Statement of Reserves Data and Other Oil and Gas Information

Effective December 31, 2003

Prepared on May 19, 2004

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ABBREVIATIONS AND CONVERSION

In this document, the abbreviations set forth below have the following meanings:

Oil and Natural Gas Liquids

Bbl	barrel
Bbls	barrels
Mbbls	thousand barrels
Mmbbls	million barrels
Mstb	1,000 stock tank barrels
Bbls/d	barrels per day
BOPD	barrels of oil per day
NGLs	natural gas liquids
STB	standard tank barrels

Natural Gas

Mcf	thousand cubic feet
Mmcf	million cubic feet
Mcf/d	thousand cubic feet per day
Mmcf/d	million cubic feet per day
MMBTU	million British Thermal Units
Bcf	billion cubic feet
GJ	gigajoule

Other

AECO	EnCana Corp.'s natural gas storage facility located at Suffield, Alberta.
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.
ARTC	Alberta Royalty Tax Credit
BOE	barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
BOE/d	barrel of oil equivalent per day
m3	cubic metres
MBOE	1,000 barrels of oil equivalent
McfGE	1,000 cubic feet of gas equivalent on the basis of 6 McfGEs to 1 Bbl of crude oil. McfGEs may be misleading, particularly if used in isolation. A McfGE conversion ratio of 6 McfGEs to 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
McfGE/d	1,000 cubic feet equivalent per day
MMcfGE	1,000 McfGE
$000s	thousands of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

NOTES AND DEFINITIONS

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable and possible reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

"**Reserves**" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on (a) analysis of drilling, geological, geophysical, and engineering data; (b) the use of established technology; and (c) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.

"**Proved**" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

"**Developed Producing"** reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"**Developed Non-Producing"** reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"**Undeveloped**" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned. In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

"**Probable**" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.

The following terms, used in the preparation of the DeGolyer & MacNaughton Report (as defined herein) and this document, have the following meanings:

"**associated gas**" means the gas cap overlying a crude oil accumulation in a reservoir.

"**constant prices and costs**" means prices and costs used in an estimate that are:

(a) the Corporation's prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies;

(b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Corporation is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

For the purpose of paragraph (a), the reporting issuer's prices will be the posted price for oil and the spot price for gas, after historical adjustments for transportation, gravity and other factors.

"Corporation" means Rally Energy Corp.

"**crude oil**" or "**oil**" means a mixture that consists mainly of pentanes and heavier hydrocarbons, which may contain sulphur and other non-hydrocarbon compounds, that is recoverable at a well from an underground reservoir and that is liquid at the conditions under which its volume is measured or estimated. It does not include solution gas or natural gas liquids.

"**development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

(a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;

(b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly;

(c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and

(d) provide improved recovery systems.

"**development well**" means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

"**exploration costs**" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as "prospecting costs") and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

(a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as "geological and geophysical costs");

(b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;

(c) dry hole contributions and bottom hole contributions;

(d) costs of drilling and equipping exploratory wells; and

(e) costs of drilling exploratory type stratigraphic test wells.

"**exploratory well**" means a well that is not a development well, a service well or a stratigraphic test well.

"**field**" means an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata or laterally by local geologic barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to denote localized geological features, in contrast to broader terms such as "basin", "trend", "province", "play" or "area of interest".

"**future prices and costs**" means future prices and costs that are:

(a) generally accepted as being a reasonable outlook of the future;

(b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Corporation issuer is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

"**future income tax expenses**" means future income tax expenses estimated (generally, year-by-year):

(a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes, between oil and gas activities and other business activities;

(b) without deducting estimated future costs (for example, Crown royalties) that are not deductible in computing taxable income;

(c) taking into account estimated tax credits and allowances (for example, royalty tax credits); and

(d) applying to the future pre-tax net cash flows relating to the reporting issuer's oil and gas activities the appropriate year-end statutory tax rates, taking into account future tax rates already legislated.

"**future net revenue**" means the estimated net amount to be received with respect to the development and production of reserves (including synthetic oil, coal bed methane and other non-conventional reserves) using constant prices and costs or forecast prices and costs.

"**gross**" means:

(a) in relation to the Corporation's interest in production or reserves, its "company gross reserves", which are it's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Corporation;

(b) in relation to wells, the total number of wells in which the Corporation has an interest; and

(c) in relation to properties, the total area of properties in which the Corporation has an interest.

"**natural gas"** or **"gas"** means the lighter hydrocarbons and associated non-hydrocarbon substances occurring naturally in an underground reservoir, which under atmospheric conditions are essentially gases but which may contain natural gas liquids and non-hydrocarbon substances. Natural gas can exist in a reservoir either dissolved in crude oil (solution gas) or in a gaseous phase (associated gas or non-associated gas). Non-hydrocarbon substances may include hydrogen sulphide, carbon dioxide and nitrogen.

"**natural gas liquids**" means those hydrocarbon components that can be recovered from natural gas as liquids including, but not limited to, ethane, propane, butanes, pentanes plus, condensate and small quantities of non-hydrocarbons.

"**net**" means

(a) in relation to the Corporation's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus the its royalty interests in production or reserves;

(b) in relation to the Corporation's interest in wells, the number of wells obtained by aggregating the Corporation's working interest in each of its gross wells; and

(c) in relation to the Corporation's interest in a property, the total area in which the Corporation has an interest multiplied by the working interest owned by the Corporation.

"**non-associated gas**" means an accumulation of natural gas in a reservoir where there is no crude oil.

"**operating costs**" or "**production costs**" means costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities.

"**production**" means recovering, gathering, treating, field or plant processing (for example, processing gas to extract natural gas liquids) and field storage of oil and gas.

"**property**" includes:

(a) fee ownership or a lease, concession, agreement, permit, license or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest;

(b) royalty interests, production payments payable in oil or gas, and other non-operating interests in properties operated by others; and

(c) an agreement with a foreign government or authority under which a reporting issuer participates in the operation of properties or otherwise serves as "producer" of the underlying reserves (in contrast to being an independent purchaser, broker, dealer or importer).

A property does not include supply agreements, or contracts that represent a right to purchase, rather than extract, oil or gas.

"**property acquisition costs**" means costs incurred to acquire a property (directly by purchase or lease, or indirectly by acquiring another corporate entity with an interest in the property), including:

(a) costs of lease bonuses and options to purchase or lease a property;

(b) the portion of the costs applicable to hydrocarbons when land including rights to hydrocarbons is purchased in fee;

(c) brokers' fees, recording and registration fees, legal costs and other costs incurred in acquiring properties.

"**proved property**" means a property or part of a property to which reserves have been specifically attributed.

"Rally Energy" means Rally Energy Corp.

"**reservoir**" means a porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

"**service well**" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for combustion.

"**solution gas**" means natural gas dissolved in crude oil.

"**stratigraphic test well**" means a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Ordinarily, such wells are drilled without the intention of being completed for hydrocarbon production. They include wells for the purpose of core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic test wells are classified as (a) "exploratory type" if not drilled into a proved property; or (b) "development type", if drilled into a proved property. Development type stratigraphic wells are also referred to as "evaluation wells".

"**support equipment and facilities**" means equipment and facilities used in oil and gas activities, including seismic equipment, drilling equipment, construction and grading equipment, vehicles, repair shops, warehouses, supply points, camps, and division, district or field offices.

"**unproved property**" means a property or part of a property to which no reserves have been specifically attributed.

"**well abandonment costs**" means costs of abandoning a well (net of salvage value) and of disconnecting the well from the surface gathering system. They do not include costs of abandoning the gathering system or reclaiming the wellsite.

OIL AND NATURAL GAS RESERVES AND NET PRESENT VALUE OF FUTURE NET REVENUE

In accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities, DeGolyer and MacNaughton Canada Limited ("DeGolyer & MacNaughton") prepared a report (the "DeGolyer & MacNaughton Report") dated May 7, 2004. The DeGolyer & MacNaughton Report evaluated, as at December 31, 2003, the Corporation's oil and natural gas reserves. The tables below are a summary of the oil and natural gas reserves of the Corporation and the net present value of future net revenue attributable to such reserves as evaluated in the DeGolyer & MacNaughton Report based on constant and forecast price and cost assumptions. The tables summarize the data contained in the DeGolyer & MacNaughton Report and as a result may contain slightly different numbers than such report due to rounding. Also due to rounding, certain columns may not add exactly. **The net present value of future net revenue attributable to the Corporation's reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures, and well abandonment costs for only those wells assigned reserves by DeGolyer & MacNaughton. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the Corporation's reserves estimated by DeGolyer & MacNaughton represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of the Corporation's oil, NGL and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.**

The DeGolyer & MacNaughton Report is based on certain factual data supplied by the Corporation and DeGolyer & MacNaughton's opinion of reasonable practice in the industry. The extent and character of ownership and all factual data pertaining to the Corporation's petroleum properties and contracts (except for certain information residing in the public domain) were supplied by the Corporation to DeGolyer & MacNaughton and accepted without any further investigation. DeGolyer & MacNaughton accepted this data as presented and neither title searches nor field inspections were conducted.

Reserves Data – Constant Prices and Costs

Summary of Oil and Gas Reserves

	Gross Reserves			Net Reserves		
	Light Crude Oil	Heavy Crude Oil	Natural Gas	Light Crude Oil	Heavy Crude Oil	Natural Gas
	Mbbls	Mbbls	Mmcf	Mbbls	Mbbls	Mmcf
Proved						
Developed Producing	5	1,214	66	4	999	56
Developed Non-Producing	-	258	159	-	200	156
Undeveloped	-	91	-	-	77	-
Total Proved	5	1,564	225	4	1,276	212
Probable	3	2,590	198	3	2,124	188
Total Proved plus Probable	9	4,154	423	7	3,401	400

Net Present Value of Future Net Revenue of Oil and Gas Reserves

	Before Future Income Tax Expenses and Discounted at		After Future Income Tax Expenses and Discounted at	
	0%	10%	0%	10%
	(M$)	(M$)	(M$)	(M$)
Proved				
Developed Producing	17,974	16,065	17,974	16,065
Developed Non-Producing	3,027	2,178	3,027	2,178
Undeveloped	667	512	667	512
Total Proved	21,668	18,755	21,668	18,755
Probable	37,805	28,996	37,805	28,996
Total Proved plus Probable	59,473	47,751	59,473	47,751

The majority of the Corporation's revenue is derived from the Issaran oilfield in Egypt, wherein production fees paid to the General Petroleum Co. S.A.E. satisfy the Corporation's entire tax liability for Issaran, Egypt production. The Corporation has adequate Canadian tax pools that will offset any tax liability with respect to its Canadian production.

Additional Information Concerning Future Net Revenue – (Undiscounted)

	Revenue	Royalties	Operating Costs	Develop-ment Costs	Abandon-ment and Reclamation Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)
Total Proved Reserves	42,315	7,619	11,396	1,599	49	21,653	nil	21,653
Total Proved plus Probable	111,411	19,898	27,174	4,829	64	59,447	nil	59,447

Future Net Revenue by Production Group

	Future Net Revenue Before Income Taxes and Discounted at 10%
	(M$)
Proved	
Heavy Crude Oil	18,047
Light Crude Oil	161
Natural Gas	534
Proved plus Probable	
Heavy Crude Oil	46,616
Light Crude Oil	251
Natural Gas	866

Reserves Data – Forecast Prices and Costs

Summary of Oil and Gas Reserves

	Gross Reserves			**Net Reserves**		
	Light Crude Oil	Heavy Crude Oil	Natural Gas	Light Crude Oil	Heavy Crude Oil	Natural Gas
	Mbbls	Mbbls	Mmcf	Mbbls	Mbbls	Mmcf
Proved						
Developed Producing	5	1,087	66	4	908	56
Developed Non-Producing	-	237	159	-	188	156
Undeveloped	-	81	-	-	69	-
Total Proved	5	1,405	225	4	1,164	212
Probable	3	2,525	198	3	2,075	189
Total Proved plus Probable	9	3,930	423	7	3,239	401

Net Present Value of Future Net Revenue of Oil and Gas Reserves

	Before Future Income Tax Expenses and Discounted at				
	0%	5%	10%	15%	20%
	(M$)	(M$)	(M$)	(M$)	(M$)
Proved					
Developed Producing	11,951	11,347	10,819	10,354	9,941
Developed Non-Producing	1,573	1,288	1,073	906	775
Undeveloped	172	137	107	82	60
Total Proved	13,696	12,772	11,999	11,342	10,776
Probable	24,157	21,098	18,658	16,680	15,050
Total Proved plus Probable	37,853	33,870	30,657	28,022	25,826

	After Future Income Tax Expenses and Discounted at				
	0%	5%	10%	15%	20%
	(M$)	(M$)	(M$)	(M$)	(M$)
Proved					
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Additional Information Concerning Future Net Revenue – (Undiscounted)

	Revenue	Royalties	Operating Costs	Develop-ment Costs	Abandon-ment and Reclamation Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)
Total Proved Reserves	29,427	4,919	9,167	1,609	48	13,684	nil	13,684
Total Proved plus Probable	81,237	14,077	24,422	4,839	66	37,833	nil	37,833

Future Net Revenue by Production Group

	Future Net Revenue Before Future Income Tax Expenses Discounted at 10%
	(M$)
Proved	
Heavy Crude Oil	11,388
Light Crude Oil	177
Natural Gas	424
Proved plus Probable	
Heavy Crude Oil	29,763
Light Crude Oil	265
Natural Gas	615

Pricing Assumptions – Constant Prices and Costs

DeGolyer & MacNaughton employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2003 in estimating the Corporation's reserves data using constant prices and costs.

Natural Gas	Light Crude Oil	Heavy Crude Oil		
Plant Gate	Edmonton	Issaran, Egypt Field Gate	Inflation Rate	Exchange Rate
($Cdn/mcf)	($Cdn/bbl)	($Cdn/bbl)	(%/Yr)	($US/$Cdn)
5.77	38.38	26.23	n/a	0.77

Pricing Assumptions – Forecast Prices and Costs

DeGolyer & MacNaughton employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2003 in estimating the Corporation's reserves data using forecast prices and costs.

Year	Natural Gas	Light Crude Oil		Heavy Crude Oil		
	Plant Gate	WTI at Cushing	Edmonton	Issaran, Egypt Field Gate	Inflation Rate	Exchange Rate
	($Cdn/mcf)	($US/bbl)	($Cdn/bbl)	($Cdn/bbl)	%/Yr	($US/$Cdn)
2003	5.35		38.46	26.34		
Forecast:						
2004	5.32	26.39	34.16	21.80	1.5	0.75
2005	4.60	24.21	31.68	20.21	1.5	0.74
2006	4.51	23.53	31.19	19.76	1.5	0.73
2007	4.62	23.88	32.12	20.37	1.5	0.72
2008	4.66	24.24	32.61	20.70	1.5	0.72
2009	4.71	24.60	33.09	21.04	1.5	0.72
2010	4.76	24.97	33.59	21.38	1.5	0.72
2011	4.88	25.35	34.10	21.74	1.5	0.72
2012	5.00	25.73	34.61	22.09	1.5	0.72
2013	5.12	26.11	35.13	22.45	1.5	0.72
2014	5.17	26.50	35.65	22.81	1.5	0.72
Thereafter - Various escalation rates						

The weighted average realized sales prices for the Corporation for the year ended December 31, 2003 were $27.08/Bbl for heavy crude oil and $38.23/Bbl for light crude oil.

RECONCILIATIONS OF CHANGES IN RESERVES AND FUTURE NET REVENUE

Reserves Reconciliation

The following table sets forth a reconciliation of the Corporation's total proved, probable and total proved plus probable reserves as at December 31, 2003 against such reserves as at December 31, 2002 based on forecast price and cost assumptions.

	Heavy Crude Oil (Egypt)			Light Crude Oil (Canada)		
	Total Proved Reserves	Probable Reserves	Total Proved Plus Probable	Total Proved Reserves	Probable Reserves	Total Proved Plus Probable
	Mbbls	Mbbls	Mbbls	Mbbls	Mbbls	Mbbls
December 31, 2002	847	866	1,713	-	-	-
Drilling Additions	493	295	788	5	3	8
Technical Revisions	138	915	1,053	-	-	-
Economic Factors	16	-	16	-	-	-
Production	(331)	-	(331)	(1)	-	(1)
December 31, 2003	1,164	2,075	3,239	5	3	7

	Associated and Non-Associated Gas Canada			Associated and Non-Associated Gas Egypt		
	Total Proved Reserves	Probable Reserves	Total Proved Plus Probable	Total Proved Reserves	Probable Reserves	Total Proved Plus Probable
	Mmcf	Mmcf	Mmcf	Mmcf	Mmcf	Mmcf
December 31, 2002	-	-	-	-	-	-
Drilling Additions	155	156	311	-	-	-
Extension	-	-	-	56	33	89
Technical Revisions	-	-	-	-	-	-
Production	-	-	-	-	-	-
December 31, 2003	155	156	311	56	33	89

Future Net Revenue Reconciliation

The following table sets forth a reconciliation of the estimate of the net present value of future net revenue attributable to the Corporation's reserves as evaluated in the DeGolyer & MacNaughton Report (formerly known as Outtrim Szabo Associates Ltd.) as at December 31, 2003 against the estimate of such amount as at December 31, 2002, calculated before tax using a discount rate of 10% and constant price and cost assumptions.

	Egypt (M$)	Canada (M$)	Total (M$)
December 31, 2002	9,185	-	9,185
Sales and Transfers of Oil and Gas Produced during the Period Net of Production Costs and Royalties	(4,950)	(8)	(4,958)
Net Change in Sales and Transfer Prices and in Production Costs and Royalties related to Future Production	1,672	-	1,672
Changes in Previously Estimated Development Costs Incurred During the Period	5,622	462	6,084
Changes in Estimated Future Development Costs	(6,360)	(440)	(6,800)
Net Change Resulting from Extensions and Improved Recovery	9,848	-	9,848
Net Change Resulting from Discoveries	-	696	696
Changes Resulting from Acquisitions of Reserves	-	-	-
Changes Resulting from Dispositions of Reserves	-	-	-
Net Change Resulting from Revisions in Quantity Estimates	1,905	-	1,905
Accretion of Discount	727	-	727
Net Change in Income Taxes	-	-	-
Other Significant Factors	398	(2)	396
December 31, 2003	18,047	708	18,755

UNDEVELOPED RESERVES

The following discussion generally describes the basis on which the Corporation attributes Proved and Probable Undeveloped Reserves and its plans for developing those Undeveloped Reserves.

Proved Undeveloped Reserves

Proved undeveloped reserves are generally those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells further away from the Corporation's gathering systems. In addition, such reserves may relate to planned infill drilling locations. The majority of these reserves are planned to be on stream within a two year timeframe.

Probable Undeveloped Reserves

Probable undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production. The majority of these reserves are planned to be on stream within a two year timeframe.

SIGNIFICANT FACTORS OR UNCERTAINTIES AFFECTING RESERVES DATA

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions. The Corporation's reserves are evaluated by DeGolyer and MacNaughton Canada Limited, an independent engineering firm.

As circumstances change and additional data become available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices, and reservoir performance. Such revisions can be either positive or negative.

FUTURE DEVELOPMENT COSTS

The table below sets out the development costs deducted in the estimation of future net revenue attributable to proved reserves (using both constant prices and costs and forecast prices and costs) and proved plus probable reserves (using forecast prices and costs only).

	Constant Prices and Costs	Forecast Prices and Costs	
	Proved Reserves	Proved Reserves	Proved Plus Probable Reserves
	(M$)	(M$)	(M$)
2004	1,021	1,021	4,251
2005	513	533	520
2006	88	85	82
2007	8	3	16
2008	3	5	5
Remaining Years	18	10	31
Total Undiscounted	1,648	1,657	4,905
Total Discounted at 10% per year	1,502	1,512	4,597

The Corporation estimates that its internally generated cash flow will be sufficient to fund the future development costs disclosed above. The Corporation typically has available three sources of funding to finance its capital expenditure program; internally generated cash flow from operations, debt financing when appropriate and new equity issues, if available on favourable terms.

The Corporation expects to fund its total 2004 capital program with internally generated cash flow and, although quarterly fluctuations in funding levels are expected, the objective is to remain at the current net debt level throughout the 2004 financial year. The Corporation's objective is to maintain its debt to cash flow ratio at less than 2 times estimated future cash flows.

OIL AND GAS PROPERTIES

A summary description of Rally Energy's major producing and exploration properties is set out below. References to gross volumes refer to total production. References to net volumes refer to Rally Energy's working interest share before the deduction of royalties payable to others.

Issaran, Egypt
Rally Energy, through its wholly-owned subsidiary Scimitar Production Egypt Ltd. ("Scimitar Production Egypt"), has the exclusive right to operate and develop heavy oil production in a 72 square kilometre portion of the Ras Issaran concession area located on the west shore of the Gulf of Suez, approximately 2.5 hours by road southeast of Cairo. Under the terms of a long-term Petroleum Service Agreement executed in 1998, Scimitar Production Egypt is paid a fee based on Issaran oilfield production from the Ras Issaran Concession. The Corporation is responsible for 100% of all costs and receives fees, based on production level and historical investment amount. Currently there are 19 producing oil wells and 7 non-producing oil wells. During 2003, approximately 80% of Issaran oil production was credited to Scimitar Production Egypt under this fee arrangement.

During the year ended December 31, 2003, Scimitar Production Egypt drilled a total of 5 (5.0 net) wells in the Issaran area at depths ranging from 600 to 700 metres, resulting in 5 (5.0 net) oil wells.

For the year ended December 31, 2003, Scimitar Production Egypt's production from the Issaran area averaged 1,133 bbls/d of oil.

Scimitar Production Egypt plans to drill an additional 18 (18.0 net) oil wells in this area in 2004.

Safed Koh, Pakistan
Rally Energy Pakistan Ltd. ("Rally Energy Pakistan"), a wholly-owned subsidiary of the Corporation, currently operates and holds an 80% working interest in the Safed Koh Block, covering 1,213 square kilometres. The licence for the Safed Koh Block, located in the Province of Punjab, was granted for an initial two-year term with an option to continue for a third year, provided an exploration well is drilled or an existing well is re-entered and deepened before April 18, 2005.

During 2003, Rally Energy Pakistan completed the geological and geophysical studies required to fully satisfy the Safed Koh Phase I Work Program.

On April 20, 2004, Rally Energy announced a partial disposition agreement with Dewan Mushtaq Group of Pakistan. This partial disposition will permit Rally Energy to continue to participate in the Safed Koh Block with a reduced working interest of 22.5% and coverage of its share of up to US$2.2 million of Phase II expenditures.

Prince Edward Island
Rally Energy holds working interests of between 55% and 100% in eight oil and gas permits on Prince Edward Island ("PEI") encompassing 708,053 (419,092 net) acres. The permits are located primarily onshore PEI within the Magdalen Basin, an under-explored basin by global standards. Seven permits, which include rights to all hydrocarbons without any depth restrictions, will expire during 2004. The eighth permit is renewable annually until 2008.

During the year ended December 31, 2003, Rally Energy, as operator, drilled a total of 2 (1.1 net) wells on Prince Edward Island at depths of approximately 1,600 metres, resulting in no commercially viable wells

Rally Energy plans to continue with its PEI activities, however, a full re-evaluation is underway.

Wauchope, Saskatchewan
The Wauchope area is located approximately 235 kilometres east of the City of Regina. Rally Energy acquired its initial interest in this area in October, 2003 and has an average working interest of 37.5% in 1,440 (540 net) acres of land and 1 (0.37 net) producing oil well.

During the year ended December 31, 2003, Rally Energy drilled 1 (0.37 net) well in the Wauchope area at a depth of 1,139 metres, resulting in 1 (0.37) oil well.

For the year ended December 31, 2003, Rally Energy's production from the Wauchope area averaged 2 bbls/d of oil for the year. The well commenced production on November 20, 2003 and produced at an average rate of 18 bbls/d (net).

Rally Energy is currently evaluating plans to drill additional wells in this area in 2004.

Travers, Alberta
The Travers area is located approximately 175 kilometres southeast of the City of Calgary. Rally Energy acquired its initial interest in this area in October, 2003 and has an average working interest of 25% in 640 (160 net) acres of land and 1 (0.25 net) non-producing natural gas well.

During the year ended December 31, 2003, Rally Energy drilled 1 (0.25 net) well in the Travers area at a depth of 1,425 metres, resulting in 1 (0.25 net) natural gas well.

For the year ended December 31, 2003, there was no production from the Travers area.

In 2004, Rally Energy will tie-in the natural gas well, however there are no plans to drill additional wells in this area.

Provost, Alberta
The Provost area is located approximately 290 kilometres northeast of the City of Calgary. Rally Energy acquired its initial interest in this area in October, 2003. Rally Energy has an average working interest of 66 % in 960 (640 net) acres of land and 1 (1.0 net) non-producing oil well.

During the year ended December 31, 2003, Rally Energy drilled a total of 2 (1.5 net) wells in the Provost area at depths ranging from 732 to 844 metres, resulting in 1 (1.0 net) oil well.

For the year ended December 31, 2003, there was no production from the Provost area.

Rally Energy plans to evaluate further operation in this area in 2004.

Whiskey Creek, Alberta
The Whiskey Creek area is located approximately 15 kilometres southwest of the City of Calgary. Rally Energy acquired its initial interest in this area in November, 2003. Rally Energy has an average working interest of 33 % in 520 (172 net) acres of land.

During the year ended December 31, 2003, no wells were drilled in the Whiskey Creek area and there is no current production from this area.

Rally Energy plans to evaluate the acreage position and could drill a well in this area in 2004 or 2005.

OIL AND GAS WELLS

The following table summarizes the Corporation's interest as at December 31, 2003 in wells that are producing and non-producing.

	Producing Wells			
	Oil		Natural Gas	
	Gross	Net	Gross	Net
Issaran, Egypt	19	19.00	-	-
Wauchope, Saskatchewan	1	0.37	-	-
Total	20	19.37	-	-

	Non-Producing Wells			
	Oil		**Natural Gas**	
	Gross	Net	Gross	Net
Issaran, Egypt	7	7	-	-
Travers, Alberta	-	-	1	0.25
Provost, Alberta	1	1	-	-
Total	8	8	1	0.25

PROPERTIES WITH NO ATTRIBUTED RESERVES

The following table summarizes the gross and net acres of unproved properties in which the Corporation has an interest and also the number of net acres for which the Corporation's rights to explore, develop or exploit will, absent further action, expire within one year.

	Gross Acres	Net Acres	Net Acres Expiring Within One Year
Safed Koh, Pakistan	299,728	239,782	239,782
Prince Edward Island	708,053	550,556	484,639
Whiskey Creek, Alberta	520	172	-
Provost, Alberta	960	640	-
Other	-	-	-
Total	1,009,261	791,150	724,421

DRILLING ACTIVITY

The following table summarizes the Corporation's drilling results for the year ended December 31, 2003.

	2003	
	Gross	Net
Oil	7	6.5
Natural Gas	1	0.5
Dry & Abandoned	4	2.4
Total	12	9.4

ADDITIONAL INFORMATION CONCERNING ABANDONMENT AND RECLAMATION COSTS

The Corporation estimates well abandonment costs stereotypically area by area. Such costs are included in the DeGolyer & MacNaughton Report as deductions in arriving at future net revenue. The expected total abandonment costs included in the DeGolyer & MacNaughton Report for 18 net wells under the proved reserves category is $61,000 undiscounted ($36,000 discounted at 10%), of which a total of $20,000 is estimated to be incurred in 2004, 2005 and 2006. This estimate does include expected reclamation costs for surface leases offset by salvage value recovery. Expected future abandonment costs related to facilities are expected to match the salvage value recovery.

TAX HORIZON

Rally Energy was not required to pay income taxes during the year ended December 31, 2003. Based on a strategy of re-investing fully all internally generated cash flow in an exploration and development program and based on the commodity prices used in the DeGolyer & MacNaughton Report, the Corporation estimates that it will not be required to pay income taxes. The majority of the Corporation's revenue is derived from the Issaran oilfield in Egypt, wherein production fees paid to the General Petroleum Co. S.A.E. satisfy the Corporation's entire tax liability for Issaran, Egypt production. The Corporation has adequate Canadian tax pools that will offset any tax liability with respect to its Canadian production

COSTS INCURRED

The following table summarizes the Corporation's property acquisition costs, exploration costs and development costs for the year ended December 31, 2003.

	Property Acquisition Costs			
	Proved Properties (M$)	Unproved Properties (M$)	Exploration Costs (M$)	Development Costs (M$)
Egypt	-	-	818	6,127
Canada	-	30	3,234	729
Pakistan	-	36	558	-
Total (M$)	-	66	4,610	6,856

PRODUCTION ESTIMATES

The following table discloses for each product type the total volume of production estimated by DeGolyer & MacNaughton Canada Limited for 2004 in the estimates of future net revenue from proved reserves disclosed above under the heading "Oil and Natural Gas Reserves and Net Present Value of Future Net Revenue".

	Heavy Crude Oil (Bbls/d)	Light Crude Oil (Bbls/d)	Natural Gas (Mcf/d)	BOE (BOE/d)	%
Issaran, Egypt	1,793	-	-	1,793	99%
Wauchope, Saskatchewan	-	11	-	11	1%
Travers, Alberta	-	-	60	10	-
Estimated Total Production	1,793	11	60	1,814	100%

PRODUCTION HISTORY

The following table discloses, on a quarterly basis for the year ended December 31, 2003, the Corporation's share of average daily production volume, prior to royalties, and the prices received, royalties paid, production costs incurred and netbacks on a per unit of volume basis for each product type.

Average Daily Production Volume

	Three Months Ended				
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	2003 Total
Heavy Crude Oil (Bbl/d)	1,129	896	865	1,640	1,133
Light Crude Oil (Bbl/d)	-	-	-	8	2
Natural Gas (Mcf/d)	-	-	-	-	-
Total (BOE/d)	1,129	896	865	1,648	1,135

Prices Received, Royalties Paid, Production Costs and Netback – Heavy Crude Oil

($ per Bbl)	Three Months Ended				
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	2003 Total
Prices Received	31.88	22.53	26.22	26.84	27.11
Royalties Paid	6.65	4.99	5.90	5.18	5.64
Production Costs	12.34	8.61	8.76	3.73	7.77
Netback	12.89	8.93	11.56	17.93	13.70

Prices Received, Royalties Paid, Production Costs and Netback – Light Crude Oil

($ per Bbl)	Three Months Ended				
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	2003 Total
Prices Received	-	-	-	38.28	38.28
Royalties Paid	-	-	-	11.47	11.47
Production Costs	-	-	-	14.54	14.54
Netback	-	-	-	12.27	12.27

Prices Received, Royalties Paid, Production Costs and Netback – Natural Gas

($ per McfGE)	Three Months Ended				
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	2003 Total
Prices Received	-	-	-	-	-
Royalties Paid	-	-	-	-	-
Production Costs	-	-	-	-	-
Netback	-	-	-	-	-

Production Volume by Field

The following table discloses for each important field, and in total, the Corporation's production volumes for the financial year ended December 31, 2003 for each product type.

Field	Heavy Crude Oil (Bbls/d)	Light Crude Oil (Bbls/d)	Natural Gas (Mcf/d)	BOE (BOE/d)	%
Issaran, Egypt	1,133	-	-	1,133	100
Wauchope, Saskatchewan	-	2	-	2	-
Other	-	-	-	-	-
Total	1,133	2	-	1,135	100

DeGolyer and MacNaughton Canada Limited
311 Sixth Avenue S.W., Suite 1430
Energy Plaza East Tower
Calgary, Alberta, Canada, T2P 3H2

NATIONAL INSTRUMENT FORM 51-101F2

REPORT ON RESERVES DATA

To the board of directors of Rally Energy Corp. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2003. The reserves data consist of the following:

   a) (i) proved, proved plus probable and proved plus probable plus possible oil and gas reserves estimated as at December 31, 2003 using forecast prices and costs; and

      (ii) the related estimated future net revenue; and

   b) (i) proved, proved plus probable and proved plus probable plus possible oil and gas reserves, estimated as at December 31, 2003 using constant prices and costs; and

      (ii) the related estimated future net revenue

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2003, and identifies the respective portions thereof that we have evaluated and reported on to the Company's board of directors.

Independent Qualified Reserves Evaluator	Description & Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue (before income tax, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
			M$	M$	M$	M$
DeGolyer and MacNaughton Canada Limited	Appraisal Report as of December 31, 2003 on the Properties owned by Rally Energy Corp. in Canada and Egypt dated May 7, 2004	Canada	-	894	-	894
		Egypt	-	29,763	-	29,763

5. In our opinion, the reserves evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update this report referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

DeGolyer and MacNaughton Canada Limited, Calgary, Alberta, dated May 7, 2004.

DEGOLYER AND MACNAUGHTON
CANADA LIMITED

"Douglas S. Christie"

Douglas S. Christie, P.Geol.

PERMIT TO PRACTICE
DeGolyer and MacNaughton Canada Limited

Signature __"Douglas S., Christie"___

Date ________May 7, 2004__________

PERMIT NUMBER: P 5568

The Association of Professional Engineers, Geologists and Geophysicists of Alberta

FORM 51-101F3
REPORT OF MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Management of **Rally Energy Corp.** (the "**Corporation**") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

(a) (i) Proved and Proved plus probable oil and gas reserves estimated as at December 31, 2003 using forecast prices and costs; and

(ii) the related estimated future net revenue; and

(b) (i) Proved oil and gas reserves estimated as at December 31, 2003 using constant prices and costs; and

(ii) the related estimated future net revenue.

DeGolyer and MacNaughton Canada Limited, an independent qualified reserves evaluator has evaluated the Corporation's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the Board of Directors of the Corporation has:

(a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the Board of Directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee approved:

(a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;

(b) the filing of the report of the independent qualified reserves evaluator on reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

(signed) *"John G.F. Mcleod"*

John G.F. McLeod
President & Chief Executive Officer

(signed) *"Douglas C. Urch"*

Douglas C. Urch
Vice President, Finance and Chief Financial Officer

(signed) *"Lamont Tolley"*

Lamont Tolley
Director

(signed) *"Angus A. Mackenzie"*

Angus A. Mackenzie
Director

May 19, 2004