be made prior to year-end 2005.

THIRD QUARTER OPERATIONS REPORT

Egypt

During the third quarter, significant effort was devoted to finalizing a global field development plan for Issaran. This plan was presented for approval to Egyptian authorities in Cairo in August and was fully endorsed and approved. The impact of this approval is expected to become more evident as we progress with our Issaran programs. Our global plan should allow us to proceed far more rapidly with drilling and completion activities under the new plan umbrella. The plan includes specific well locations for 2005, including drilling of our first horizontal well before the end of this year, and a detailed work program for 2006 and 2007 that includes plans for continuing with the Upper and Lower Dolomite thermal recovery pilot projects.

In the Issaran oilfield three new oil wells were drilled during the third quarter. Two are producing oil wells, and one is being completed and equipped for production. Oil sales averaged 2,410 bbls/d in the third quarter, down 8% compared to the second quarter of 2005, due primarily to the impact of equipment delivery delays that interfered with our ongoing production maintenance and optimization programs and prevented us from placing new wells on-stream in a timely manner.

Our first Lower Dolomite steam pilot operation continued to produce encouraging technical results during the third quarter. We are continuing with evaluation activities that include conducting several more steam and production cycles. A second Upper Dolomite steam pilot operation has now commenced to further evaluate the potential for enhanced oil recovery in the southern area of the Issaran field.

Pakistan

In Pakistan, a testing and appraisal program for the Safed Koh Rodho 2 and 3 discovery wells was finalized for submission to the Ministry of Petroleum during the third quarter. The plan included completion and production testing programs for both wells. In addition, preparations were made during the third quarter for comprehensive Technical and Operating Committee meetings in Islamabad. These meetings occurred in October and established a work plan for progressing to a Declaration of Commerciality and to a project construction and development schedule. A “Declaration of Commerciality”, delineation of the Discovery Area and submission of a development plan to government authorities is on schedule to be completed before year-end. Initial production from Rodho is currently expected to commence in the second quarter 2006 following construction of a 22 kilometre gas sales pipeline.

Rally's management believes that current Rodho activities represent the beginning of a significant Safed Koh exploration and development program focused initially on delineating the Lower Goru Sands potential of the Rodho area and examining the deeper Sembar Sandstone potential. Safed Koh partners have now agreed to contract a rig to drill a new Rodho development well in the second quarter of 2006. This new well is expected to add additional production from the Lower Goru formation and to test the deeper Sembar Sandstone. At this time, plans are also being discussed to drill a new well on the large Afiband structure located immediately south of the Rodho structure. In addition, technical reviews have commenced for the large Zindapir structure south of Afiband.

Rally Energy holds a 22.5% working interest in the Safed Koh block which contains the Rodho structure and two additional large structures: Afiband and Zindapir.

Western Canada

Total Canadian production in the third quarter averaged 203 boe/d, up 35%, from 150 boe/d in the second quarter. The most significant contribution to this increase resulted from increased Harmattan production during the quarter. No new wells were drilled during the quarter. During the fourth quarter, one vertical well is planned for Valhalla, Alberta (50%) and one horizontal well is planned for Parkman, Saskatchewan (37.5%).

OVERVIEW

Rally Energy has formally entered into negotiations with the International Finance Corporation (“IFC”) (a member of the World Bank Group) for provision of long-term financing of up to US\$25 million, including reserve-based credit facilities, to fund upcoming capital requirements and working capital needs for the Egypt and Pakistan projects. Subject to ongoing discussions with the IFC and completion of all required documentation for approval, it is expected that this facility will be in-place during the first quarter of 2006.

Our recent migration to the Toronto Stock Exchange (“TSX”), the US\$2.5 million increase in our existing credit facility, our recent acceptance as a qualified prompt-offering short-form prospectus issuer and our continued progress in accelerating development activities in our core areas, are significant achievements that will support Rally Energy’s growth in 2005 and beyond.

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

RALLY ENERGY CORP.
Management's Discussion and Analysis ("MD&A")
For the Nine Months ended September 30, 2005

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, 2004. Additional information regarding the Corporation can be found at www.sedar.com and www.rallyenergy.com.

These financial statements of Rally Energy and the accompanying interim consolidated balance sheet as at September 30, 2005 and the interim consolidated statements of operations and deficit and cash flows for the nine month period then ended, are the responsibility of the Corporation's management.

The financial information contained herein has been prepared by management and include 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 Canadian 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 November 25, 2005.

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, 2004 MD&A and in the Annual Information Form filed on August 19, 2005.

Sales, Revenue and Netback

(thousands of dollars, unless otherwise stated)

	For the nine months ended September 30			
	2005		2004	
Daily Sales:				
Oil (bbls/d)	2,491		1,879	
Natural gas (mcf/d)	216		72	
Total BOE (boe/d)	2,527		1,891	
		<i>\$/boe</i>		<i>\$/boe</i>
Gross revenue	\$ 24,880	\$36.06	\$ 16,602	\$32.05
Production entitlement – GPC (Egypt)	(6,843)	(9.92)	(3,161)	(6.10)
Royalty (Egypt)	(1,534)	(2.22)	-	-
Marketing fees	(463)	(0.67)	(365)	(0.70)
Royalties (Canada)	(114)	(0.16)	(39)	(0.08)
Operating expenses	(4,621)	(6.70)	(2,845)	(5.49)
Netback from operations	\$ 11,305	\$16.39	\$ 10,192	\$19.68

	2005		2005		2005		2004	
	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
Daily Sales:								
Oil (bbls/d)	2,558		2,734		2,177		2,206	
Natural gas (mcf/d)	330		240		84		192	
Total BOE (boe/d)	2,613		2,774		2,191		2,238	
		<i>\$/boe</i>		<i>\$/boe</i>		<i>\$/boe</i>		<i>\$/boe</i>
Gross revenue	\$10,698	\$44.51	\$8,813	\$34.91	\$5,369	\$27.23	\$5,790	\$28.12
Production entitlement								
- GPC (Egypt)	(2,898)	(12.07)	(2,380)	(9.43)	(1,565)	(7.94)	(1,978)	(9.62)
Royalty (Egypt)	(629)	(2.62)	(558)	(2.21)	(347)	(1.76)	-	-
Marketing fees	(103)	(0.43)	(186)	(0.74)	(174)	(0.88)	(161)	(0.78)
Royalties (Canada)	(104)	(0.43)	(5)	(0.01)	(5)	(0.03)	(25)	(0.12)
Operating expenses	(1,672)	(6.96)	(1,545)	(6.12)	(1,404)	(7.12)	(1,296)	(6.29)
Netback from operations	\$ 5,292	\$22.00	\$4,139	\$16.40	\$1,874	\$9.50	\$2,330	\$11.31

	2004		2004		2004		2003	
	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
Daily Sales:								
Oil (bbls/d)	2,092		1,794		1,735		1,648	
Natural gas (mcf/d)	60		210		24		-	
Total BOE (boe/d)	2,102		1,829		1,739		1,648	
		<i>\$/boe</i>		<i>\$/boe</i>		<i>\$/boe</i>		<i>\$/boe</i>
Gross revenue	\$6,743	\$34.87	\$5,400	\$32.45	\$4,459	\$28.18	\$4,076	\$26.89
Production entitlement								
- GPC (Egypt)	(1,272)	(6.58)	(1,027)	(6.18)	(862)	(5.45)	(752)	(4.97)
Marketing fees	(124)	(0.64)	(141)	(0.85)	(100)	(0.63)	(48)	(0.32)
Royalties (Canada)	(12)	(0.06)	(21)	(0.12)	(6)	(0.04)	12	0.08
Operating expenses	(961)	(4.97)	(1,026)	(6.16)	(858)	(5.43)	(573)	(3.78)
Netback from operations	\$4,374	\$22.62	\$3,185	\$19.14	\$2,633	\$16.63	\$2,715	\$17.90

Gross revenue for the third quarter of 2005 increased 59% to \$10.7 million from \$6.7 million for the third quarter of 2004 as a result of a 24% increase in oil and gas production (2,613 boe/d compared to 2,102 boe/d), along with an 28% increase in oil and gas prices (\$44.51/boe, up from \$34.87/boe). For the nine months ended September 30, 2005, gross revenue increased 50% to \$24.9 million (\$36.06/boe; production of 2,527 boe/d), from \$16.6 million (\$32.05/boe; production of 1,891 boe/d) for the comparable 2004 period. The revenue increase is primarily attributable to additional oil sales from the Issaran oilfield in Egypt as a result of new wells drilled during the period, and production optimization efforts. Included in this amount was revenue from Canadian production for the 2005 nine month period of \$2.0 million (129 boe/d at an average price of \$57.78/boe) reflecting the commencement of Harmattan production during the second quarter. The Brent oil price differential for heavy oil produced from the Issaran oilfield (marketed as the Ras Gharib blend) has steadily improved in 2005. In the third quarter of 2005, the realized wellhead oil price represented 58% of the Brent oil price, up from 53% in the 2005 second quarter and 46% in the 2005 first quarter. For October 2005, the realized wellhead oil price was

US\$33.81, representing 65% of the Brent oil price. The realized wellhead oil price was 64% of the Brent oil price for the third quarter of 2004.

Production Entitlements, Marketing Costs and Royalties

For the quarter ended September 30, 2005, the production entitlement of The General Petroleum Co. SAE ("GPC") totaled \$2.9 million (\$12.07/boe), representing 27% of gross revenue. For the 2004 third quarter, GPC's entitlement was \$1.3 million (\$6.58/boe), representing 19% of gross revenue. GPC's entitlement increased during the fourth quarter of 2004 as a result of "payout" being reached in September 2004 for the Issaran oilfield, under the terms of the Petroleum Service Agreement. The GPC entitlement from all new wells is 27% on a post-payout basis; on old wells, GPC's average entitlement is 54%. Based on current production levels, the aggregate GPC entitlement is approximately 30%.

Effective January 1, 2005, the Corporation is required to make revenue-based royalty payments from the Issaran Oilfield to Gemini Oil and Gas Limited, an independent oil and gas investment fund. The revenue-based royalty of 10% is reduced to 2.6% of Issaran oil revenues (net of marketing fees and GPC entitlements, derived from a maximum of 7,000 bbls/d of production) once royalties of US\$3.0 million have been paid, and will continue until December 31, 2012. Royalty payments for the nine months ended September 30, 2005 were \$1.5 million (\$2.22/boe), representing 6% of gross revenue (2004 - nil). The remaining 2005 royalty obligation, payable in the fourth quarter, is \$265,000.

Pursuant to the terms of certain marketing agreements pertaining to Issaran oil sales, marketing fees of \$103,000 (\$0.43/boe) linked to realized oil prices and production were paid during the third quarter of 2005 as compared to \$186,000 (\$0.74/boe) in the second quarter of 2005 and \$124,000 (\$0.64/boe) in the 2004 third quarter. For the nine month periods ended September 30, marketing fees were \$463,000 (\$0.67/boe) and \$365,000 (\$0.70/boe) for 2005 and 2004, respectively.

Royalties incurred on Canadian properties are reported net of the Alberta Royalty Tax Credit and were \$104,000 and \$12,000 for the 2005 and 2004 third quarter periods, respectively. The increase is associated with the new Harmattan oil, gas and liquids production, of which the oil portion benefits from a one-year royalty holiday (to a maximum of \$1.0 million gross).

Operating Expenses

Operating expenses for the nine months ended September 30, 2005 were \$4.6 million (\$6.70/boe) as compared to \$2.8 million (\$5.49/boe) for the comparable 2004 period. Operating expenses were \$1.7 million (\$6.96/boe) in the third quarter of 2005 compared to \$1.0 million (\$4.97/boe) for the same period in 2004. On an overall basis, costs have increased commensurate with the higher oil production in 2005. A significant contributor to higher operating expenses was higher diesel fuel costs which fluctuate in accordance with oil commodity prices. Diesel fuel is used to power electricity generators for field operations in our Issaran oilfield. Rally Energy is exploring access to natural gas from nearby sources as an alternative to diesel fuel for generators. Also included in the nine month operating cost amount is \$151,000 (2004 - \$45,000) of costs pertaining to Canadian production.

General and Administrative Expenses

(thousands of dollars, unless otherwise stated)

		Three months ended September 30			
		<u>Total</u>	<u>Capitalized</u>	<u>Expensed</u>	<u>\$/boe</u>
2005					
	Canada	\$ 834	\$ 390	\$ 740	\$3.08
	Egypt	338	-	338	1.41
	Pakistan	127	101	26	0.10
	Total	\$ 1,299	\$ 491	\$ 1,104	\$4.59
2004					
	Canada	\$ 789	\$ 93	\$ 696	\$3.60
	Egypt	232	-	232	1.20
	Pakistan	60	-	60	0.32
	Other	61	-	61	0.31
	Total	\$ 1,142	\$ 93	\$ 1,049	\$5.43

		Nine months ended September 30			
		<u>Total</u>	<u>Capitalized</u>	<u>Expensed</u>	<u>\$/boe</u>
2005					
	Canada	\$ 2,149	\$ 578	\$ 1,867	\$2.71
	Egypt	1,061	-	1,061	1.54
	Pakistan	303	233	70	0.09
	Total	\$ 3,513	\$ 811	\$ 2,998	\$4.34
2004					
	Canada	\$ 1,767	\$ 243	\$ 1,524	\$2.94
	Egypt	745	-	745	1.44
	Pakistan	290	-	290	0.56
	Other	145	-	145	0.28
	Total	\$ 2,947	\$ 243	\$ 2,704	\$5.22

For the quarter ended September 30, 2005, consolidated general and administrative (“G&A”) expenses were \$1.1 million (\$4.59/boe) as compared to \$1.0 million (\$5.43/boe) for the same quarter in 2004 and \$990,000 (\$3.92/boe) for the 2005 second quarter. For the nine month periods ended September 30, consolidated G&A expenses were \$3.0 million for 2005 and \$2.7 million for 2004. On a cost-per-unit basis, G&A expenses have been reduced to \$4.34/boe from \$5.22/boe for the respective nine-month periods, as a result of higher sales. The Corporation capitalized \$515,000 (15%) of G&A costs for the 2005 nine month period as compared to \$243,000 (8%) for the comparable 2004 period. Overall G&A costs for the nine months ended September 30, 2005 were \$3.5 million as compared to \$2.9 million for the comparable 2004 period. The increase is primarily attributable to higher labour costs resulting from staff additions and annual wage increases.

Interest and Finance Charges

(thousands of dollars, unless otherwise stated)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Interest expense	\$ 129	\$ 208	\$ 499	\$ 614
Accretion expense on debentures	13	36	176	108
Amortization of deferred charge	13	36	63	108
Total expense	155	280	738	830
Interest income	6	11	23	36
Gain (loss) on foreign exchange	(15)	(212)	(30)	(101)
Total income (expense)	(9)	(201)	(7)	(65)
Net expense	\$ 164	\$ 481	\$ 745	\$ 895
\$/boe	\$0.69	\$2.49	\$1.08	\$1.73

Total interest and finance charges decreased to \$745,000 during the nine months ended September 30, 2005 from \$895,000 for the comparable 2004 period. On a quarterly basis, interest and finance charges were \$164,000 for the third quarter of 2005, as compared to \$481,000 for the third quarter of 2004. During 2005, \$4.7 million of the Corporation's 12% unsecured convertible debentures were converted into common shares at \$1.00/share. This resulted in a lower interest expense associated with the debentures, partially offset by increased utilization of a bank credit facility. Included in the 2005 nine-month amount is \$239,000 (2004 - \$216,000) of non-cash charges pertaining to the convertible debentures issued in 2003. Additional details are disclosed in Note 5 of the consolidated financial statements.

Depletion, Depreciation and Accretion

(thousands of dollars, unless otherwise stated)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Depletion, depreciation and accretion \$/boe	\$ 2,190	\$ 2,157	\$ 6,140	\$ 6,493
	<u>\$9.11</u>	<u>\$11.15</u>	<u>\$8.90</u>	<u>\$12.53</u>

Total depletion, depreciation and accretion ("DD&A") charges for the nine months ended September 2005 were \$6.1 million (\$8.90/boe), of which depletion pertaining to producing properties in Egypt represented \$4.2 million. The remainder represents depletion charges of \$1.6 million for Canadian production, fixed asset depreciation of \$377,000 and \$15,000 for accretion of asset retirement obligations. DD&A charges for the corresponding 2004 nine month period were \$6.5 million (\$12.53/boe). The significant increase in the Corporation's proved reserve base at December 31, 2004, as evaluated by DeGolyer and MacNaughton Canada Limited, an independent reservoir evaluation firm, resulted in a lower 2005 depletion rate per produced barrel of oil. On a quarterly basis, the 2005 third quarter DD&A was \$2.2 million (\$9.11/boe) as compared to \$2.2 million (\$11.15/boe) for the 2004 third quarter and \$2.5 million (\$9.79/boe) for the second quarter of 2005.

Cash Flow from Operations

Cash flow from operations ("Cash Flow") represents funds from operations as detailed on the Corporation's consolidated statements of cash flows. For the nine months ended September 30, 2005, Rally Energy's cash flow from operations was \$8.5 million (\$0.11/share) as compared to \$7.1 million (\$0.10/share) for the comparable 2004 period. For the third quarter of 2005, cash flow was \$4.4 million (\$0.05/share) as compared to \$3.2 million (\$0.04/share) in the second quarter of 2005 and \$3.2 million (\$0.05/share) in the third quarter of 2004.

Cash Flow, representing cash generated from operating activities before changes in non-cash working capital items, is a non-GAAP measure. Management utilizes Cash Flow as a key measure to assess the ability of the Corporation to finance operating activities and capital expenditures. Additionally, Cash Flow has been described and presented in order to provide shareholders and potential investors with information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. This performance indicator may not be comparable to similar measures used by other companies.

Net Income

Rally Energy recorded net income of \$1.3 million (\$0.02/share) for the third quarter of 2005 as compared to \$687,000 (\$0.01/share) for the comparable 2004 quarter and \$484,000 (\$0.01/share) for the 2005 second quarter. The third quarter 2005 net income included a \$500,000 write-down of assets held for sale to reflect their current market value. For the nine months ended September 30, 2005 net income was \$923,000 (\$0.01/share) as compared to \$100,000 (\$nil/share) for the nine months ended September 30, 2004.

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, unless otherwise stated)

	Revenue	Cash flow from operations		Income (loss)		
			\$/share - basic		\$/share - basic	
2005: Q3	\$10,698	\$4,387	\$0.05		\$1,334	\$0.02
Q2	\$ 8,813	\$3,235	\$0.04		\$ 484	\$ 0.01
Q1	\$ 5,369	\$ 856	\$0.01		\$ (895)	\$(0.01)
2004: Q4	\$ 5,790	\$1,170	\$0.02		\$ 1,138	\$ 0.02
Q3	\$ 6,743	\$3,187	\$0.05		\$ 687	\$ 0.01
Q2	\$ 5,400	\$2,202	\$0.03		\$ (28)	\$ 0.00
Q1	\$ 4,459	\$1,724	\$0.02		\$ (559)	\$(0.01)
2003: Q4	\$ 4,076	\$1,635	\$0.03		\$(1,850)	\$(0.03)

Capital Expenditures

During the nine months ended September 30 2005, Rally Energy drilled 9 wells (9 net) in Egypt, four wells (2.2 net) in Canada and two re-entry wells (0.45 net) in Pakistan. Capital expenditures totalled \$16.5 million for the 2005 nine month period, up from \$9.4 million (before dispositions) for the comparable 2004 period.

(thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Egypt				
Drill, complete and workovers	\$ 1,954	\$ 3,526	\$ 7,307	\$ 7,900
Seismic, evaluation and other	1,233	314	2,166	958
Inventory change	1,346	(338)	1,327	(247)
Property acquisition (disposition)	-	(12)	-	(3,922)
Capitalized admin. costs	-	-	-	-
Total	\$ 4,533	\$ 3,490	\$ 10,800	\$ 4,689
Canada				
Drill, complete and workovers	\$ 102	\$ 320	\$ 3,246	\$ 424
Seismic, evaluation and other	79	50	376	164
Property acquisition (disposition)	(45)	(169)	422	(169)
Capitalized admin. costs	94	93	282	243
Total	\$ 230	\$ 294	\$ 4,326	\$ 662
Pakistan				
Drill and complete	\$ 182	\$ -	\$ 1,165	\$ -
Seismic, evaluation and other	(6)	-	15	-
Capitalized admin. costs	101	-	233	-
Total	\$ 277	\$ -	\$ 1,413	\$ -
Grand Total				
Drill, complete and workovers	\$ 2,238	\$ 3,846	\$ 11,718	\$ 8,324
Seismic, evaluation and other	1,306	364	2,557	1,122
Inventory change	1,346	(338)	1,327	(247)
Property acquisition (disposition)	(45)	(181)	422	(4,091)
Capitalized admin. costs	195	93	515	243
Total	\$ 5,040	\$ 3,784	\$ 16,539	\$ 5,351

Included in the above amounts are casing and tubing inventory costs of \$1.9 million at September 30, 2005 (2004 - \$1.2 million) to be used in future Issaran drilling programs.

On February 24, 2005, the Corporation completed a transaction with Shannon International Resources Inc. ("Shannon"), whereby the Corporation disposed of its remaining interests in the Prince Edward Island project in exchange for 2.5 million common shares and 500,000 warrants, exercisable at US\$0.85 per share with a term of one year, of Shannon. The value associated with the Shannon equity instruments received, after taking into account required hold periods, fair value discounts and transaction costs, was estimated at \$650,000. At September 30, 2005, the valuation was reviewed, and it was determined that the assets held for sale should be written-down to \$150,000 as a result of weakness in the Shannon common shares.

At September 30, 2005 the Corporation continued to meet the asset impairment test for the Egyptian and Canadian capitalized costs and no ceiling test write-down was required. The capitalized Pakistan costs are considered to be in the pre-production stage.

Liquidity and Capital Resources

At September 30, 2005, Rally Energy had bank debt of \$4.8 million and \$1.3 million principal amount of convertible debentures, as compared to no bank debt and \$6.0 million principal amount of convertible debentures at December 31, 2004. The working capital shortfall at September 30, 2005 was \$5.7 million, as compared to a working capital shortfall of \$345,000 at December 31, 2004. Increased drilling activity during 2005 has resulted in a higher level of accounts payable. At September 30, 2005, the accounts payable include amounts pertaining to the \$1.9 million of casing and tubing inventory, recorded as fixed assets, acquired for future drilling operations. The Corporation's remaining \$1.3 million of convertible debentures mature on July 1, 2006 and, accordingly, are classified as short term liabilities.

During the nine months ended September 30, 2005, Rally Energy received proceeds of \$1.2 million from the exercise of an aggregate 2.0 million common share options at an average price of \$0.60/share. On May 13, 2005, the Corporation realized gross proceeds of \$2.0 million from a private placement of 1.1 million flow-through common shares issued at \$1.80/share. Net proceeds were \$1.9 million, after payment of commissions and transaction fees. Additionally, on August 2, 2005, Rally Energy, realized proceeds of \$1.0 million from a non-brokered private placement of 732,000 common shares issued at \$1.32/share. Insiders of the Corporation subscribed for 69,555 common shares (\$125,199) and 155,000 common shares (\$204,600) of these placements, respectively.

During the nine months ended September 30, 2005, \$4.7 million of the 12% unsecured convertible subordinated debentures were converted into common shares, leaving a balance of \$1.3 million at period end, down from \$6.0 million at December 31, 2004. The outstanding debentures are currently convertible, at the option of the holder, into common shares at a conversion price of \$1.10 per common share at any time prior to their maturity on July 1, 2006.

On October 14, 2005, Rally Energy commenced trading on the Toronto Stock Exchange ("TSX"). This migration from the TSX Venture Exchange is expected to increase the liquidity of the Corporation's shares by appealing to a broader investor audience and enhance shareholder value.

In October 2005, Rally Energy received approval for a US\$2.5 million credit limit increase to facilitate working capital obligations. The US\$7.0 million credit facility from its primary banker is secured as disclosed in Note 6 of the consolidated financial statements. At September 30, 2005, the Corporation had utilized US\$4.1 million of this facility.

Rally Energy has formally entered into negotiations with the International Finance Corporation ("IFC") (a member of the World Bank Group) for provision of long-term financing of up to US\$25 million, including reserve-based credit facilities, to fund upcoming capital requirements and working capital needs for the Egypt and Pakistan projects. Subject to ongoing discussions with the IFC and completion of all required documentation for approval, it is expected that this facility will be in-place during the first quarter of 2006.

**Rally Energy Corp.
Consolidated Balance Sheets**

	September 30, 2005	December 31, 2004
	(unaudited)	(audited)
Assets		
Current		
Cash	\$ -	\$ 358,245
Accounts receivable	9,876,118	6,503,769
Cash calls receivable	-	104,499
Notes receivable (Note 2)	-	740,270
Inventory (Note 3)	318,247	540,447
Prepaid expenses and deposits	212,258	266,361
	<u>10,406,623</u>	<u>8,513,591</u>
Assets held for sale (Note 4)	150,000	650,000
Property and equipment	44,227,747	33,737,226
Deferred charges (Note 5)	39,661	215,466
	<u>\$ 54,824,031</u>	<u>\$ 43,116,283</u>
Liabilities and Shareholders' Equity		
Current		
Bank debt (Note 6)	\$ 4,779,544	\$ -
Accounts payable – trade	5,513,984	3,137,551
Accounts payable – capital	4,457,304	5,053,800
Cash call obligations	32,741	184,478
Convertible debentures (Note 5)	1,274,331	-
Deferred revenue (Note 2)	-	483,000
	<u>16,057,904</u>	<u>8,858,829</u>
Asset retirement obligations (Note 1)	380,694	289,846
Convertible debentures (Note 5)	-	5,784,486
	<u>16,438,598</u>	<u>14,933,161</u>
Shareholders' equity		
Equity instruments (Note 7(a))	46,440,010	37,991,329
Contributed surplus (Note 7(b))	1,457,667	626,620
Deficit	(9,512,244)	(10,434,827)
	<u>38,385,433</u>	<u>28,183,122</u>
	<u>\$ 54,824,031</u>	<u>\$ 43,116,283</u>

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

Rally Energy Corp.
Consolidated Statements of Operations and Deficit

	Three months ended September 30		Nine months ended September 30	
	2005 (unaudited)	2004	2005 (unaudited)	2004
Oil and gas revenue	\$ 10,697,788	\$ 6,742,741	\$ 24,880,099	\$ 16,602,199
Less: Royalties and related credits	(3,733,625)	(1,406,942)	(8,953,631)	(3,563,959)
	6,964,163	5,335,799	15,926,468	13,038,240
Operating expenses	1,672,027	961,279	4,621,009	2,845,449
Netback from oil and gas operations	5,292,136	4,374,520	11,305,459	10,192,791
Expenses				
Administrative expenses:				
Legal, professional and audit	41,226	92,148	160,084	168,958
Shareholder reporting and communication	38,975	17,219	126,962	134,917
Administration	660,722	575,017	1,964,117	1,688,670
Pakistan administrative costs	25,507	34,083	69,820	263,626
Project evaluation costs	-	60,335	-	144,775
Stock-based compensation	337,263	270,984	676,567	303,623
	1,103,693	1,049,786	2,997,550	2,704,569
Interest expense	129,091	208,001	499,427	613,972
Depletion, depreciation and accretion	2,189,079	2,156,951	6,139,556	6,493,155
Accretion expense on convertible debentures	13,224	35,919	175,845	107,757
Amortization of deferred charges	13,221	35,910	63,160	107,730
Write-down of assets held for sale (Note 4)	500,000	-	500,000	-
	3,948,308	3,486,567	10,375,538	10,027,183
Income before under noted items	1,343,828	887,953	929,921	165,608
Other items				
Interest income	5,249	10,988	22,631	35,596
Gain (loss) on foreign exchange	(14,973)	(212,114)	(29,969)	(100,839)
	(9,724)	(201,126)	(7,338)	(65,243)
Income for the period	1,334,104	686,827	922,583	100,365
Deficit, beginning of period	(10,846,348)	(12,259,779)	(10,434,827)	(11,673,317)
Deficit, end of period	\$ (9,512,244)	\$ (11,572,952)	\$ (9,512,244)	\$ (11,572,952)
Income per share (Note 7(e))				
Basic	\$ 0.016	\$ 0.010	\$ 0.012	\$ 0.001
Diluted	\$ 0.015	\$ 0.008	\$ 0.011	\$ 0.001

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

Rally Energy Corp.
Consolidated Statements of Cash Flows

	Three months ended September 30		Nine months ended September 30	
	2005 (unaudited)	2004	2005 (unaudited)	2004
Cash flows from operating activities				
Income for the period	\$ 1,334,104	\$ 686,827	\$ 922,583	\$ 100,365
Non-cash items:				
Stock-based compensation	337,263	270,984	676,567	303,623
Accretion expense on convertible debentures	13,224	35,919	175,845	107,757
Amortization of deferred charges	13,221	35,910	63,160	107,730
Depletion, depreciation and accretion	2,189,079	2,156,951	6,139,556	6,493,155
Write-down of assets held for sale	500,000	-	500,000	-
Cash flow from operations	4,386,891	3,186,591	8,477,711	7,112,630
Changes in non-cash working capital balances:				
Accounts receivable	(2,037,848)	(2,281,489)	(3,372,349)	(4,272,492)
Notes receivable	-	(239,707)	257,270	(239,707)
Inventory	(24,103)	(51,459)	222,200	97,508
Prepaid expenses and deposits	39,894	25,546	54,103	39,365
Accounts payable	1,012,082	(370,164)	2,376,433	(129,931)
	3,376,916	269,318	8,015,368	2,607,373
Cash flows from investing activities				
Oil and gas assets, net	(5,039,957)	(3,964,723)	(16,539,229)	(9,442,135)
Proceeds from sale of oil and gas interests	-	181,060	-	4,091,045
Changes in non-cash working capital	(1,238,999)	1,298,695	(647,670)	971,857
	(6,278,956)	(2,484,968)	(17,186,899)	(4,379,233)
Cash flows from financing activities				
Issuance of equity instruments, net	1,287,243	237,325	4,029,806	386,329
Bank debt increase	1,624,126	-	4,779,544	-
	2,911,369	237,325	8,809,350	386,329
Foreign exchange gain (loss) on cash held in a foreign currency	(9,329)	(8,650)	3,936	(4,186)
Increase (decrease) in cash	-	(1,986,975)	(358,245)	(1,389,717)
Cash, beginning of period	-	2,857,684	358,245	2,260,426
Cash, end of period	\$ -	\$ 870,709	\$ -	\$ 870,709

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

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Nine months ended September 30, 2005 (unaudited)

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. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2004, unless otherwise stated below. The disclosure which follows is incremental to the disclosure included with the annual consolidated financial statements. The interim consolidated financial statements 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, 2004.

The consolidated financial statements have been prepared on the going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Corporation's ability to continue as a going concern is dependent upon it continuing to generate sufficient cash flow from operations and/or raising additional financing to meet its commitments, current and planned. If the Corporation is unable to continue as a going concern, the net carrying value of its assets may be materially less than the carrying amount stated in the balance sheet and its liabilities extinguished at values different than those stated in the balance sheet.

1. Asset Retirement Obligations

The Corporation's asset retirement obligations in Egypt result from the Petroleum Service Agreement ("PSA") terms related to interests in petroleum assets including well sites and roads. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately \$774,490, which can reasonably be expected to be incurred between 2005 and 2017. The majority of these costs will be incurred between 2010 and 2017. 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.

The Corporation's asset retirement obligations in Canada result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately \$79,584, which can reasonably be expected to be incurred between 2005 and 2016. The majority of these costs will be incurred between 2006 and 2016. 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.

The Corporation's asset retirement obligations in Pakistan result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately \$20,929.

A reconciliation of the asset retirement obligations is provided below:

	<u>September 30</u>	<u>December 31</u>
	<u>2005</u>	<u>2004</u>
<i>Asset retirement obligations</i>		
Balance, beginning of period	\$ 289,846	\$ 169,958
Liabilities incurred	75,378	110,821
Accretion expense	15,470	9,067
Balance, end of period	<u>\$ 380,694</u>	<u>\$ 289,846</u>

2. Notes Receivable

In December 2004, the Corporation sold a 2% gross overriding royalty on its Prince Edward Island ("PEI") working interests to an arm's-length private company in return for \$2,000 in cash and a \$483,000 note receivable due on June 29, 2005, secured solely on the overriding royalty. At December 31, 2004, the non-interest bearing note was recorded as deferred revenue pending collection of the note on June 29, 2005. The private company did not pay the note in accordance with the terms of the Assignment Agreement and, accordingly, the Corporation has seized the royalty interest.

3. Inventory

At September 30, 2005, the Corporation held \$2,215,107 (September 30, 2004 - \$1,237,797) of inventory available for use in the Issaran oilfield in Egypt. Of this amount, (i) \$1,896,860 relates to capital equipment, primarily pipe, and is included in Property and Equipment and (ii) \$318,247 represents consumable supplies to be used in oilfield operations and is recorded as inventory under current assets.

4. Assets Held for Sale

On February 24, 2005, the Corporation completed a transaction with Shannon International Resources Inc. ("Shannon"), whereby the Corporation disposed of its remaining interests in the PEI project in exchange for 2.5 million common shares and 500,000 warrants, exercisable at US\$0.85 per share with a term of one year, of Shannon. At December 31, 2004 the value associated with the Shannon equity instruments received, after taking into account required hold periods in order to register the equity instruments, related fair value discounts and estimated transaction costs, was estimated at \$650,000. At September 30, 2005, the valuation was reviewed, and it was determined that the assets held for sale should be written-down to \$150,000 as a result of weakness in the Shannon common shares.

5. Convertible Debentures

On June 13, 2003, the Corporation issued \$6.0 million, 12% unsecured convertible subordinated debentures which are entitled to semi-annual interest payments and mature on July 1, 2006. The debentures were convertible, at the option of the holder, at any time prior to July 1, 2005, into common shares at a conversion price of \$1.00 per common share. After July 1, 2005, the conversion price has increased to \$1.10 per common share. The debentures are redeemable by the Corporation at par, in whole or in part, if the closing price of the Corporation's common shares is at or above \$2.00 for 30 consecutive trading days. An agent's commission of \$420,000 was paid in relation to debenture subscriptions. The legal fees and cash commissions incurred to secure the debenture financing were recorded as deferred charges and the related amortization charges have been included in interest and related charges.

As the convertible debentures are considered to be compound financial instruments, the principal amount has been allocated between liability and equity components, which are then classified separately on the balance sheet. The liability component has been determined using an interest rate for comparable debt instruments having no conversion rights. The difference between the liability component and the principal amount of the notes has been allocated to equity. The equity component is accreted over the term of the notes such that at maturity the liability will be equivalent to the principal amount.

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Nine months ended September 30, 2005 (unaudited)

5. Convertible Debentures (continued)

The equity portion of the convertible note is recorded as contributed surplus and represented \$437,000 as determined using a Black-Scholes model. The fair value of the conversion right was estimated using the following assumptions: Dividend yield (nil), volatility (18%-38%), risk-free interest rate (5%), and weighted average life of 1.5 years.

During the nine months ended September 30, 2005, \$4,686,000 of the 12% Convertible Debentures were converted to an equal number of common shares of the Corporation at \$1.00 per share, pursuant to the conversion terms contained therein. Accordingly, \$112,645 of deferred charges related to the issuance of the converted debentures have been reclassified as share issue costs. A loss in the amount of \$112,670 has also been recognized in accretion expense for the early conversion of the Convertible Debentures. The remaining \$1,314,000 Convertible Debentures are convertible into 1,194,546 common shares at \$1.10/share.

6. Bank Debt

At September 30, 2005, the Corporation has utilized \$4,779,544 (US\$4,110,728) (September 30, 2004 – nil) of the US\$4.5 million credit facility with a major Canadian bank which is secured by trade receivable insurance provided by Export Development Canada ("EDC"). Funds drawn on this facility bear interest at the US prime rate and a standby fee of 0.25% per annum applies to the unused portion of the facility. On October 31, 2005, the Corporation received approval for its secured credit facility to be increased to US\$7.0 million from US\$4.5 million, until March 30, 2006.

7. Equity Instruments

(a) Issued and outstanding

	Number of Shares	Amounts
Common shares		
Balance, December 31, 2004	74,350,379	\$ 38,332,943
Private placement – flow-through shares (Note 7(c))	1,120,000	2,016,000
Private placement (Note 7(d))	732,000	966,240
Stock options exercised	2,018,001	1,490,891
Debentures converted (Note 5)	4,686,000	4,686,000
	82,906,380	47,492,074
Less: Share issue costs	-	(1,052,064)
Balance, September 30, 2005	82,906,380	\$ 46,440,010

(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 varying from two to five years.

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Nine months ended September 30, 2005 (unaudited)

(b) Options (continued)

The Corporation recorded an expense of \$676,567 for options issued in the nine months ended September 30, 2005 (September 30, 2004 – \$303,623). The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil) (2004 – nil), volatility (0.25 to 0.40) (2004 – 0.21 to 0.22), risk-free interest rate (5%) (2004 – 5%), and weighted average life of 5 years (2004 – 5 years). The weighted average fair value at grant date of the options issued was \$0.58 (2004 - \$0.31). The stock-based compensation expense associated with the value ascribed to options granted is recorded as contributed surplus.

Contributed surplus

Balance, December 31, 2004	\$626,620
Equity portion of convertible debentures	437,000
Equity portion of stock-based compensation:	
Stock options exercised, during the period	(282,520)
Stock options granted, during the period	676,567
Balance, September 30, 2005	<u>\$1,457,667</u>

	Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	<u>6,327,757</u>	<u>\$0.63</u>
Granted	1,818,000	\$1.57
Exercised	(2,018,001)	\$0.60
Cancelled	(161,665)	\$0.75
Outstanding, end of period	<u>5,966,091</u>	<u>\$0.92</u>

(c) Private placement – flow-through common shares

On May 13, 2005, the Corporation completed the closing of an agency private placement of 1,120,000 common shares issued on a flow-through basis at a price of \$1.80 per share. Net proceeds were \$1.9 million, after payment of commissions and transaction fees. directors and officers of the Corporation, or companies controlled by them, subscribed for an aggregate 69,555 flow-through common shares (\$125,199). As at September 30, 2005, the Corporation is required to expend additional qualifying expenditures of \$636,188 prior to December 31, 2006 to meet its commitments under the flow-through agreements.

(d) Private placement

On August 2, 2005, the Corporation completed a non-brokered private placement of 732,000 common shares issued at a price of \$1.32 per share. Gross proceeds were \$966,240; no agent commissions were paid in connection with this offering. A company controlled by a director and officer of the Corporation subscribed for 155,000 common shares (\$204,600).

(e) Per share amounts

Basic per share amounts are computed by dividing the net earnings by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Nine months ended September 30, 2005 (unaudited)

(e) Per share amounts (continued)

potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Corporation upon the exercise of in-the-money stock options, plus the unamortized stock-based compensation cost, would be used to buy back common shares at the average market price for the period. Anti-dilutive options or instruments are not included in the calculation.

Net earnings (loss) per share have been based on the following weighted average common shares:

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Basic	82,356,650	71,967,681	78,963,750	71,618,738
Diluted	89,517,287	84,654,772	86,124,387	84,305,829

The reconciling items between the basic and diluted weighted average common shares outstanding are stock options and convertible debentures.

8. Related Party Transactions

For the nine months ended September 30, 2005, the Corporation paid consulting fees to companies, whose principals are directors and officers 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.

	Nine months ended September 30	
	2005	2004
Included in general and administrative expenses	\$ 390,713	\$ 261,218
Capitalized	386,063	267,607
	\$ 776,776	\$ 528,825

9. Income Taxes

No provision for taxes has been recorded since the Corporation has adequate tax pools and non-capital loss carry forwards to offset any Canadian tax obligations. All production in Egypt is subject to a royalty charge, pursuant to the terms of the Petroleum Service Agreement, which satisfies all tax liabilities.

10. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted for the current year.

Rally Energy Corp.
Selected Notes to Consolidated Financial Statements
Nine months ended September 30, 2005 (unaudited)

11. Measurement Uncertainty

The amounts recorded for depletion and depreciation of property and equipment, the asset retirement obligations, the ceiling test calculation and assets held for sale are based on estimates of proved reserves, production rates, commodity prices, future costs, foreign currency exchange rates and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

12. Contingencies and Commitments

The Corporation is required to make revenue-based royalty payments from the Issaran oilfield to Gemini Oil and Gas Limited, an independent oil and gas investment fund. The revenue-based royalty of 10% is reduced to 2.6% of Issaran oil revenues (net of marketing fees and GPC entitlements, derived from a maximum of 7,000 bbls/d of production) once royalties of US\$3.0 million have been paid, and will continue until December 31, 2012. The royalty obligation for the nine months ended September 30, 2005 was \$1,534,076 (2004 - \$nil).

13. Segmented Information

The Corporation operates in the oil and gas industry and has operations in Egypt, Pakistan and Canada. Its reportable segments are identified on a geographic basis. Gross revenue and income (loss) for the nine months ended September 30 and capital assets are summarized on a country basis below:

September 30, 2005	Egypt	Canada	Pakistan	Total
Gross revenue	\$ 22,834,235	\$ 2,045,864	\$ -	\$ 24,880,099
Income (loss)	\$ 3,623,637	\$ (2,663,400)	\$ (37,654)	\$ 922,583
Property and equipment	\$ 23,441,916	\$ 19,322,010	\$ 1,463,821	\$ 44,227,747
September 30, 2004	Egypt	Canada	Pakistan	Total
Gross revenue	\$ 16,367,971	\$ 234,228	\$ -	\$ 16,602,199
Income (loss)	\$ 2,930,861	\$ (2,535,507)	\$ (294,989)	\$ 100,365
Property and equipment	\$ 13,485,249	\$ 14,437,741	\$ -	\$ 27,922,990

14. Subsequent Events

Subsequent to September 30, 2005, the following changes occurred with respect to the Corporation's stock options:

	Number of Options	Exercise Price
Exercised	(95,666)	\$0.60
Granted	335,000	\$1.55
Net Change	239,334	

15. Statement of Cash Flows and Non-Cash Transactions

(a) Interest paid

	Nine months ended September 30	
	<u>2005</u>	<u>2004</u>
Interest paid	<u>\$ 869,893</u>	<u>\$ 848,002</u>

(b) During the nine months ended September 30, 2005, \$4,686,000 of the 12% Convertible Debentures were converted to an equal number of common shares of the Corporation at \$1.00 per share, pursuant to the conversion terms contained therein.