RALLY ENERGY CORP.

Review Of Work Program and Budget

McDANIEL & ASSOCIATES
consultants ltd.

Oil and Gas Reservoir Engineering

RALLY ENERGY CORP.

Review Of Work Program and Budget

Prepared For:

Rally Energy Corp.
2900, 500 – 4th Avenue S.W.
Calgary, Alberta
T2P 3R7

Prepared By:

McDaniel & Associates Consultants Ltd.
2200, 255 - 5th Avenue S.W.
Calgary, Alberta
T2P 3G6

January 2002

RALLY ENERGY CORP.

TABLE OF CONTENTS

January 29, 2002

Rally Energy Corp.
2900, 500 – 4th Avenue S.W.
Calgary, Alberta
T2P 3R7

Attention: Mr. John G. F. McLeod, President & CEO

Dear Sir:

Pursuant to your request, we have reviewed the proposed Work Program and Budget of Rally Energy Corp. hereinafter referred to as the "Company", covering seven Exploration Permits Onshore Prince Edward Island (see Figure 1). The Work Program and Budget reviewed herein covers the year 2002 (see Figure 2).

It is our opinion that the Company's proposed Work Program is a reasonable and prudent exploration program. It is also our opinion that the Budget is a reasonable estimate of the cost to undertake the proposed Work Program. The Company has indicated that the proposed Work Program would more than fully satisfy the work commitments for the subject Permits.

The Company's Work Program lists a number of individual items, all of which are consistent with normal industry practice, in undertaking oil and gas exploration in the onshore areas of Atlantic Canada. The existence of the bridge, linking the Island with the mainland, means that drilling costs and other exploration expenditures are comparable to those in New Brunswick and Nova Scotia

However it should be emphasized that exploration on the Company's lands is at an early stage and the proposed Work Program and Budget may be modified as a result of information obtained prior to and during the proposed exploration program.

The Company's Budget estimates total gross expenditures of $5,160,000 CDN (Company net share is 40 percent or $2,064,000, less overhead recoveries) for the proposed 2002 Work Program.

We have reviewed the current status of the Company's exploration activity on Prince Edward Island and it is our opinion, that at this time the Company's Prince Edward Island project should be considered as a legitimate high risk gas exploration prospect.

The Maritimes & Northeast gas pipeline that transports offshore Sable Island gas from Nova Scotia through New Brunswick to the Eastern United States has resulted in a significant increase in onshore gas exploration in the Atlantic Provinces, including Prince Edward Island. There are expectations that the transportation facilities and gas markets developed to take the off shore gas will also be able to adsorb any future onshore gas discoveries.

COMPANY EXPORATION PERMITS

The Company has a 40 percent working interest in seven exploration permits, comprising some 642,000 acres, onshore Prince Edward Island (Permits 96-04, 96-05, 96-06, 96-07, 96-08, 96-09, 96-10). The Permits were issued by the Prince Edward Island Provincial Government and grant Rally the right to explore for oil and/or natural gas under the permits in all zones. When a well is drilled on a Permit and discovers oil and/or natural gas that Permit is convertible into a production lease. The Permits were granted as seven consecutive one-year terms with the current one-year term expiring on July 21, 2002. It is our understanding that the Permits are automatically renewable annually until July 21, 2004 by application to the Provincial Government, provided annual rentals totaling $32,281.84, for all seven permits ($12,912.74 net to Rally) per year are paid and the minimum work program expenditures are made. The Permits are grouped so that work expenditures on one Permit may be applied to satisfy the minimum work program for all Permits. The total gross work program required to continue all seven Permits to July 21, 2004 is approximately $100,000 ($40,000 net to Rally). The Permit are subject to a 10 per cent Provincial Royalty on gas and on a 2.5 per cent Gross Overriding Royalty against Rally's 40 percent working interest. The Company has indicated that it is the interim operator for the proposed Work Program and that the approval of all partners is expected in the near future.

We have reviewed publicly available geological and engineering data relating to the hydrocarbon exploration potential of the Company's acreage interests, as well as certain Company proprietary information. This prospect is in the early stage of exploration and considerable additional geological and geophysical interpretation is necessary before drillable locations can be identified and wells drilled. To date 668 kilometers of existing 2-D seismic has been reviewed by the Rally and an additional 586 kilometer are being acquired. The actual number of wells that will be drilled over the next year will depend on the outcome of the proposed work particularly the reprocessing and reinterpretation of the old seismic and the proposed new seismic programs.

The Maritimes & Northeast gas pipeline that transports offshore Sable Island gas from Nova Scotia through New Brunswick to the Eastern United States has resulted in a significant increase in onshore gas exploration in the Atlantic Provinces, including Prince Edward Island. There are expectations that the transportation facilities and gas markets developed to take the off shore gas will also be able to adsorb any future onshore gas discoveries.

The Company has commissioned a study of the potential for electrical power generation using gas-fired turbines to supply electric power to the Island. Currently Prince Edward Island buys electric power from New Brunswick through an undersea electric transmission line. The study indicates that small-scale electrical power generation may be a feasible market for gas. This could provide a market for small natural gas reserves that would be insufficient to justify a pipeline connection to the Maritimes and Northeast pipeline.

PROPOSED COMPANY EXPLORATION PROGRAM

The Company has stated that it intends to reprocess and reinterpret existing seismic and conduct new seismic surveys in order to identify drillable prospects and to commence drilling activities as soon as possible. The Company plans to initially focus its exploration activity on conventional, shallow gas prospects (1700 to 2,000 meters) in non-marine, deltaic sandstones of the Pitou, Cumberland and Mabou Groups. This strategy is intended to reduce exploration risk and costs by targeting the sedimentary section with known gas shows (see Figure 3), however the Company does intend to consider the deeper formations and possibly coalbed methane in the future.

We believe that focusing on the shallow formations is prudent because past exploration activity has tended to target deeper horizons and tended to ignore, and therefore probably damaged the shallow formations.

To date, the Company has reviewed certain of the existing seismic data, and identified lines to be reprocessed. The Company has also reviewed well data and publicly available geologic reports and had a core from an existing well analyzed. The core analysis demonstrated the presence of thick sand reservoirs with porosities and permeabilities that fall within the range of conventional gas reservoirs.

REGONIAL GEOLOGY

Prince Edward Island is located within the Magdalen Basin, which is a sub basin of the Central Maritimes Basin, one of North America's largest basins (80,000 sq. miles). The Magdalen Basin contains sediments ranging in age from late Paleozoic to Permian age with the axis of the basin trending southwest to northeast from Charlottetown to 50 kilometers east of the Magdalen Islands.

Although the first well in the basin was drilled in 1944 (Hillsborough #1) in the near shore area on the south side of the Prince Edward Island, there has been very little exploration. Since 1944, only 18 wells have been drilled within the Magdalen Basin, 11 wells onshore Prince Edward Island and 7 offshore. In the 1970's, a number of wells were drilled, primarily by large oil companies looking for oil. The targets were large and deep and often associated with salt tectonics. Gas shows were often detected throughout the shallower section but these companies paid little attention because offshore gas was not economic at the time. Often the heavy drilling mud, used to drill into the deep salt structures, damaged the shallower reservoirs.

To date, only one significant discovery has been made in the basin and it was a gas discovery in 1974. The East Point E-49 well was drilled in the offshore to the northeast of Prince Edward Island as a deep oil exploration well. Natural gas was discovered in the Upper Carboniferous Cable Head Formation and tested at 5.5 MMcf/d on a drill stem test. Significant Discovery License No. 082 was granted over the discovery.

The Magdalen basin has a maximum sediment thickness of more than twelve kilometers and contains sediments from Carboniferous to Permian age. The majority of sediments in the Basin are of continental origin and contain large deposits of coal. The stratigraphy is divided into five Groups, with the oldest being the Horton followed by the Windsor, Mabou, Cumberland and Pictou Groups (see Figure 3).

Due to the predominately non-marine continental nature of the sediments, the basin is interpreted to be primarily gas prone which accounts for the lack of exploration. Gas source rocks have been identified from the Windsor and Horton Groups but shallower source rocks in the Pictou Group may contribute to the gas shows in the shallower intervals.

The sediments in the Mabou, Cumberland and Pictou Groups are predominantly composed of fine to medium grained sandstones and siltstones alternating with shale beds. The depositional environment is interpreted to have been non-marine fluvial to shallow deltaic. There are potential sandstone gas reservoirs in the Bradelle, Green Gable and Cable Head Formations.

In addition, numerous coal seams are present throughout the section, which may be potential sources of coal bed methane. In 1992 the Geological Survey of Canada produced a report estimating potential coal bed methane resources for Prince Island at 7.6 Tcf., however it should be clearly understood that these are only potential resources and a great deal of further work is required to assess the economic potential of this resource.

The extent and character of all factual information supplied by the Company including ownership, well data, production, prices, revenues, operating costs, contracts and other relevant data were relied upon by us in preparing this report and has been accepted as represented without independent verification.

This report was prepared by McDaniel & Associates Consultants Ltd. for the exclusive use of Rally Energy Corp., the CDNX and relevant Canadian Security Commissions and is not to be reproduced, distributed or made available, in whole or in part, to any person, company or organization other than Rally Energy Corp., the CDNX and relevant Canadian Security Commissions without the knowledge and consent of McDaniel & Associates Consultants Ltd. We reserve the right to revise any opinions provided herein if any relevant data existing prior to preparation of this report was not made available or if any data provided is found to be erroneous.

Sincerely,

McDANIEL & ASSOCIATES CONSULTANTS LTD.

"signed by F. J. Dewis"

F. J. Dewis P. Geol.

"signed by W. C. Seth"

W. C. Seth, P. Eng.

FJD/WCS:po
[01-565]

PERMIT TO PRACTICE
McDANIEL & ASSOCIATES CONSULTANTS LTD.

Signature ______________________

Date Tuesday, January 29, 2002

PERMIT NUMBER: P 3145

The Association of Professional Engineers, Geologists and Geophysicists of Alberta

CERTIFICATE OF QUALIFICATION

I, Wazir Chand Seth, Petroleum Engineer of 2200, 255 - 5th Avenue S.W., Calgary, Alberta, Canada hereby certify:

1. That I am President and Managing Director of McDaniel & Associates Consultants Ltd. which Company did prepare, at the request of Rally Energy Corp., the report entitled "Rally Energy Corp., Review of Work Program and Budget", dated January 29, 2002; and that I, as President and Managing Director, participated in the preparation of this report.

2. That I attended the University of British Columbia and that I graduated with a Bachelor of Applied Science degree in Mechanical Engineering in the year 1966; that I am a registered Professional Engineer of the Association of Professional Engineers, Geologists & Geophysicists of Alberta; that I am a member of the Canadian Institute of Mining and Metallurgy and that I have in excess of thirty years experience in oil and gas reservoir studies and evaluations of Western Canadian fields.

3. That McDaniel & Associates Consultants Ltd., its officers or employees, have no direct or indirect interest, nor do they expect to receive any direct or indirect interest in any properties or securities of Rally Energy Corp., any associate or affiliate thereof.

4. That the aforementioned report was not based on a personal field examination of the properties in question, however, such an examination was not deemed necessary in view of the extent and accuracy of the information available on the properties in question.

"signed by W. C. Seth"

W. C. Seth, P. Eng.
President and Managing Director

Calgary, Alberta
Dated: January 29, 2002

CERTIFICATE OF QUALIFICATION

I, Frederick John Dewis, Petroleum Geologist of 2200, 255 - 5th Avenue, S.W., Calgary, Alberta, Canada hereby certify:

1. That I am a Senior Consultant operating under contract to McDaniel & Associates Consultants Ltd. which Company did prepare, at the request of Rally Energy Corp., the report entitled "Rally Energy Corp., Review of Work Program and Budget", dated January 29, 2002, and that I participated in the preparation of this report.

2. That I attended Carleton University in the City of Ottawa, graduating with an Honours Bachelor of Science degree in Geology in the year 1969 and also attended the University of Calgary, graduating with a Masters degree in Geology in the year 1971; that I am a registered Professional Geologist in the province of Alberta and that I have in excess of thirty years experience in geological evaluations of oil and gas properties.

3. That McDaniel & Associates Consultants Ltd., its officers or employees, or myself have no direct or indirect interest, nor do they expect to receive any direct or indirect interest in any properties or securities of Rally Energy Corp., any associate or affiliate thereof.

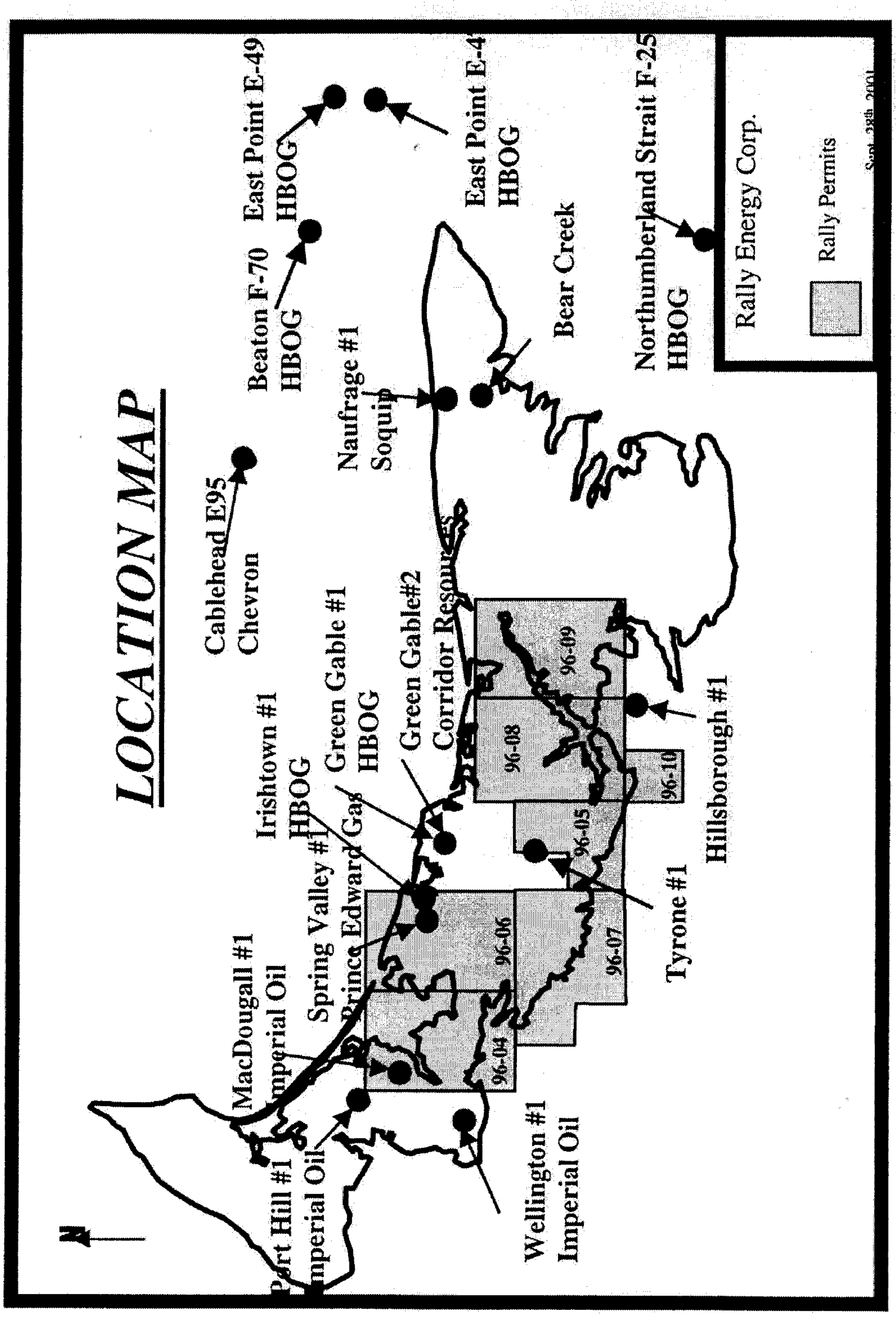
4. That the aforementioned report was not based on a personal field examination of the properties in question, however, such an examination was not deemed necessary in view of the extent and accuracy of the information available on the properties in question.

"signed by F. J. Dewis"

F. J. Dewis, P. Geol.

Calgary, Alberta
Dated: January 29, 2002

Figure 1


LOCATION MAP
N
Cablehead E95
Chevron
Beaton F-70
HBOG
East Point E-49
HBOG
East Point E-4
HBOG
Naufrage #1
Soquip
Bear Creek
Northumberland Strait F-25
HBOG
Rally Energy Corp.
Rally Permits
Irishtown #1
HBOG
Green Gable #1
HBOG
Green Gable#2
Corridor Resour
Spring Valley #1
Prince Edward Gas
MacDougall #1
Imperial Oil
rt Hill #1
mperial Oil
Wellington #1
Imperial Oil
Tyrone #1
Hillsborough #1
96-04
96-05
96-06
96-07
96-08
96-09
96-10

Rally Energy Corp.
Prince Edward Island Project
Gross Budget

2002

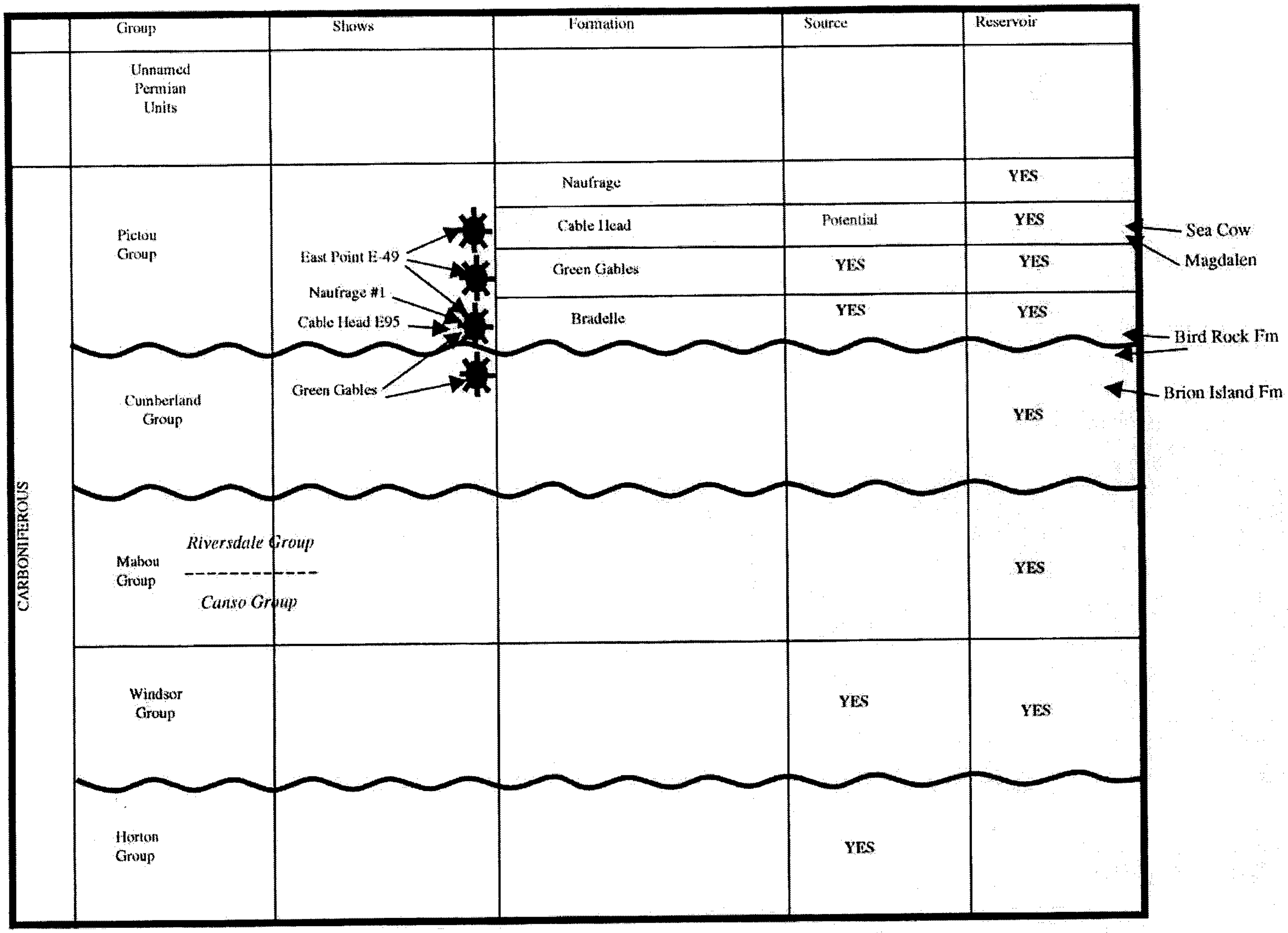
Note: This budget reflects the proposed expenditures on the project
to 100% Working Interest
Rally's net expenditures would be 40% less overhead recoveries

Project	Item	Jan (Cdn$)	Feb (Cdn$)	Mar (Cdn$)	Apr (Cdn$)	May (Cdn$)	June (Cdn$)	July (Cdn$)	Aug (Cdn$)	Sept (Cdn$)	Oct (Cdn$)	Nov (Cdn$)	Dec (Cdn$)	Total (Cdn$)
1	**Assess Existing Seismic**													
	Purchase Data	$250,000												
	Reprocess Purchased Data	80,000												
	Interpret Combined Data	60,000	$20,000											$410,000
	Sub-Total - Project 1	**$390,000**	**$20,000**											
2	**Acquire Detailed Seismic to define Drilling Locations**													
	Planning		$12,500	$12,500										
	Permitting		10,000	70,000	$20,000									
	Mobilization			100,000										
	Acquisition of 200 Kms of 2D data or Equivalent 3D data			250,000	500,000	$325,000								
	Processing				50,000	50,000								
	Interpretation					100,000								$1,500,000
	Sub-Total - Project 2		**$22,500**	**$432,500**	**$570,000**	**$475,000**								
3	**Drill Exploratory Wells**													
	Exploration Well 1						$250,000	$500,000	$250,000					
	Exploration Well 2							250,000	500,000					
	Exploration Well 3								250,000	$500,000				
	Exploration Well 4									250,000	$500,000			
	Sub-Total - Project 3						**$250,000**	**$750,000**	**$1,000,000**	**$750,000**	**$500,000**			**$3,250,000**
	Sub-Total by Month	$390,000	$42,500	$432,500	$570,000	$475,000	$250,000	$750,000	$1,000,000	$750,000	$500,000			
	Total													**$5,160,000**

FIGURE 2

Figure 3

Magdalen Basin Stratigraphy



Sept. 28th, 2001 Rally Energy Corp.