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## **Pakistan Government Approves the Safed Koh “Declaration of Commercial Discovery and Development Plan” and Rally Energy Provides a Corporate Operations Update**

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### **SAFED KOH, PAKISTAN**

#### ***Safed Koh Approval and Schedule to First Production***

Rally Energy Corp. is pleased to announce that the Government of Pakistan has approved the “Declaration of Commercial Discovery and Development Plan” submitted by the joint venture partners of the Safed Koh Concession in Pakistan. The Corporation has a 22.5% working interest in the Safed Koh Concession gas and condensate discovery made in March 2005 through the re-entry and deepening of an existing well, Rodho 3, into the Cretaceous age Lower Goru Formation. This gas discovery was re-confirmed in June 2005 through the re-entry and deepening of another existing well, Rodho 2, located 1.2 km north of the Rodho 3 discovery well. This formal government approval now allows independent engineers to include new Safed Koh reserves estimates in the Corporation’s 2005 reserves evaluations.

The two Rodho discovery and appraisal wells have production tested commercial quantities of hydrocarbons at cumulative rates of 20 MMCF/D of gas and 100 BBLS/D of condensate. Both wells have been completed as gas and condensate producers.

Approved development of the Rodho Field (re-named Salsabil Field) includes:

- A) Construction of production facilities and 22 kilometers of 10” pipeline, to commence in the first quarter of 2006, at an estimated cost of US\$5.0 million (US\$1.1 million net to Rally Energy).
- B) Phase I - Production will commence at an expected rate of 15-25 MMCF/D in the second quarter of 2006. Initial discussions with Sui Northern Gas Pipeline Company (“SNGPL”) have led to agreement on a limited time waiver of higher CO2 content (6.1%) thereby enabling the joint venture to immediately deliver gas into SNGPL’s infrastructure. The current wellhead gas sales price is US\$2.55/MCF.

- C) Phase II - Production is to increase to 40-60 MMCF/D in March 2007 after processing facilities are equipped with amine sweetening to remove CO<sub>2</sub> and after drilling of two additional Rodho development wells during the fourth quarter of 2006 and first quarter of 2007.

“The Dewan Group, operator of the Safed Koh Concession, has done an excellent job completing the development plan and receiving necessary approvals. The anticipated addition of approximately 800 BOE/D (net) to Rally Energy’s production in the second quarter of 2006, increasing to in excess of 2,000 BOE/D (net) by 2007, is a significant development for Rally Energy. This new production will provide us with a third source of revenue and will move us closer to achieving our targets.” said Abby Badwi, President and CEO of the Corporation.

### ***Reserves Upside***

Upside potential in the deeper reservoirs of the Sembar sands and Chilton limestone remains unexplored. This deeper hydrocarbons potential will be evaluated in planned drilling of the two development wells in the Rodho Field, commencing late in 2006.

Two undrilled structures, larger than Rodho and located immediately south of the Rodho Field at Afiband and Zindapir, are expected to be drilled in 2007.

## **CORPORATE OPERATIONS UPDATE**

Current corporate production is 2,970 BOE/D, however, in Egypt four wells are currently shut-in, three due to delays in equipment delivery and one for workover operations. The shut-in wells have production capability of approximately 1,000 BBL/D and are expected to resume production within the next two weeks. Also in Egypt, four new oil wells drilled in December 2005 and January 2006 will be completed shortly with aggregate production from these wells expected to be approximately 400 BBL/D. Once equipment installation, completions and workover tasks are finished, we estimate our total production capability to be approximately 4,300 BOE/D.

### ***Issaran, Egypt***

Our first horizontal well spud on December 19, 2005 and was completed as an Upper Dolomite oil well. The well was drilled on budget with 1,500 feet of horizontal section. Logging operations have been completed and we expect to acid stimulate the reservoir section and put the well on production shortly. Three vertical wells were drilled in December and January and are currently awaiting equipment for completions.

In December, the first of our Lower Dolomite producing wells was approved for commingling and was perforated in the Upper Dolomite section. The well is currently producing at a restricted rate of 200 BBL/D, and we anticipate additional significant improvement over the pre-commingling production rate of 150 BBL/D once a properly sized pump is installed in February. Several other oil well candidates have been identified for commingling.

An order backlog of 34 pumps is expected to arrive at the Issaran Field by February 15, 2006. At that time, several of the shut-in wells will be placed back on-production and underperforming wells will be optimized to increase actual production significantly.

Results of our first Lower Dolomite thermal pilot project, on its third cycle of production, are continuing to confirm technical success of this project with good early history match and a favorable steam oil ratio. Total production from the pilot project in the last 20 months is 23,000 Barrels. Several steam cycles are still planned for this pilot. Results from the first steam pilot activities now justify recognition of increased recoverable probable and possible Issaran oil reserves in the Corporation's 2005 reserves evaluations. A second thermal pilot project in the Upper Dolomite commenced in December 2005.

### **Western Canada**

Current production in Canada is approximately 180 BOE/D. Production at Harmattan is approximately 120 BOE/D. In December 2005, the Corporation participated, with a 37.5% working interest, in a successful horizontal well in Parkman, Saskatchewan. The well was completed in January 2006. The initial flush production rate of 370 BBL/D has declined as expected and has stabilized at a rate of approximately 160 BBL/D (60 BBL/D net). The Corporation is also participating in the planned drilling of a Halfway gas well at Valhalla with a 50% working interest.

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*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 is participating in the development of a large natural gas/condensate discovery. In Canada, Rally Energy is active in Alberta and Saskatchewan with varied working interests in several producing properties.*

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### **FORWARD-LOOKING STATEMENTS**

*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.*

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