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RALLY ENERGY OPERATIONAL UPDATE: PRODUCTION EXCEEDS 6,100 BOE/D

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Rally Energy Corp. ("Rally" or the "Corporation") announced its corporate production exit rate for the third quarter 2006 exceeded 6,100 boe/d. Consolidated average production during the third quarter 2006 was 5,716 boe/d representing a 25% increase over second quarter 2006 production of 4,575 boe/d.

EGYPT

Average production during the third quarter in Egypt was 5,595 boe/d. Nine wells drilled during the third quarter resulted in nine successful oil wells for a total of 20 successful oil wells drilled during the nine months ended September 30, 2006. The Issaran field average oil price for the third quarter was US\$43.33 per barrel, a 4% increase over the second quarter price of US\$41.61 per barrel. On a year-to-date basis, this field price represents 61% of the corresponding Brent oil price.

In late September, the Corporation initiated drilling of seven steam wells required to complete the first stage of the previously announced thermal expansion program. The new 50 mmbtu/d steam unit is currently in transit to the Issaran oilfield and is expected to arrive in December 2006 with steam injection to commence early in 2007. The existing 20 mmbtu/d steam unit will be relocated to the northern half of the field to begin steam injection in several test wells to confirm productivity forecasted by recently completed engineering models applied to that area. With successful thermal results in the north, the reserve potential for thermal recovery will be significantly expanded for the Issaran concession.

PAKISTAN

Rally Energy, through a wholly owned subsidiary, has now signed the Purchase and Sale Agreement for the acquisition of an additional 7.5% interest in the Safed Koh Concession in Pakistan, increasing the Corporation's interest to 30%. Upon receipt of the required approvals from the relevant Pakistan government agencies, the purchase price of US\$11.4 million will be paid by way of US\$8.55 million in cash and 1,372,846 common shares of Rally Energy Corp. The shares were reserved for issuance in June 2006 at the then prevailing price of \$2.30 per share.

A decision by the Government of Pakistan on the gas price applicable to this production is expected shortly, upon review of additional support documents recently submitted by the joint venture partners.

Approximately half of the 18 km, 12 inch pipeline lateral to the Salsabil field, being constructed by Sui Northern Gas Pipeline Limited, has been completed. Civil work on the access road and the gas plant site

is in progress. Most major instruments have been ordered and fabrication of major equipment for the gas plant, including pressure vessels, is also progressing in Houston with some of the construction being done in Lahore, Pakistan. Current best estimate for first gas production is January 2007.

The operator has advised Rally that the ZP900 drilling rig allocated to drill two development wells and one exploration well is in transit from China and is expected to arrive at the Salsabil site by mid-December 2006.

CANADA

The previously announced sale of the Corporation's Canadian assets has been revised to exclude certain properties. Weakness in natural gas prices, as well as the recent announcement ending the royalty tax credit program, has eroded some value in the properties from the previously announced purchase price. Rally Energy has now signed a definitive agreement to dispose of the Canadian assets (except Gold Creek and an overriding royalty in Prince Edward Island) for a purchase price of \$6.9 million (\$5.5 million in cash and \$1.4 million in equity). The agreement has an effective date of November 1, 2006 and closing is scheduled for November 30, 2006, subject to certain conditions.

Gold Creek, being a new exploration discovery, will result in a stronger valuation when supported by production and Rally's management is confident that additional drilling will result in increased reserves and value. The Corporation intends to dispose of the remaining Canadian properties early in 2007.

Average Canadian production for the third quarter was 121 boe/d. During the third quarter, additional testing and tie-in work for the two successful gas and oil wells at Valhalla and Gold Creek was completed. In the fourth quarter, production is expected to commence from Gold Creek and an additional well will be drilled.

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.

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.