



July 18, 2006

Rally Energy's Production Now Exceeds 5,700 BOE/D

Contact: Abby Badwi, President & CEO

Tel: (403) 538-0000

Douglas Urch, Vice President, Finance & CFO

Fax: (403) 538-3705

"RAL" - TSX Exchange

"RLE" - Frankfurt Stock Exchange

www.rallyenergy.com

Rally Energy Corp. ("Rally" or the "Corporation") announced today that corporate production exit rate for the second quarter 2006 exceeded 5,700 boe/d. Production average in the second quarter 2006 was 4,574 boe/d representing an increase of 67% over first quarter 2006 production of 2,741 boe/d.

EGYPT

Average production during the second quarter was 4,433 boe/d. Seven wells drilled during the second quarter resulted in seven oil wells. Drilling operations are ongoing with plans to drill another seven wells in Issaran during the third quarter.

Issaran field average oil price for the second quarter was US\$41.60 per barrel, an increase of 21% over first quarter price of US\$34.34 per barrel.

Based on successful early results of the thermal pilot project, the Corporation will proceed with its thermal expansion plan for the current pilot project by drilling seven additional steam wells in the fourth quarter of this year for a total of 10 cyclic steam stimulated wells. Engineering models are being developed to forecast steam enhanced recovery in additional reservoir segments in the north half of the field. This effort is intended to add oil reserves and to expand our area for thermal recovery in the Issaran concession. The proposed plan contemplates having steam injection commence for the expanded pilot prior to the end of 2006.

PAKISTAN

As previously reported, the Corporation's offer to acquire an additional 7.5% interest in the Safed Koh Concession in Pakistan has been accepted. We are currently completing documentation and expect to close this transaction during the third quarter.

Rally, along with other working interest owners of Safed Koh block, have agreed upon a draft Gas Sales Agreement with Sui Northern Gas Pipeline Limited. The draft agreement, along with a gas pricing agreement, has been submitted to the Government of Pakistan for approval. Sui Northern has also agreed to construct an 18 km pipeline lateral to the field. The contract for the fabrication and field construction of the gas processing facility has been awarded to a Houston, Texas engineering firm.

The Operator has advised us that it has secured a drilling rig to drill two development wells and one exploration well starting in the fourth quarter of this year and that first gas production is still expected to be on stream before the end of this year.

CANADA

Average production during the second quarter was 141 boe/d. Two successful gas and oil wells have been drilled and tested during the quarter at Valhalla and Gold Creek and are expected to add 200 boe/d of net production.

We have started the process of selling our Canadian assets and expect to complete sales transactions during the current quarter.

CORPORATE

Rally Energy's working capital position improved significantly during the second quarter. With the completion of the new long-term credit facility from the International Finance Corporation ("IFC", a division of the World Bank), all borrowings under Rally's short-term Canadian bank loan were paid out. At June 30th, the Corporation had drawn US\$10 million of the available US\$25 million IFC facility. Additionally, all of the remaining \$1.3 million of Convertible Debentures either converted to common shares or were redeemed by June 30, 2006.

During the second quarter, 530,600 of the 4 million \$1.60 Common Share Purchase Warrants were exercised. On July 5, 2006, the Corporation advised the remaining 3,469,400 warrant-holders that, under the terms of the warrants, the expiry date of these warrants was accelerated to July 20, 2006 from December 19, 2006. The expected proceeds resulting from exercise of the remaining warrants will provide \$5.6 million to the Corporation.

The Corporation is also pleased to announce the appointments of Mr. Al Stark as Controller and Mr. Gamal Rezk as Vice President of Finance and Administration of Scimitar Egypt, Rally Energy's wholly owned Egyptian subsidiary. A graduate of the University of Saskatchewan, Mr. Stark brings 16 years of oil and gas financial experience and will be located in Calgary. Mr. Rezk, a graduate of the University of Cairo, has 19 years of financial and administration experience and will be located in the Corporation's offices in Cairo.

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.

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.