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RALLY ENERGY ANNOUNCES CAPITAL PROGRAM, CANADIAN ASSETS SALE AND ACTIVITIES UPDATE

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"RAL" - TSX Exchange *"RLE"* - Frankfurt Stock Exchange

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Rally Energy announced today the following updates:

- **\$135 Million Two Year Capital Program for 2007 and 2008**
- **\$11 Million Agreement for the Sale of Canadian Assets**
- **Current Daily Production 6,200 Barrels of Oil Equivalent**

Rally Energy's Board of Directors has approved a \$135 million two year capital program, \$86 million in a revised 2007 program and \$49 million in a new 2008 program. The 2007 and 2008 programs are directed at accelerating development of the Corporation's core assets at the Issaran Oil Field in Egypt and at the Salsabil Gas Field in Pakistan. These capital budget amounts are in addition to a \$62 million revised capital program for 2006 of which \$14 million was spent in the first half of this year and \$12.8 million has been allocated to the purchase price of an additional 7.5% working interest in Pakistan.

The 2007 – 2008 capital programs include a total of 146 wells to be drilled in Egypt and Pakistan, the installation of central oil cleaning and thermal production facilities in Egypt and the construction of a gas processing facility in Pakistan.

Management currently expects that the full capital program will be funded from working capital, proceeds from the disposition of non-core Canadian assets, cash flow and available credit facilities.

The table below outlines details of the revised 2006 and 2007 capital programs and introduces details of the additional program for 2008:

	2006	2007	2008
EGYPT			
Conventional Wells	21	31	32
Thermal Wells	7	30	50
Total Wells	28	61	82
Conventional Wells Budget \$,000	17,847	19,712	16,072
Thermal Wells Budget \$,000 (Thermal Drilling Capital for 2008 program commences in 2007)	3,136	21,728	14,336
Conventional Facilities Budget \$,000	5,768	3,640	0
Thermal Facilities Budget \$,000	9,520	30,128	16,610
Total Egypt Budget \$,000	36,271	75,208	47,018

	2006	2007	2008
PAKISTAN			
Development Wells	1	1	0
Exploration Wells	0	1	1
Total Wells	1	2	1
Acquisition of 7.5%	12,768	0	0
Development Wells Budget \$,000	1,344	3,360	0
Exploration Wells Budget \$,000	0	2,352	2,016
Facilities Budget \$,000	11,424	5,107	0
Total Pakistan Budget \$,000	25,536	10,819	2,016
TOTAL WELLS	29	63	83
TOTAL BUDGET \$,000	61,807	86,027	49,034

The following table outlines the expected baseline annual average production performance linked to the capital program for the same periods:

	2006	2007	2008
EGYPT			
Conventional	4,639	6,140	7,004
Thermal	0	1,290	4,077
Total BBLS/D	4,639	7,430	11,081
PAKISTAN			
Gas MCF/D	0	11,347	16,905
NGL BBLS/D	0	51	76
Total BOE/D	0	1,942	2,893
CANADA			
Total BOE/D	113	0	0
TOTAL RALLY BOE/D	4,752	9,372	13,974

The main changes from last year's Global Development Plan and recent updates are:

EGYPT

Conventional Drilling and Production

Excellent drilling results and primary production from the Nukhul formation and extension of the Nukhul play to the east and west of Issaran field increases expected production and recognized reserves.

Thermal Development

The successful thermal pilot program at Issaran leads to early expansion and acceleration of the thermal development plan. This is expected to lower average daily production for 2006 due to dedication of the existing rig to the drilling of seven thermal wells but is expected to have a significant impact on production, recognized reserves and future growth of the Corporation in upcoming years. We have initiated discussions to contract a second rig to start operations in the second quarter of 2007.

PAKISTAN

Acquisition

Increased working interest to 30% in the Safed Koh Concession, through the acquisition of an additional 7.5% interest, has a significant impact on production and reserves. This transaction, announced on June 12, 2006, is expected to close in the next 30 to 60 days as soon as the Corporation receives necessary approvals from the Government of Pakistan.

Production Start-up

Delay in gas production start-up and execution of a gas pricing agreement in Pakistan lowers average corporate production forecast for 2006 but will track previous plans for 2007. Pipeline and gas processing plant construction has begun and the operator's current best estimate for first production is January 2007. Discussions and negotiations are ongoing with government authorities to finalize the pricing agreement.

Production guidance for Pakistan, noted in the baseline production table above, does not include any potential gas production increases from the drilling of two large exploration prospects in 2007 and 2008.

CANADA

The revised budgets reflect a decision to sell the Corporation's Canadian assets and to deploy sales proceeds to capital programs in the Issaran and Safed Koh concessions to achieve significant increases in corporate production in 2007 and 2008.

Canadian Assets Sale

The Corporation executed today an arm's length Letter of Intent with Northern Hunter Energy Inc., a private oil and gas company, for the sale of all of its assets in Canada for a purchase price of \$11 million (\$8 million in cash and \$3 million in shares). The agreement, with an effective date of October 1, 2006, is subject to certain conditions and closing is scheduled for November 18, 2006.

CURRENT PRODUCTION

The Corporation's average production during the first half of September exceeded 6,200 BOE per day.

An updated Corporate Presentation will be posted later today on our website www.rallyenergy.com.

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.