PETRO-REEF RESOURCES LTD.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2006

FORM 51-102F2

APRIL 05, 2007

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ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
Bbl	barrel	mcf	thousand cubic feet
Bbls	barrels	mmcf	million cubic feet
mbbls	thousand barrels	mcf/d	thousand cubic feet per day
mmbbls	million barrels	mmcf/d	million cubic feet per day
mstb	1,000 stock tank barrels	mmbtu	million British Thermal Units
bbls/d	barrels per day	bcf	billion cubic feet
BOPD	barrels of oil per day	GJ	gigajoule
NGLs	natural gas liquids	mm	Million
stb	standard tank barrels		

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.
ARTC	Alberta Royalty Tax Credit
BOE	barrel of oil equivalent of natural gas and crude oil on the basis of 1 BOE for 6 Mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
BOE/D	barrel of oil equivalent per day
M^3	cubic metres
MBOE	1,000 barrels of oil equivalent
$000s or M$	thousands of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

CONVERSIONS

To Convert From	To	Multiply By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls oil	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres (Alberta)	Hectares	0.400
Hectares (Alberta)	Acres	2.500
Acres (British Columbia)	Hectares	0.405
Hectares (British Columbia)	Acres	2.471

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf/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.

CERTAIN DEFINITIONS

In this Annual Information Form, the following words and phrases have the following meanings, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act* (Alberta);

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"**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 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, pumping equipment and wellhead assembly;

(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 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.

"**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 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;

(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 defense, 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.

“Sproule Report” means the report of Sproule Associates Limited evaluating the crude oil, natural gas liquids and natural gas reserves of the Corporation as at December 31, 2006;

"**Gross**" means:

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

"Petro-Reef shares" means the Common Shares in the capital of Petro-Reef Resources Ltd.

"**Net**" means:

(a) in relation to the Corporation's interest in production and reserves, the Corporation's interest (operating and non-operating) share after deduction of royalties obligations, plus the Corporation's royalty interest in production or reserves.

(b) in relation to 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.

“SAL” means Sproule Associates Limited

"**NI 51-101**" means National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities;

Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2006.

All dollar amounts herein are in Canadian dollars, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

Some of the statements contained herein (including without limitation, financial and business prospects and financial outlooks) may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Corporation assumes no obligation to update or review them to reflect new events or circumstances.

Forward-looking statements and other information contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry is based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

DEVELOPMENT OF BUSINESS

The Corporation was incorporated as 394537 Alberta Ltd. on December 12, 1988, as a wholly owned subsidiary of Devnic Energy Inc. By Certificate of Amendment, 394537 Alberta Ltd. changed to Petro-Reef Resources Ltd. effective February 23, 1989.

On December 16, 1992 the Donhuysen family and the Werner family purchased the control block of 4,588,600 Common Shares in the Corporation from Devnic Energy Inc. and Fortune Equity Inc. On the same date the Corporation also purchased from Devnic Energy Inc. all of its outstanding working interests in certain key parcels of land and the wells and assets thereon.

On December 16, 1992 the Corporation raised $208,710 by two private placements at $0.07 per Common Share for 838,725 Common Shares and $0.25 per Common Share for 600,000 Common Shares respectively. These Common Shares were purchased by the principals of the Corporation and the funds raised were added to the Corporation’s working capital.

On November 19, 1993 the Corporation raised $550,000 by private placement for 2,202,000 Common Shares at $0.25 per Common Share. The funds were added to the Corporation’s working capital.

On September 15, 1994 a private placement consisting of 435,502 units at a price of $1.50 per unit was closed to raise $653,253. Each unit sold consisted of one Common Share and one Purchase Warrant exercisable to acquire one additional Common Share by September 15, 1996 at a price of $2.00 per Common Share.

Subsequently the price of the warrants was reduced to an exercise price of $0.50 per Common Share with 240,000 warrants exercised by the expiry date of September 15, 1996.

On a closing date of September 27, 1999 the Corporation purchased certain petroleum and natural gas property working interests and overriding royalty interests by the issuance of 3,665,868 Common Shares in the Corporation.

On October 9, 2001 the Corporation entered into an operating line of credit with the National Bank of Canada with a credit facility in the form of a revolving operating demand loan with a limit of one million ($1,000,000) dollars and a non-revolving acquisition demand loan with a maximum limit of one-half million ($500,000) dollars.

On December 30, 2003 the operating line of credit was increased to two million ($2,000,000) dollars with the non-revolving demand loan for acquisitions and development remaining at one-half million ($500,000) dollars.

On September 16, 2005, the Corporation raised $1,575,000 by private placement of 3,500,000 units. The units were priced at $0.45 and consist of one Common Share and one Purchase Warrant. Each Purchase Warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.70 per Common Share, for a period of 18 months from closing of the private placement (i.e. up to March 16, 2007).

On July 24, 2006 the operating line of credit was increased to three million seven hundred and fifty thousand ($3,750,000) dollars with the non-revolving demand loan for acquisitions and development increasing to one million ($1,000,000) dollars.

At December 31, 2006, there were 23,685,291 Petro-Reef shares issued and outstanding.

Unless otherwise stated, "Petro-Reef", the "Corporation", or the "Company" means Petro-Reef Resources Ltd. Petro-Reef's principal office is located at 970, 10655 Southport Road S.W., Calgary, Alberta, Canada, T2W 4Y1.

The Petro-Reef shares trade on the TSX Venture Exchange under the symbol "PER".

EXPLORATION AND DEVELOPMENT STRATEGY

The business plan of Petro-Reef is to create sustainable and profitable growth in the oil and gas industry in Western Canada. To accomplish this business plan, Petro-Reef continues to pursue an integrated growth strategy through exploratory and development drilling.

Petro-Reef uses the following exploration and development criteria for each prospect area, to assure a high probability of profitability and rate of return on capital investment:

(1) Each exploration and development prospect must exhibit:
   - a) a minimum three (3) zones each with commercial hydrocarbon potential
   - b) a minimum 10:1 profit to capital risk ratio.
   - c) a minimum 30% rate of return on capital invested with a payout of three (3) years or less.
   - d) a minimum economic life of 15 years.

(2) The use of 2-D and 3-D seismic to identify and confirm low to medium risk potential drilling locations using state of the art technology developed by Petro-Reef.

(3) An existing infrastructure where increased activity is possible.

(4) A high degree of near term market access.

The management of Petro-Reef has experience in all areas of the Western Sedimentary Basin and has the ability to expand its scope of activity as opportunities arise. The Corporation has focused its initial prospect areas in Central Alberta immediately north and west of the City of Edmonton.

The Board of Directors of Petro-Reef may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to these guidelines based upon its consideration of the qualitative aspects of the subject properties including risk profile, technical upside, reserve life and asset quality.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and gas information set forth below (the "Statement") is dated April 5, 2007. The effective date of the Statement is December 31, 2006 and the preparation date of the Statement is April 5, 2007.

Disclosure of Reserves Data

The reserves data set forth below (the "Reserves Data") is based upon an evaluation by SAL contained in the SAL Report. The Reserves Data summarizes the crude oil, natural gas liquids and natural gas reserves of the Corporation and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. The Corporation engaged SAL to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of the Corporation's reserves are in Canada and, specifically, in the Province of Alberta.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the constant prices and costs assumptions and forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of the Corporation's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

The Report of Management and Directors on Oil and Gas Disclosure and the Report on Reserves Data by the independent qualified reserves evaluator are attached in Appendix 1 hereto.

DISCLOSURE OF RESERVES DATA
Reserves Data (Constant Prices and Costs)
Reserves Gross and Net (Constant Prices and Costs)

Summary of Oil and Gas Reserves
as of December 31, 2006
Constant Prices and Costs

Reserves

	Light and Medium Oil		Heavy Oil		Natural Gas Liquids (non-associated & associated)		Natural Gas (solution)		Natural Gas Liquids	
Reserves Category	**Gross (Mbbl)**	**Net (Mbbl)**	**Gross (Mbbl)**	**Gross (MMcf)**	**Net (MMcf)**	**Net (MMcf)**	**Net (MMcf)**	**Net (MMcf)**	**Gross (Mbbl)**	**Net (Mbbl)**
Proved										
Developed Producing	42	37	0	0	5,807	4,795	0	0	9	8
Developed Non-Producing	0	0	0	0	9	8	0	0	0	0
Undeveloped	33	29	0	0	2,364	1,896	0	0	0	0
Total Proved	**75**	**67**	**0**	**0**	**8,180**	**6,699**	**0**	**0**	**9**	**8**
Probable	22	20	0	0	981	809	0	0	2	1
Total Proved Plus Probable	**97**	**87**	**0**	**0**	**9,161**	**7,507**	**0**	**0**	**11**	**9**

PRESENT VALUE OF FUTURE NET REVENUE (CONSTANT PRICES AND COSTS)

Summary of Net Present Values of Future Net Revenue as of December 31, 2006 Constant Prices and Costs										
	Net Present Values of Future Net Revenue									
	Before Income Taxes Discounted at (% / Year)					**After Income Taxes Discounted at (% / Year)**				
Reserves Category	**0 (M$)**	**5 (M$)**	**10 (M$)**	**15 (M$)**	**20 (M$)**	**0 (M$)**	**5 (M$)**	**10 (M$)**	**15 (M$)**	**20 (M$)**
Proved										
Developed Producing	23,457	18,647	15,632	13,572	12,074	19,389	15,684	13,348	11,738	10,557
Developed Non-Producing	32	17	10	6	3	22	12	7	4	2
Undeveloped	8,244	6,430	5,165	4,245	3,551	5,596	4,279	3,360	2,692	2,189
Total Proved	**31,732**	**25,094**	**20,807**	**17,823**	**15,628**	**25,007**	**19,974**	**16,715**	**14,434**	**12,748**
Probable	4,767	3,724	3,050	2,584	2,245	3,236	2,528	2,070	1,754	1,524
Total Proved Plus Probable	**36,499**	**28,819**	**23,857**	**20,407**	**17,873**	**28,242**	**22,503**	**18,785**	**16,188**	**14,271**

Notes:

1) NPV of FNR include all resource income:
   - Sale of oil, gas, by-product reserves
   - Processing third party reserves
   - Other income

2) Income Taxes
   - Includes all resource income
   - Apply appropriate income tax calculations
   - Include prior tax pools

FUTURE NET REVENUE (CONSTANT PRICES AND COSTS)

Total Future Net Revenue (Undiscounted) as of December 31, 2006 Constant Prices and Costs								
Reserves Category	**Revenue (M$)**	**Royalties (M$)**	**Operating Costs (M$)**	**Development Costs (M$)**	**Well Abandonment Or Other Costs (M$)**	**Future Net Revenue Before Income Taxes (M$)**	**Income Taxes (M$)**	**Future Net Revenue After Income Taxes (M$)**
Proved Reserves	58,832	11,365	12,751	2,707	276	31,732	6,726	25,007
Proved Plus Probable	66,621	12,850	14,285	2,707	280	36,499	8,257	28,242

BY PRODUCTION GROUP-FUTURE NET REVENUE BEFORE INCOME TAX
(Using Constant Prices and Costs – Using a discount rate of 10% percent).

Net Present Value of Future Net Revenue By Production Group As of December 31, 2006 Constant Prices and Costs		
Reserves Category	**Production Group**	**Future Net Revenue Before Income Taxes (Discounted at 10% Year) (M$)**
Proved Reserves	Light and Medium Crude Oil (including solution gas and associated by-products)	1,400
	Heavy Oil (including solution gas and associated by-products)	0
	Natural Gas (including associated by-products)	19,070
	Coal bed Methane (including associated by-products)	0
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and associated by-products)	1,717
	Heavy Oil (including solution gas and associated by-products)	0
	Natural Gas (including associated by-products)	21,804
	Coal bed Methane (including associated by-products)	0

Notes:

1) NPV of FNR include all resource income:
   - Sale of oil, gas, by-product reserves
   - Processing third party reserves
   - Other income

2) Income Taxes
   - Includes all resource income
   - Apply appropriate income tax calculations
   - Include prior tax pools

RESERVES DATA (FORECAST PRICES AND COSTS)
RESERVES GROSS AND NET (FORECAST PRICES AND COSTS)

Summary of Oil and Gas Reserves
as of December 31, 2006
Forecast Prices and Costs

Reserves										
	Light and Medium Oil		**Heavy Oil**		**Natural Gas Liquids (non-associated & associated)**		**Coalbed Methane**		**Natural Gas Liquids**	
Reserves Category	**Gross (Mbbl)**	**Net (Mbbl)**	**Gross (Mbbl)**	**Net (MMcf)**	**Gross (MMcf)**	**Net (MMcf)**	**Gross (MMcf)**	**Net (MMcf)**	**Gross (Mbbl)**	**Net (Mbbl)**
Proved										
Developed Producing	42	37	0	0	5,789	4,786	0	0	9	8
Developed Non-Producing	0	0	0	0	9	8	0	0	0	0
Undeveloped	32	28	0	0	2,360	1,894	0	0	0	0
Total Proved	**74**	**66**	**0**	**0**	**8,159**	**6,688**	**0**	**0**	**9**	**8**
Probable	22	20	0	0	992	817	0	0	2	1
Total Proved Plus Probable	**96**	**86**	**0**	**0**	**9,151**	**7,505**	**0**	**0**	**11**	**9**

PRESENT VALUE OF FUTURE NET REVENUE (FORECAST PRICES AND COSTS)

Summary of Net Present Values of Future Net Revenue as of December 31, 2006 Forecast Prices and Costs

	Net Present Values of Future Net Revenue									
	Before Income Taxes Discounted at (% / Year)					**After Income Taxes Discounted at (% / Year)**				
Reserves Category	**0 (M$)**	**5 (M$)**	**10 (M$)**	**15 (M$)**	**20 (M$)**	**0 (M$)**	**5 (M$)**	**10 (M$)**	**15 (M$)**	**20 (M$)**
Proved										
Developed Producing	31,812	24,942	20,790	18,017	16,026	25,676	20,385	17,168	15,005	13,443
Developed Non-Producing	48	26	15	9	5	34	19	10	6	4
Undeveloped	11,331	8,916	7,250	6,045	5,141	7,980	6,185	4,947	4,053	3,384
Total Proved	**43,190**	**33,885**	**28,054**	**24,070**	**21,173**	**33,689**	**26,588**	**22,125**	19,064	**16,831**
Probable	6,130	4,823	3,971	3,378	2,945	4,323	3,393	2,787	**2,367**	2,059
Total Proved Plus Probable	**49,320**	**38,707**	**32,025**	**27,449**	**24,118**	**38,013**	**29,981**	**24,912**	21,431	**18,890**

Notes:

1) NPV of FNR include all resource income:
   - Sale of oil, gas, by-product reserves
   - Processing third party reserves
   - Other income

2) Income Taxes
   - Includes all resource income
   - Apply appropriate income tax calculations
   - Include prior tax pools

FUTURE NET REVENUE UNDISCOUNTED (FORECAST PRICES AND COSTS)

Total Future Net Revenue Undiscounted as of December 31, 2006 Forecast Prices and Costs								
Reserves Category	**Revenue (M$)**	**Royalties (M$)**	**Operating Costs (M$)**	**Develop-ment Costs (M$)**	**Well Abandon-ment/ Other Costs (M$)**	**Future Net Revenue Before Income Taxes (M$)**	**Income Taxes (M$)**	**Future Net Revenue After Income Taxes (M$)**
Proved	77,465	15,574	15,620	2,708	374	43,190	9,500	33,689
Proved Plus Probable	87,534	17,581	17,529	2,708	396	49,320	11,307	38,013

BY PRODUCTION GROUP-FUTURE NET REVENUE BEFORE INCOME TAX
(Using Forecast Prices and Costs – Using a discount rate of 10 Percent)

Net Present Value of Future Net Revenue By Production Group As of December 31, 2006 Forecast Prices and Costs		
Reserves Category	**Production Group**	**Future Net Revenue Before Income Taxes (Discounted at 10% / Year) (M$)**
Proved Reserves	Light and Medium Crude Oil (including solution gas and associated by-products)	1,386
	Heavy Oil (including solution gas and associated by-products)	0
	Natural Gas (including associated by-products)	26,331
	Coal bed Methane (including associated by-products)	0
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and associated by-products)	1,691
	Heavy Oil (including solution gas and associated by-products)	0
	Natural Gas (including associated by-products)	29,997
	Coal bed Methane (including associated by-products)	0

PRICING ASSUMPTIONS

Summary of Pricing Assumptions as of December 31, 2006 Constant Prices and Costs							
	Oil						
Year	**WTI Cushing Oklahoma ($US/bbl)**	**Edmonton Par Price 40º API ($Cdn/bbl)**	**Cromer Medium 29.3º API ($Cdn/bbl)**	**Natural Gas [1] AECO Gas Prices ($Cdn/MMBtu)**	**Pentanes Plus F.O.B Field Gate ($Cdn/bbl)**	**Butanes F.O.B. Field Gate ($Cdn/bbl)**	**Exchange Rate [3] ($US/$Cdn)**
Dec. 31, 2001	19.78	31.15	22.41	3.64	29.25	16.73	0.628
Dec. 31, 2002	31.23	49.26	41.95	5.97	50.22	38.91	0.634
Dec. 31, 2003	32.56	40.60	36.39	6.88	44.18	37.73	0.771
Dec. 31, 2004	44.04	46.51	32.10	6.78	51.80	39.78	0.832
Dec. 31, 2005	61.04	68.12	52.28	9.99	71.35	59.32	0.860
Forecast							
Dec. 31, 2006	61.05	67.59	62.45	6.13	71.51	54.00	0.858

1) This summary table identifies benchmark reference pricing schedules that might apply to a *reporting issuer*.
2) Exchange rates used to generate the benchmark reference prices in this table.

Notes:
Product sale prices will reflect these reference prices with further adjustments for quality and transportation to point of sale.

FORECAST PRICES USED IN ESTIMATES

Summary of Pricing and
Inflation Rate Assumptions
as of December 31, 2006
Forecast Prices and Costs

	Oil							
Year	**WTI Cushing Oklahoma ($US/bbl)**	**Edmonton Par Price 40º API ($Cdn/bbl)**	**Cromer Medium 29.3º API ($Cdn/bbl)**	**Natural Gas [1] AECO Gas Prices ($Cdn/MMBtu)**	**Pentanes Plus F.O.B Field Gate ($Cdn/bbl)**	**Butanes F.O.B. Field Gate ($Cdn/bbl)**	**Inflation Rate [2] (%/Yr)**	**Exchange Rate [3] ($US/$Cdn)**
Historical								
2002	26.09	40.12	35.46	4.04	40.80	25.39	2.7	0.637
2003	31.14	43.23	37.53	6.66	44.16	34.55	2.5	0.716
2004	41.42	52.91	45.72	6.87	53.91	41.37	2.5	0.825
2005	56.46	69.29	57.36	8.58	69.13	45.20	1.6	0.850
2006	66.09	73.31	62.35	7.16	75.03	59.32	2.0	0.882
Forecast								
2007	65.73	74.10	63.72	7.72	75.88	55.23	5.0	0.870
2008	68.82	77.62	66.75	8.59	79.49	57.85	4.0	0.870
2009	62.42	70.25	60.41	7.74	71.94	52.36	3.0	0.870
2010	58.37	65.56	56.38	7.55	67.14	48.87	2.0	0.870
2011	55.20	61.90	53.24	7.72	63.40	46.14	2.0	0.870
Thereafter			Various Escalation Rates					

1) This summary table identifies benchmark reference pricing schedules that might apply to a *reporting issuer*.
2) Inflation rates for forecasting prices and costs.
3) Exchange rates used to generate the benchmark reference prices in this table.
4) Pricing assumptions were provided by Sproule Associates Limited.

Notes:
Product sale prices will reflect these reference prices with further adjustments for quality and transportation to point of sale.

RECONCILIATIONS OF CHANGES IN RESERVES AND FUTURE NET REVENUE

Reserves Reconciliation

Reconciliation of Company Net Reserves (After Royalty)
By Principal Product Type
as of December 31, 2006
Forecast Prices and Costs [1]

	Light and Medium Oil			Associated and Non-Associated Gas			Natural Gas Liquids		
Factors	**Net Proved (Mbbl)**	**Net Probable (Mbbl)**	**Net Proved Plus Probable (Mbbl)**	**Net Proved (MMcf)**	**Net Probable (MMcf)**	**Net Proved Plus Probable (MMcf)**	**Net Proved (Mbbl)**	**Net Probable (Mbbl)**	**Net Proved Plus Probable (Mbbl)**
December 31, 2005	**0**	**0**	**0**	**2,241**	**776**	**3,017**	**0.5**	**0.2**	**0.9**
Extensions	-	-	-	5,335	354	6,156	7.3	1.1	8.4
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-180	-237	-433			
Discoveries	71.0	19.8	90.8	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	-5.2	-	-5.2	-708	0	708	-0.6	-	-0.1
December 31, 2006	**65.8**	**19.8**	**85.6**	**6,688**	**817**	**7,505**	**1.3**	**1.3**	**9.0**

(1) A reconciliation of *reserves* estimates may be presented using either *constant prices and costs* or *forecast prices and costs* provide that the price and cost case is indicated in the disclosure.
(2) The numbers may not match due to rounding.
(3) Technical revision includes reserves reclassification.

FUTURE NET REVENUE RECONCILIATION (FORECAST PRICES & COSTS)

For Proved Reserves Only @ 10% Discount of Net Present Value (Before Income Tax)

Reconciliation of Changes in
Net Present Values of Future Net Revenue
Discounted at 10% Per Year
Proved Reserves
as of December 31, 2006
Constant Prices and Costs

Factors	**2006/01/01-2006/12-31 (M$)**
Estimated Future Net Revenue After tax at Beginning of Year	12,668
Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	-3,884
Net Changed in Prices, Production Costs and Royalties Related to Future Production	-4,665
Changes in Previously Estimated Development Costs Incurred During the Period	-3,604
Changes in Estimated Future Development Costs	-2630
Extensions and Improved Recovery	15,720
Discoveries	2,134
Acquisitions of Reserves	0
Dispositions of Reserves	0
Net Change Resulting from Revisions in Quantity Estimates	-530
Accretion of Discount	984
Net Change in Income Taxes for Current Period	224
Net Change in Income Taxes for Future Forecast	-1,341
Miscellaneous Changes	1,640
Estimated Future Net Revenue After tax at End of Year	16,715

Notes:
1 Proved Reserves – Constant Prices
2 Discounted @ 10%
3 Before Income Tax Value
4 After Income Tax Value

Additional changes were due to changes used in the Constant Price forecast for December 31, 2005 and December 31, 2006 as follows:

	December 31, 2005 Price ($)	**December 31, 2006 Price ($)**
Oil : Edmonton Par	68.12/stb	67.59/stb
Natural Gas (AECO-C)	9.99/mcf	6.13/mcf
Natural Gas By Products:		
Butanes	59.32/stb	54.00/stb
Pentanes Plus	71.25/stb	71.51/stb
Exchange Rate	0.86 u.s./cdn	0.858 u.s./cdn

The change in future net development costs of proved undeveloped reserves from December 31, 2005 to December 31, 2006 is as a result of increased cost in drilling, completions and facilities.

CHANGES IN TAX POOLS

The net change in income taxes are due to increases in projected net revenues effective December 31, 2006, versus the projected net reserves effective December 31, 2005 and the increase in capital expenditures on properties during fiscal year 2006.

The changes in tax pools are as follows:

FEDERAL:

	COGPE		**CDE**		**CEE**		Class 39 & 41	Class 8 & 45	Total
	Regular	Successor	Regular	Successor	Regular	Successor			
	($)	($)	($)	($)	($)	($)	($)	($)	($)
Opening balance per Tax return	868,504	530,023	333,806	3,193	2,906,708	0	1,920,451	29,553	6,592,238
Additions for 2006	374,691	0	1,721,735	0	3,718,385	0	1,810,806	33,162	7,658,779
Tax pool available	1,243,195	530,023	2,055,541	3,193	6,625,093	0	3,731,257	62,715	14,251,017
Tax claim rate (%)	10%	10%	30%	30%	100%	100%	25%	20% 45%	
Claim Available	124,320	53,002	616,662	958	6,625,093	0	706,464	10,335	8,136,834
Current year claim	124,320	53,002	616,662	958	2,027,418	0	706,464	10,335	3,539,159
Closing balance per Tax return	1,118,876	477,021	1,488,879	2,235	4,597,675	0	3,024,793	52,380	10,711,858

ADDITIONAL INFORMATION RELATING TO RESERVES DATA

Undeveloped Reserves

Proved Undeveloped Reserves

Proved Undeveloped Reserves are those reserves expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production and meet the proved developed or proved developed producing reserves classification. Total net capital expenditures for 2007 are anticipated to be $2,705,000.

Probable Undeveloped Reserves

Probable Undeveloped Reserves are those reserves expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production to meet the proved developed or proved developed producing reserves classification from the current probable undeveloped classification. There is no capital required for probable undeveloped reserves.

Significant Factors or Uncertainties

There are no economic factors or significant uncertainties that affect particular components of the reserves data.

FUTURE DEVELOPMENT COSTS

Development Costs of Future Net Revenue

Proved Reserves (Constant Prices and Costs)		**Proved Reserves (Forecast Prices and Costs)**		**Proved Plus Probable Reserves (Forecast Prices and Costs)**	
Undiscounted	Discount @ 10%	Undiscounted	Discount @ 10%	Undiscounted	Discount @ 10%
$2,705,000	$2,631,000	$2,705,000	$2,631,000	$2,705,000	$2,631,000

Note: Development costs are all incurred in fiscal year 2006.

Development Costs of Future Net Revenue (by year)

a) Proved Reserves (Constant Prices and Costs)

2007	$2,705,000
2008	0
2009	0
2010	0
2011	0

b) Proved Reserves (Forecast Prices and Costs)

2007	$2,705,000
2008	0
2009	0
2010	0
2011	0

c) Proved Plus Probable Reserves (Forecast Prices and Costs)

2007	$2,705,000
2009	0
2009	0
2010	0
2011	0

Note: Development costs are funded by cash flow.

OTHER OIL AND GAS INFORMATION

Oil and Gas Properties and Wells

Petro-Reef's two main properties representing 99.7% of its net present value (for proved plus probable reserves using 10% discounted values – before income taxes) are located in Central Alberta.

Producing Versus Non-Producing Reserves

Following are properties to which reserves have been attributed and are capable of producing but which are not producing as of the effective date, the percentage of those reserves to the total reserves, and the percentage of those reserves that are non-producing as of the date of this statement.

ALEXANDER

TOTAL PROVED PLUS PROBABLE RESERVES @ (DECEMBER 31, 2006)

CRUDE OIL & NATURAL GAS LIQUIDS			**NATURAL GAS ***		
	Company			Company	
Gross MBbl	Gross MBbl	Net MBbl	Gross MMCF	Gross MMCF	Net MMCF
244.6	107.2	94.6	17,763	8,275	6,784

(ii) PROVED PLUS PROBABLE NON-PRODUCING RESERVES @ (APRIL 04, 2006)

CRUDE OIL & NATURAL GAS LIQUIDS			**NATURAL GAS ***		
	Company			Company	
Gross MBbl	Gross MBbl	Net MBbl	Gross MMCF	Gross MMCF	Net MMCF
	0	0	2,285	929	760
Percentage of Total Reserves Non-Producing	0%	0%		36.3%	38.0%

(iii) TOTAL PROVED PLUS PROBABLE NON-PRODUCING RESERVES @ (DECEMBER 31,2006)

CRUDE OIL & NATURAL GAS LIQUIDS			**NATURAL GAS ***		
	Company			Company	
Gross MBbl	Gross MBbl	Net MBbl	Gross MMCF	Gross MMCF	Net MMCF
128.1	55.7	48.20	5,574	31,282	2,520
Percentage of Total Reserves Non-Producing	52.0%	51.0%		37.8%	37.1%

*** Includes solution gas**

MORINVILLE

TOTAL PROVED PLUS PROBABLE RESERVES

CRUDE OIL & NATURAL GAS LIQUIDS			NATURAL GAS *		
	Company			Company	
Gross MBbl	Gross MBbl	Net MBbl	Gross MMCF	Gross MMCF	Net MMCF
0	0	0	1,708	831	682

(ii) TOTAL PROVED PLUS PROBABLE NON-PRODUCING RESERVES @ (APRIL 04, 2006)

CRUDE OIL			NATURAL GAS *		
	Company			Company	
Gross MBbl	Gross MBbl	Net MBbl	Gross MMCF	Gross MMCF	Net MMCF
	0	0	1,830	951	756
Percentage of Total Reserves Non-Producing	0%	0%		82.3%	77.2%

(iii) TOTAL PROVED PLUS PROBABLE NON-PRODUCING RESERVES @ (DECEMBER 31, 2006)

CRUDE OIL			NATURAL GAS *		
	Company			Company	
Gross MBbl	Gross MBbl	Net MBbl	Gross MMCF	Gross MMCF	Net MMCF
	0	0	627	207	175
Percentage of Total Reserves Non-Producing	0%	0%		24.9%	25.7%

*** Includes solution gas**

OTHER INFORMATION

Other properties represent 2.7% of the total net present value (before income tax) with approximately 95% of those properties producing. The other properties are all non-operated.

PRODUCING VERSUS NON-PRODUCING OIL & GAS WELLS

Following is a list of oil and gas wells (gross and net) which are producing and non-producing @ (December 31, 2006). All the oil and gas wells are in Central Alberta Canada.

Production is as of December 31, 2006

	Oilwells		Gaswells	
	Gross	Net	Gross	Net
Producing	2.0	1.1	16	6.17
Non-Producing @ December 31, 2006	0	0	2	0.98

Note: Only wells which have reserves assigned by the qualified independent reserves evaluator have been reported.

PROPERTIES WITH NO ATTRIBUTED RESERVES

Unproved Properties [(1)]

Location	Gross (Acres)	Net (Acres)
Alexander (Qui Barre)	3,772.5	2,172.2
Morinville	4,604.3	1,328.0
Total Unproved Properties	8,376.8	3,500.2

Note 1: Unproved Properties are those lands which have no reserves assigned by the independent reserves evaluator.

There are no work commitments required for fiscal year 2007.

The net area of unproved property which is expected to expire in fiscal year 2007 is 512.4 acres.

FORWARD CONTRACTS

The Company is not bound by any agreement (including any transportation agreement) which would preclude it from fully realizing future market prices for oil or gas.

Additional Information Concerning Abandonment and Reclamation Costs

a) Petro-Reef estimates abandonment and reclamation cost based on historical average costs for the area net of salvage value at $30,000 per well.

b) Future net wells for which such costs shall be incurred are:
(i) For Wells where reserves are assigned equal 6.963 net wells.
(ii) For Wells where no reserves are assigned equal 1.7325 net wells.

c) Undiscounted cost to the Company = $181,788,060 for reclamation and abandonment as determined by the independent engineering evaluators.

d) The qualified independent reserves evaluator has estimated $131,000 for abandonment and reclamation net to the Company before recovery of equipment or salvage value.

e) The company expects to pay approximately $50,000 in the next three years for reclamation and abandonment.

TAX HORIZON

The Company does not expect to be required to pay income taxes for its 2006 financial year. It is anticipated that taxes will become payable for fiscal year 2008 or 2009.

Costs Incurred (for fiscal year 2006)

Cost for COGPE, CEE, and CDE ($)

a) Property acquisition costs (COGPE) = 374,692
b) Exploration costs (CEE) = 3,718,385
c) Development costs (CDE) = 1,721,736
d) Class 39 & 41 = 1,810,806
e) Class 8 = 28,839
f) Class 45 = 4,323
g) Total = 7,658,781

EXPLORATION AND DEVELOPMENT ACTIVITIES

Wells for fiscal year 2006

Exploration wells	4
Development wells	10

Wells for fiscal year 2006

Gaswells	10
Oilwells	1
Dry Holes	3

PRODUCTION ESTIMATES

Production estimates for 2007 (based on Company Interest) are:

a)	Using Constant Prices and Costs		
		Oil	8.7 MBbl
		Gas	1,533 MMCF
		NGL	1.0 MBbl
b)	Using Forecast Prices and Costs		
	Proved:	Oil	8.7 MBbl
		Gas	1,527 MMCF
		NGL	1.0 MBbl

Proved Plus Probable:

Oil	8.8 MBbl
Gas	1,642 MMCF
NGL	1.1 MBbl

Note: Production estimates are taken from the evaluation by the independent reserves evaluator and in the Companies opinion are extremely conservative as required by N1 51-101.

Of the above referenced production 99.7% is represented by two (2) properties:

a) Morinville
b) Alexander

2007 Pro-Forma Budget and Cash Flow

The following table represents the pro-forma budget and cash flow for 2007 as prepared by management in respect of revenues expected, less expenses (royalties, operating, interest, general and administrative and professional fees), cash flow, capital expenditures, and net cash flow for the periods indicated.

PETRO-REEF CASH FLOW AND PRO-FORMA BUDGET FOR 2007
QUARTER ENDED
(000's)

	March 31	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Gross Crude Oil & Natural Gas Revenue	$2,567	$2,900	$3,500	$4,000	$12,967
Expenses					
Royalties & Operating	1,021	1,160	1,400	1,600	5,181
Interest	-	20	42	42	104
General and Administrative	140	196	332	192	860
Total Expenses	**1,161**	**1,376**	**1,774**	**1,834**	**6,145**
Cash Flow (before Capital)	1,406	1,524	1,726	2,166	6,822
Capital Cost					
-Drilling, Completion & Tie-In	190	-	3,145	2,487	5,822
-Seismic & Land	182			318	500
Net Cash Flow (After Capital)	**$1,034**	**$1,524**	**($1,419)**	**($639)**	**$500**

Note (1) Due to plant shut down from May 1-13, 2007 for maintenance, revenue will be reduced
Note (2) Royalties and operating expenses are estimated at 40% of gross revenue
Note (3) Management has determined that the Cash Flow estimates can be attained through a combination of cash on hand, cash flow, and bank financing.

Production History for fiscal year 2006

2006 PRODUCTION & REVENUE SUMMARY

Month	**Production BOE / Day**	**Production BOE / Month**	**Price $ / BOE**	**Royalty Expenses $/BOE**	**Gross Revenue $ After Royalties**	**Operating Expenses $**	**Netback $/BOE**	**Cash*Flow[(2)] $**
JAN	605	18,750	54.98	17.53	702,593	142,097	30.04	579,496
FEB	595	16,658	46.73	12.94	453,190	140,129	25.79	313,062
MAR	584	18,091	42.08	11.46	622,579	106,892	24.35	515,687
3 Month Average	**595**	**17,833**	**47.93**	**13.98**	**599,121**	**129,706**	**26.73**	**469,415**
APR	539	16,172	43.67	11.13	665,976	108,919	25.46	557,057
MAY	530	16,424	36.95	9.58	531,286	135,131	18.53	396,155
JUN	531	15,931	39.22	8.70	511,334	1135,586	21.41	375,748
3 Month Average	**533**	**16,176**	**39.95**	**9.80**	**569,532**	**126,546**	**21.80**	**442,987**
JUL	382	11,831	39.88	8.40	405,592	119,279	22.22	286,313
AUG	317	9,816	42.41	9.26	409,278	127,899	21.92	281,379
SEP	316	9,485	31.96	6.37	230,347	113,231	13.54	117,116
3 Month Average	**338**	**10,377**	**38.08**	**8.01**	**348,405**	**120,136**	**19.23**	**228,269**
OCT	291	9,014	37.89	6.29	286,465	131,277	16.09	155,187
NOV	380	11,405	49.08	8.75	485,089	116,841	31.03	368,248
DEC	393	12,144	44.02	10.61	427,163	125,687	24.75	301,476
3 Month Average	**355**	**10,854**	**43.66**	**8.55**	**399,572**	**124,602**	**23.96**	**274,971**
Average for 2005	454	13,810	42.41	10.09	479,158	125,247	22.92	353,910
Total for 2005	**454**	**165,721**	-	**-**	**5,749,891**	**1,502,968**	**-**	**4,246,923**

Note:

(1) Production is net to Petro-Reef after adjustment in BTU heating value

(2) Cash flow on this production and revenue summary is before ARTC, general and administrative costs, interest expense, and before income tax.

Reference is made to barrels of oil equivalent (BOE). Barrels of oil equivalent may be misleading, particularly if use in isolation. In accordance with National Instrument 51-101, a BOE conversion ratio for natural gas of 6 Mcf: 1 Bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

PRODUCTION HISTORY

The following table summarizes certain information in respect of production, product prices received, royalties paid, operating expenses, and resulting netbacks for the periods indicated.

	QUARTER ENDED 2006			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**
Production per Quarter (BOE)	53,365	48,543	31,215	32,598
- Light & Medium Crude Oil (Bbl/day)		21	28	27
- Natural Gas (Mcf/day) (3)	3,550	3,076	1,866	1,966
- NGLs (Bbl/day)	1			
- Combined (BOE/day)	593	533	339	354
Average Price Received				
- Light & Medium Crude Oil ($/Bbl)		63.74	64.75	48.07
- Natural Gas ($/Mcf)	7.48	6.00	5.58	6.87
- NGLs ($/Bbl)	54.50			
- Combined ($/BOE)	48.05	39.94	38.27	44.66
Royalties Paid (4)				
- Light & Medium Crude Oil ($/Bbl)		9.30	9.67	6.85
- Natural Gas ($/Mcf)	2.34	1.64	1.34	1.47
- NGLs ($/Bbl)	2.72			
- Combined ($/BOE)	14.05	9.81	8.05	8.84
Operating Expenses				
Combined ($/BOE)	7.24	8.35	10.75	11.67
Netback Received (2)				
Combined ($/BOE)	26.76	21.78	19.47	24.14

Notes:

(1) Production is stated after BTU adjustment.

(2) Before deduction of royalties

(3) Netbacks are calculated by subtracting royalties and operating costs from revenues.

(4) Natural gas production is reported as part of the combined BOE/day by converting at 6 MCF per 1 Bbl.

(5) Crude Oil & Natural Gas Liquids are less than 0.1% of total sales and have been included in with the Natural Gas Sales and production volumes.

(6) The royalties paid in December were calculated and paid at Alberta Old Gas Royalty, which are in actuality Alberta New Gas Royalty and will be rebated by Alberta Crown in 2007.

SELECTED FINANCIAL INFORMATION

Selected Financial Information for the Company is shown in the following table for three years with year-ends of December 31, 2004, 2005 & 2006.

FINANCIAL	**2004**	**2005**	**2006**
Crude Oil and Natural Gas Revenue net of royalties and ARTC	$2,162,432	$3,224,568	$5,749,891
Cash Flow from Operations	$1,065,076	$2,007,713	$3,557,432
Net (Loss) Earnings from Operations	($542,087)	$248,714	$65,060
Net (Loss) Earnings per Share, Basic and Diluted	($0.03)	$0.01	$0.00
Capital Expenditures	$1,148,725	$2,374,843	$7,888,288
Total Assets	$8,691,850	$10,462,289	$15,056,446
Bank Balance (Loan)	$700,000	$397,904	$376,613
Shareholder's Equity	$4,021,269	$6,026,541	$7,919,194

The following table summarizes the results of the twelve most recently completed quarters.

Summary of Quarterly Results For The Last Twelve Quarters

		Oil & Gas Sales Net of Royalties And ARTC	**Net Earnings (Loss)**	**Basic and Diluted Earnings per share**
2004			(Restated)	
	Q1	$354,288	($81,806)	$0.00
	Q2	$531,591	($75,371)	$0.00
	Q3	$499,139	$34,086	$0.00
	Q4	$777,638	($418,996)	($0.03)
Total		$2,162,656	($542,087)	
2005				
	Q1	$701,154	($14,869)	$0.00
	Q2	$621,790	($24,224)	$0.00
	Q3	$582,100	($21,890)	$0.00
	Q4	$1,379,523	$309,697	$0.01
Total		$3,224,577.67	$248,714	
2006				
	Q1	$1,797,362	$75,453	$0.01
	Q2	$1,708,596	$2,619	$0.00
	Q3	$1,045,216	($67,349)	$0.00
	Q4	$1,198,717	$54,337	$0.00
Total		$5,749,891	$65,060	

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS
Refer to Appendix 3.

DIVIDEND POLICY

Petro-Reef has not paid any dividends to-date on the issued and outstanding Petro-Reef shares. The Board of Directors of Petro-Reef will determine the timing, payment and amount of dividends, if any, that may be paid by Petro-Reef from time to time based upon, among other things, the cash flow, results of operations and financial condition of Petro-Reef, the need for funds to finance ongoing operations and other business considerations as the Board of Directors considers relevant. The Corporation's credit facility stipulates that dividends may not be paid as long as that facility remains outstanding without the consent of the Corporation's bankers.

DESCRIPTION OF SHARE CAPITAL

The Corporation is authorized by its Articles of Incorporation to issue an unlimited number of Common Shares. Each Common Share gives the holder thereof the right to notice of and to attend and to vote at all meetings of shareholders (except meetings at which only the holders of a specified class are entitled to vote). The holders of Common Shares are entitled to receive dividends, if, as and when declared by the Board of Directors of the Corporation subject to the rights of the holders of preferred shares. In the event of voluntary or involuntary liquidation, dissolution or winding-up, the remaining assets of the Corporation available for distribution will be distributed to the holders of the Common Shares, subject to the rights of holders of preferred shares. Holders of the Common Shares have no pre-emptive, redemption or conversion rights. All outstanding Common Shares are issued as fully paid and non-assessable. As at fiscal year end December 31, 2005 there are only Common Shares and Warrants to acquire Common Shares by March 16, 2007.

MARKET FOR SECURITIES

The Petro-Reef Shares are listed and posted for trading on the TSX Venture Exchange and trade under the symbol "PER".

The following sets forth the price range and trading volume of the Petro-Reef shares on the TSX Venture Exchange (as reported by the exchange) for the periods indicated.

	PRICE RANGE ($)		
2005	**High**	**Low**	**Volume**
January	0.70	0.52	168,030
February	0.60	0.53	99,800
March	0.60	0.50	75,400
April	0.55	0.41	175,600
May	0.65	0.38	239,900
June	0.50	0.42	21,600
July	0.55	0.45	58,000
August	0.55	0.46	148,900
September	0.75	0.44	233,100
October	1.00	0.59	478,000
November	1.00	0.84	370,100
December	1.60	0.95	592,800

2006	**High**	**Low**	**Volume**
January	1.50	0.95	375,100
February	1.35	0.93	179,400
March	1.15	0.83	304,800
April	1.15	1.00	357,000
May	1.45	1.05	1,005,900
June	1.55	1.20	720,600
July	1.45	1.27	265,000
August	1.35	1.23	132,500
September	1.29	0.95	445,800
October	1.10	0.95	270,400
November	1.27	0.89	1,349,300
December	1.20	0.94	464,500
2007			
January	1.45	1.08	1,406,700
February	1.69	1.28	950,200
March	1.55	1.15	3,077,900

DIRECTORS AND OFFICERS

The following table sets forth, in respect of each officer and/or director, all positions currently held with the Corporation, present principal occupation or employment, material occupations, positions currently held and the approximate number of Common Shares of the Corporation beneficially owned directly or indirectly as of April 25, 2005. The information contained herein is based upon information furnished by the respective directors and/or officers to the Corporation. Directors and/or officers are listed in alphabetical order.

Name and Place of Residence	Office or Position Held & First Date of Appointment	Principle Occupation	Number of Shares Owned Directly or Indirectly
Gary W. Coleman Calgary, Alberta (3)	Assistant Secretary 1992 Director	Owner and President of Coleman & Associates Psychotherapy Ltd., founded in April 1984.	939,578
Jack P. Donhuysen Calgary, Alberta (2) (5)	Director 2004	Founder and President of Status Engineering Associates Ltd., founded in June 1986.	41,500
Theodore M. Donhuysen Calgary, Alberta (4) (5)	Vice-President, Exploration and Production, Chief Operating Officer & Director 1992	Vice-President, Exploration and Production, Chief Operating Officer and Director of the company since July 9, 2003; prior thereto President, Chief Executive Officer and Director of the Company since December 1992; prior thereto President of Hi-Lite Creations Ltd. a private Alberta Corporation, since January 1992; prior thereto Chief Executive Officer of Devnic Energy Ltd. a public Alberta Corporation, since August 1987; prior thereto President of Devnic Resources Ltd. a private Alberta Corporation, since December 1982; prior thereto Geological Consultant.	3,004,536 (6)

Name and Place of Residence	Office or Position Held & First Date of Appointment	Principle Occupation	Number of Shares Owned Directly or Indirectly
R. Greg Powers QC (3) Calgary, Alberta	Secretary 1994 Director 2006	A partner in the law firm of Fasken Martineau DuMoulin from 2006 to present; prior thereto from Ju/4, 2002 to 200_, a partner in the law firm of Baker & McKenzie LLP since July 1, 2002 Prior to that he was Counsel to the law firm of Thackray Burgess from January 1, 2001 until July 1, 2002, a partner in the law firm of Donahue Powers Wells from March 1993 until January 1, 2001, and a partner in the law firm of Howard, Mackie for 15 years prior to January 1, 2001. He has been involved in the practice of corporate finance, securities and acquisitions, with particular emphasis on the oil and gas industry since 1970. He served on the Canadian Institute of Chartered Accountants, Full Cost Accounting Task Force, 1986 as an advisor on corporate and securities matters and is a past Director and Treasurer of the Canadian Petroleum Law Foundation. He has lectured at various seminars on corporate finance and securities matters. Greg has been a director and officer of several public and private companies.	200,000
Alan P. Hallman Calgary, Alberta	Director 2001	President of Hallman and Associates Inc., since December 1997; prior thereto Executive Director, Alberta Growth Summit, office of the Premier, Calgary, Alberta, since October 1996; prior thereto Director of Research, Office of the Government Leader, Whitehorse, Yukon Territory, since May 1995; prior thereto Director of Community Relations, Office of the Premier, Calgary Alberta, since January 1993.	155,000
Robert N. Maertens-Poole Calgary, Alberta	Chief Financial Officer 1994	Owner & President of Robert N. Maertens-Poole Professional Corporation, Chartered Accountants, founded in 1975.	433,000
Huba A. Sebo Calgary, Alberta	Director 2004	Mortgage Broker for Jencor Mortgage Corporation, founded in 1996.	140,000
Dennis K. Ulrich Medicine Hat, Alberta (3)	Director 2002	President and co-owner of Pakowki Ranching Co. Ltd., since 1979; President and co-owner of D & K Mobile Welding Ltd., since 1985.	618,643

Name and Place of Residence	Office or Position Held & First Date of Appointment	Principle Occupation	Number of Shares Owned Directly or Indirectly
Joseph Werner Calgary, Alberta (4)	President, Chief Executive Officer & Director 1992	President, Chief Executive Officer and Director of the Company, since July 9, 2003; prior thereto Chairman of the Board, Chief Financial Officer and Director of the Company since December 1992; prior thereto Financial Officer of Hi-Lite Creations Ltd., a private Alberta Corporation, since January 1992; prior thereto President & Chief Financial Officer of Devnic Energy Ltd. a public Alberta Corporation, since August 1987; prior thereto Geophysical Consultant for 12 years.	3,317,193(7)
Richard W. De Vries Freeport, The Bahamas (1)	Director 2005	Member of The Law Society of Alberta since 1977. Vice-President – Finance for International Benefits Management Corporation; Chairman of the Board of Call Genie Inc.; Director of Pacific Lottery Corporation; Director of CPI Crown Properties International Corporation; Tallagium Corporation; Director of Migenix Inc.; President and Chairman of the Board of Exceed Capital Holdings Ltd.	1,109,122

As at December 31, 2006, the directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly 8,300,351 Common Shares or approximately 26% of the issued and outstanding Common Shares.

The term of office of each director expires at the next annual meeting of shareholders of the Corporation.

Notes:

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Corporate Governance Committee.
(4) Member of the Management Committee.
(5) Member of the Reserves Committee.
(6) Theodore M. Donhuysen owns or controls, directly or indirectly, greater than 10% of the issued common shares. Northfork Energy Inc. of which Mr. Donhuysen is a 25% shareholder hold common shares of 397,412.
(7) Joseph Werner owns or controls, directly or indirectly, greater than 10% of the issued common shares. Orphan Holdings Inc. of which Mr. Werner and his wife are all the shareholders holds 1,317,412 common shares.

AUDIT AND RESERVES COMMITTEE INFORMATION

Audit and Reserves Committee Mandate and Terms of Reference

The Mandate and Terms of Reference of the Audit Committee of the Board of Directors is attached hereto as Appendix 2. The members of the Audit Committee are Huba A. Sebo, and Richard W. DeVries, and Jack P. Donhuysen.

Composition of the Audit Committee

The members of the Audit Committee are considered to be financially literate under Multilateral Instrument 52-110, those members intend to take such courses as may be necessary from time to time.

Pre Approval of Policies and Procedures

The Chairman of the Audit Committee is charged with the responsibility of approving all non-audit services before they are authorized and reporting such approvals to the committee at the next meeting.

External Auditor Service Fees

Audit Fees

The aggregate fees billed by the Corporation's external auditor in each of the last two fiscal years for audit services were $40,000 for 2006 and $34,500 for 2005.

Audit and Related Fees

There were no aggregate fees billed in each of the last two fiscal years for assurance related services by the Corporation's external auditor that are reasonably related to the performance of the audit or review of the Corporation's financial statements that are not reported under "Audit Fees" above.

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the Corporation's external auditor for tax compliance, and tax advice or tax planning were zero (0) for 2006 and 2005.

All Other Fees

No fees were billed in either of the last two fiscal years for products and services provided by the Corporation's auditors other than services reported above.

HUMAN RESOURCES

Petro-Reef currently employs 6 full time employees and 5 part time consultants.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are PriceWaterhouseCoopers LLP, Chartered Accountants, Suite 3100, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 5L3.

CIBC Mellon Trust Company is the transfer agent and registrar of the Petro-Reef shares located at Suite 600, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

LEGAL PROCEDINGS

To the knowledge of the Corporation, there are no legal proceedings material to the Corporation to which the Corporation is a party. None of their properties are the subject matter of any legal proceedings. Further, no such legal proceedings are known to the Corporation to be contemplated.

CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES

None of the directors or officers of the Corporation, and no shareholder holding sufficient securities of the Corporation to affect materially the control of the Corporation, has, within the ten years prior to the date of this Annual Information Form, been a director, officer or a promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemption for a period of more than 30 consecutive days or was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person, save and except as set forth below respecting Mr. DeVries.

None of the directors or officers of the Corporation, and no shareholder holding sufficient securities of the Corporation to affect materially the control of the Corporation, has, within the ten years preceding the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or comprise with creditors or had a receiver, receiver – manager or trustee appointed to hold the assets of the individual, save and except as set forth below respecting Mr. DeVries.

Mr. DeVries was corporate secretary of FSPI Technologies Corp. ("FSPI") from August, 1996 to June, 2002. In September, 1999, the Alberta Securities Commission (the "ASC") issued a cease trade order suspending trading of the securities FSPI as a result of deficiencies in its audited annual financial statements, which were irreconcilable. FSPI was delisted from the Alberta Stock Exchange on May 31, 2000.

On July 6, 2001, the ASC issued an interim cease order against Advanced Vision Systems Corp. for failure to file required financial information, as did the British Columbia Securities Commission (the "BCSC") shortly thereafter (the "Financial Statement Orders"). The Canadian Venture Exchange also issued a bulletin on July 6, 2001, suspending the trading of shares of Advanced Vision Systems Corp. (the "Trading Suspension"). The Financial Statement Orders were subsequently revoked by the ASC and the BCSC, following the filing of the relevant information. This revocation of the Financial Statement Orders was confirmed on March 5, 2002 by the exchange, at which time the exchange also advised that the Trading Suspension would not be revoked by the exchange until Advanced Vision Systems Corp. met the exchange's requirements for securities trading on the exchange. On March 10, 2004, Advanced Vision Systems Corp. was transferred to the NEX board of the TSX Venture Exchange.

In 1999, Mr. DeVries was subject to an administrative action of the ASC. The ASC found that Mr. DeVries had failed to act in the best interests of an issuer. On October 21, 1998, CPI Crown Properties International Corporation ("Crown Properties") caused a loan (the "Loan") to be made to Syndico Capital Inc. ("Syndico") contrary to Section 6.1 of Rule 46-501 (the "Rules") of the Rules of the ASC. The Loan was made by Crown Properties relying upon the advice of Mr. DeVries, who incorrectly advised Crown Properties that the Loan would not contravene the Rules. Upon Crown Properties being notified that it had breached the Rule, it caused Syndico to immediately repay the Loan, which occurred on March 3, 1999. Mr. DeVries acknowledged to the ASC that in providing his advice he failed to act in the best interests of Crown Properties and further acknowledged that by acting as a director of Crown Properties he was not in a position to provide independent legal advice to Crown Properties. Mr. DeVries paid an administrative penalty to the ASC as well as all costs of the investigation. Crown Properties paid no costs nor was it subject to any penalty. Mr. DeVries was also required to complete the Venture Company Success Workshop conducted by the TSX - Venture Exchange, which he successfully completed.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of directors or executive officers of the Corporation, any shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding Common Shares of the Corporation, or any known associate or affiliate of such persons in any transactions within the three most recently completed financial years of the Corporation or during the current financial year which has materially affected, or would materially affect, the Corporation.

MATERIAL CONTRACTS

The Corporation has not entered into any material contracts that are not in the ordinary course of business within the most recently completed financial year.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than Sproule Associates Limited, the Corporation's independent engineering evaluator. None of the principals of Sproule Associates Limited had any registers or beneficial interests, direct or indirect, in any securities or other property of the Corporation or of the Corporation's associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation, except for R. Gregory Powers QC, the Secretary of the Corporation, is a partner at Baker, McKenzie, which law firm renders legal services to the Corporation.

INDUSTRY CONDITIONS

Introduction

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. Although it is not expected that these controls and regulations will affect the operations of Petro-Reef in a manner materially different than it would affect other oil and gas companies of a similar size, the controls and regulations should be considered carefully by investors. All current legislation is a matter of public record and Petro-Reef is unable to predict what additional legislation or amendments may be enacted.

Pricing and Marketing – Oil

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance. Oil exports may be made pursuant to export contracts with terms not exceeding one year in the case of crude oil other than heavy crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board ("NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export license from the NEB and the issue of such a license requires the approval of the Governor in Council.

Pricing and Marketing - Natural Gas

In Canada, the price of natural gas sold is determined by negotiation between natural gas producers, marketers and purchasers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of two years or less or for a term of between 2 and 20 years (in quantities of not more than 30,000 $10^3m^3/d$) may be made pursuant to an NEB order, or, in the case of exports for a longer duration (to a maximum of 25 years) or a larger quantity, pursuant to an NEB export license and Governor in Council approval.

The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

Pipeline Capacity

Although pipeline expansions are ongoing, the availability of sufficient pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, pro-rationing of capacity on the interprovincial pipeline systems also continues to affect the ability to export oil and natural gas.

The North American Free Trade Agreement

On January 1, 1994, the North American Free Trade Agreement ("NAFTA") among the governments of Canada, the U.S. and Mexico became effective. The NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S. or Mexico will be allowed, provided that any export restrictions are justified under certain provisions of the General Agreement on Tariffs and Trade, and further provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period or in such other representative period as the parties may agree), (ii) impose an export price higher than the domestic price subject to an exception with respect to certain measures which only restrict the volume of exports, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export-price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import-price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

The NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, sulphur, natural gas and natural gas liquids production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is also subject to certain provincial taxes and royalties. These royalties are not eligible for incentive programs sponsored by various governments as discussed below. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced.

From time to time the governments of Canada and the western provinces have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced recovery projects. The trend in recent years has been for provincial governments to allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

Oil royalty rates vary from province to province. In Alberta, oil royalty rates vary between 10% and 35% for oil and 10% and 30% for new oil. New oil is applicable to oil pools discovered after March 31, 1974 and prior to October 1, 1992. The Alberta government introduced the Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 30, 1992.

Effective January 1, 1994, the calculation and payment of natural gas royalties became subject to a simplified process. The royalty reserved to the Crown, subject to various incentives, is between 15% and 30%, in the case of new gas, and between 15% and 35%, in the case of old gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying exploratory natural gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 continues to be eligible for a royalty exemption for a period of 12 months, or such later time that the value of the exempted royalty quantity equals a prescribed maximum amount. Natural gas produced from qualifying intervals in eligible natural gas wells spudded or deepened to a depth below 2,500 meters is also subject to a royalty exemption, the amount of which depends on the depth of the well.

In Alberta, a producer of oil or natural gas from Crown lands is entitled to a credit against the royalties payable to the Crown by virtue of the ARTC program. The ARTC program is based on a price-sensitive formula, and the ARTC rate currently varies between 75% for prices for oil at or below $100 per cubic metre and 25% for prices above $210 per cubic metre. In general, the ARTC rate is currently applied to a maximum of $2,000,000 of Alberta Crown royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from corporations claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate is established quarterly based on the average "par price", as determined by the applicable government department for the previous quarterly period. On December 22, 1997, the Alberta government announced that it would conduct a review of the ARTC program with the objective of setting out better targeted objectives for a smaller program and to deal with administrative difficulties. On August 30, 1999, the Alberta government announced that it would not be reducing the size of the program, but that it would introduce new rules to reduce the number of persons who qualify for the program. The new rules will preclude companies that pay less than $10,000 in royalties per year and non-corporate entities from qualifying from the program. The ARTC program expired January 01, 2007.

Natural gas is considered either "non-associated gas" or "associated gas". The royalty and production tax classifications of gas production ("fourth tier gas" introduced October 1, 2002, "third tier gas", "new gas" and "old gas") are applicable to each of the two gas types. The Crown royalty and freehold production tax for gas is price sensitive and varies between the base royalty rate of 5% for "fourth tier gas" and 20% for "old gas". The marginal royalty rates are between 30% for "fourth tier gas" and 45% for "old gas".

Producers of oil and natural gas in British Columbia are also required to pay annual rental payments in respect of Crown leases and royalties and freehold production taxes in respect of oil and gas produced from Crown and freehold lands, respectively. The amount payable as a royalty in respect of oil depends on the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), whether the oil is considered incremental or produced from a well shut-in for at least 36 months immediately preceding January 1, 1998 and which resumed production on or after such date, the quantity of oil produced in a month and the value of the oil. Oil produced from pools discovered after June 30, 1974 may be exempt from the payment of a royalty for the first 36 months of production. Subject to minimum royalties described in the following sentence, the royalty payable on natural gas is determined by a sliding scale based on a reference price which is the greater of the amount obtained by the producer and at prescribed minimum price. Gas produced in association with oil has a minimum royalty of 8% while the royalty in respect of other gas may not be less than 15%.

Oil and natural gas royalty holidays and reductions for specific wells reduce the amount of Crown royalties paid to the provincial governments. In Alberta, the ARTC program provides a rebate on Alberta Crown royalties paid in respect of eligible producing properties until December 31, 2006 at which time the ARTC program expired.

The current structure for federal taxation of resource income contains the following initiatives applicable to the oil and gas industry which are being phased in over a five year period commencing in 2003:

(i) a reduction of the federal statutory corporate income tax rate on income earned from resource activities from 28% to 21%; and

(ii) a deduction for federal income tax purposes of actual provincial and other Crown royalties and mining taxes paid and the elimination of the 25% resource allowance. Also, the percentage of the ARTC that will be required to include in federal taxable income will be increased (also on a phased-in basis) to 100% in 2012 and beyond.

Land Tenure

Crude oil and natural gas located in the western Canadian provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and gas industry operations and can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facilities sites be abandoned and reclaimed to the satisfaction of provincial and federal authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders.

In December, 2002, the Government of Canada ratified the Kyoto Protocol ("Protocol"). The Protocol calls for Canada to reduce, during the period between 2008 and 2012, its greenhouse gas emissions to a level that is 6% below the 1990 level of such emissions in Canada. The Protocol has become legally binding as 55 countries have ratified it, covering at least 55% of the emissions addressed by the Protocol. When the Government of Canada implements the Protocol, it is expected to affect the operation of all industries in Canada, including the oil and natural gas industry. As details of implementation of this Protocol have yet to be announced, the affect on our operations cannot be determined at this time.

Trends

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business. The first trend is the volatility of commodity prices. Natural gas is a commodity influenced by factors within North America. The continued tight supply demand balance for natural gas is causing significant elasticity in pricing. Despite record drilling activity, a strong economy, weather, fuel switching and demand for electrical generation there still exists a tight supply causing prices to remain high.

Crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. Recently crude oil prices have been kept high by political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by the ongoing conflict in the Middle East. Political events trigger large fluctuations in price levels.

The impact on the oil and gas industry from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also declines.

A second trend within the Canadian oil and gas industry is recent growth in number of private and small junior oil and gas companies starting up business. These companies often have experienced management teams from previous industry organizations that have disappeared as a part of the consolidation phase the industry has just been through. Many are able to raise capital and recruit well qualified personnel.

A third trend currently affecting the oil and gas industry is the impact on capital markets caused by investor uncertainty in the North American economy. The capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact that Kyoto will have on the sector. Generally during the past year the economic slowdown combined with decreased commodity prices has caused a decrease in new equity financings in the oil and gas industry. The Corporation must compete with the numerous new companies and their new stories in its access to capital. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. Some companies will have to rely on internally generated funds to conduct their exploration and developmental programs.

A fourth trend affecting the Canadian oil and gas industry is increasing third party costs for all drilling, completion, tie-in and service activities. These cost increases reflect the record drilling levels in the industry as a result of higher commodity prices and have the effect of lengthening the payout on most capital investments.

The Canadian/U.S. exchange rate also influences commodity prices for Canadian producers as there is a high correlation between Canadian and U.S. oil and natural gas prices.

RISK FACTORS

An investment in the Common Shares is speculative due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves. An investor should consider carefully the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Corporation.

Competition

Oil and gas exploration is intensely competitive in all its phases and involves a high degree of risk. The Corporation competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Competition may also be presented by alternate fuel sources.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. See "Industry Conditions." The Corporation's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects and the obtaining of such licenses and permits may delay operations of the Corporation.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases." The Corporation's exploration and production facilities and other operations and activities emit a small amount of greenhouse gases which may subject the Corporation to legislation regulating emissions of greenhouse gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those in the *Climate Change and Emissions Management Act* (Alberta) (yet to be proclaimed), may require the reduction of emissions or emissions intensity produced by the Corporation's operations and facilities. The direct or indirect costs of these regulations may adversely affect the business of the Corporation.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects. See "Industry Conditions".

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The Corporation's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Corporation's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic conditions, in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Corporation's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

The exchange rate between the Canadian and U.S. dollar also affects the profitability of the Corporation and the Canadian dollar has strengthened recently against the U.S. dollar.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to the Corporation are in part determined by the Corporation's borrowing base. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion, or all, of the Corporation's bank debt be repaid.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Corporation's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Additional Funding Requirements

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to the Corporation.

Issuance of Debt

From time to time the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Depending on future exploration and development plans, the Corporation may require additional equity and/or debt financing that may not be available or, if available, may not be available on favorable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time, could impair the Corporation's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases and the Corporation may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Title to Assets

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. It is the practice of the Corporation in acquiring significant oil and gas leases or interest in oil and gas leases to fully examine the title to the interest under the lease. In the case of minor acquisitions the Corporation may rely upon the judgment of oil and gas lease brokers or landmen who perform the fieldwork in examining records in the appropriate governmental office before attempting to place under lease a specific interest. The Corporation believes that this practice is widely followed in the oil and gas industry. Nevertheless, there may be title defects which affect lands comprising a portion of the Corporation's properties. To the extent title defects do exist, it is possible that the Corporation may lose all or a portion of its right, title, estate and interest in and to the properties to which the title relates.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and cash flows to be derived therefrom, including many factors beyond the Corporation's control. The reserve and associated cash flow information set forth herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

In accordance with applicable securities laws, SAL, the independent reserves evaluator, has used both constant and forecast price and cost estimates in calculating reserve quantities included herein. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and revenues derived therefrom will vary from the estimates contained in the SAL Report, and such variations could be material. The SAL Report is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the SAL Report will be reduced to the extent that such activities do not achieve the level of success assumed in the SAL Report. The SAL Report is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Corporation's resources since that date.

Insurance

The Corporation's involvement in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although prior to drilling the Corporation will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

Expiration of Licenses and Leases

The Corporation's properties are held in the form of licenses and leases and working interests in licenses and leases. If the Corporation or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Corporation's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Corporation's results of operations and business.

Uncertainty of Global Financial Markets

On September 11, 2001, the United States was the subject of terrorist attacks resulting in significant loss of life and property damage. The events of September 11, 2001 and the response of the United States and other nations have created an environment of uncertainty in global financial markets, the effect of which could have a material impact upon the Corporation, its business and its ability to finance operations.

Dividends

The Corporation does not currently pay any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations and other business considerations as the board of directors of the Corporation considers relevant.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its property and assets, however, if a claim arose and was successful this could have an adverse effect on the Corporation and its operations.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

Third Party Credit Risk

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations.

Conflicts of Interest

The directors or officers of the Corporation may also be directors or officers of other oil and gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Corporation. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has some material interest in any person who is a party to, a material contract or proposed material contract with the Corporation disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Reliance on Key Personnel

The Corporation's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's Information Circular - Proxy Statement for the most recent annual meeting of shareholders that involved the election of directors. Additional financial information is contained in the Corporation's consolidated financial statements for the year ended December 31, 2006 and the related management's discussion and analysis for the most recently completed financial year.

The Corporation will provide to any person or corporation, upon request to the Corporation:

(a) when the securities of the Corporation are in the course of a distribution pursuant to a preliminary short form prospectus or a short form prospectus:

(i) one copy of Petro-Reef's annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;

(ii) one copy of the comparative financial statements of Petro-Reef for its most recently completed financial year in respect of which such financial statements have been issued, together with the report of the auditor thereon, and one copy of any interim financial statements of Petro-Reef subsequent to the financial statements for its most recent financial year;

(iii) one copy of the information circular of Petro-Reef in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that circular, as appropriate, and

(iv) one copy of any other document that is incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, a copy of the documents referred to in clauses (a)(i), (ii) or (iii) above, provided the Corporation may require a payment of a reasonable charge if the request is made by a person or Corporation who is not a security holder of Petro-Reef.

Additional copies of this Annual Information Form and the materials listed in the preceding paragraph and any other document incorporated herein by reference are available on the foregoing basis and upon request by contacting the Corporation at its offices at 970, 10655 Southport Road S.W., Calgary, Alberta T2W 4Y1, or by phone at (403) 265-6444, fax at (403) 264-1348 or e-mail at info@petro-reef.ca.

APPENDIX 1

FORM 51-101F3

REPORT OF

MANAGEMENT AND DIRECTORS

ON RESERVES DATA AND OTHER INFORMATION

Management of Petro-Reef Resources Ltd. (the "Company") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consists of the following:

a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006 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, 2006 using constant prices and costs; and

(ii) the related estimated future net revenue.

An independent qualified reserves evaluator has evaluated and reviewed the Company's reserve 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 Company has:

a) reviewed the Company'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 because of the proposal to change the independent qualified reserves evaluator to inquire whether there had been disputes between the previous independent qualified reserves evaluator and management; 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 Company'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; and

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

c) the content and filing of this report.

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

"Joseph Werner" Joseph Werner President & C.E.O. Director	"Theodore M. Donhuysen" Theodore M. Donhuysen Vice President Exploration & Production C.O.O. Director
"Robert N. Maertens-Poole" Robert N. Maertens-Poole C.F.O.	"N. Gary Van Nest" N. Gary Van Nest Director
"Alan P. Hallman" Alan P. Hallman Director	"Dennis K. Ulrich" Dennis K. Ulrich Director
"Jack P. Donhuysen" Jack P. Donhuysen Director	"Huba A. Sebo" Huba A. Sebo Director
"Richard W. DeVries Richard W. DeVries Director	"R. Greg Powers" R. Greg Powers Director

CONSENT RESOLUTONS OF THE RESERVES AUDIT COMMITTEE

OF

PETRO-REEF RESOURCES LTD.
(the "Company")

We, the undersigned, being all the members of the reserves audit committee of the Company, hereby consent to and approve in writing the following resolutions as of the 24day of April, 2006.

APPROVAL OF RESERVES REPORT

WHEREAS the reserves audit committee has been provided with the 2006 P&NG Reserves Report dated December 31, 2006, prepared by Sproule Associates Limited.

AND WHEREAS the committee has reviewed the report and has found its conclusions to be acceptable.

BE IT RESOLVED that:

1. The P&NG Reserves Report dated December 31, 2006, prepared by Sproule Associates Limited (the "Report"), be and the same is hereby accepted; and
2. The reserves audit committee recommends to the Board of Directors of the Company that the Report be approved.

EXECUTION IN COUNTERPARTS

BE IT RESOLVED that these resolutions may be signed by the members of the reserves audit committee in as many counterparts as may be necessary, each of which so signed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument.

"Jack P. Donhuysen"
JACK P. DONHUYSEN

"Ted M. Donhuysen"
TED M. DONHUYSEN

"Huba A. Sebo"
HUBA A. SEBO

FORM 51-101F2

REPORT ON RESERVES DATA

BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

Report on Reserves Data

To the board of directors of Petro-Reef Resources (the "Company"):

1. We have evaluated of the Company's Reserves data as at December 31, 2006. The Reserves data consist of the following:

   (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006, 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, 2006, 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 & 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 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, 2006, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location Of Reserves (Country)	Net Present Value of Future Net Revenue (10% Discount Rate)			
			Audited (M$)	**Evaluated (M$)**	**Reviewed (M$)**	**Total (M$)**
Sproule	Evaluation of the P&NG Reserves of Petro-Reef Resources Ltd., as of December 31, 2006, Prepared February to March 2007.	Canada				
Total			**Nil**	**32,025**	**Nil**	**32,025**

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.

6. We have no responsibility to update this evaluation for events and circumstances occurring after its 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:

Sproule Associates Limited
Calgary, Alberta
April 05, 2007

"Reza M. Saedi"
Reza M. Saedi, P. Eng.,
Project Leader and Senior Petroleum Engineer

"Robert N. Johnson"
Robert N. Johnson, P.Eng.
Vice-President, Engineering

"Robert N. Johnson"
Robert N. Johnson, P. Eng.
Manger, Engineering, and Corporate Secretary

APPENDIX 2

AUDIT AND RESERVES COMMITTEE
MANDATE AND TERMS OF REFERENCE

CHARTER OF THE AUDIT COMMITTEE

MANDATE

Reporting to the Board, the Audit Committee (the "Audit Committee") shall be responsible for assisting the Board in its oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting, and disclosure practices followed by the Management of Petro-Reef, in accordance with Applicable Corporate Laws, Applicable Securities Laws and Stock Exchange Rules.

The Audit Committee shall also have oversight responsibility for (i) the engagement, evaluation, remuneration and termination of the external auditors, (ii) the oversight of management's system of internal controls.
The Audit Committee shall review Petro-Reef's financial statements and shall report thereon to the Board before such financial statements are approved by the Board.

The external auditor shall report directly to the Audit Committee

In carrying out its duties, the Audit Committee has the authority to (a) engage independent counsel and other advisors as it determines necessary to carry out its duties, (b) set and pay the compensation for any advisors employed by the Audit Committee and (c) communicate directly with the internal auditors or accountants and external auditors.

OBLIGATIONS

Matters Requiring Audit Committee Action

The Audit Committee shall:

(a) recommend to the Board:

   (i) the external auditor to be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation; and

   (ii) the compensation of the external auditor.

(b) be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

(c) pre-approve all non-audit financial services to be provided to the Corporation or its subsidiary entities by the Corporation’s external auditor before those services may be provided.

(d) review the Corporation’s financial statements, MD&A and annual and interim earnings press releases before the Corporation publicly discloses this information.

(e) be satisfied that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements, other than the public disclosure referred to in subsection 4.2.1(d), and must periodically assess the adequacy of those procedures.

(f) establish procedures for:

(i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(iii) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.

De Minimus Non-Audit Services

The obligation contained in this section shall be satisfied if:

(a) the aggregate amount of all the non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Corporation and its subsidiary entities to the Corporation's external auditor during the fiscal year in which the services are provided;

(b) the Corporation or the subsidiary entity of the Corporation, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and

(c) the services are promptly brought to the attention of the audit committee of the Corporation and approved, prior to the completion of the audit, by the audit committee or by one or more of its members to whom authority to grant such approvals has been delegated by the audit committee.

Delegation of Pre-Approval Function

The Audit Committee may delegate to one or more independent members the authority to pre-approve non-audit financial services in satisfaction of the requirement in this section.

The pre-approval of non-audit financial services by any member to whom authority has been delegated must be presented to the audit committee at its first scheduled meeting following such pre-approval.

The Audit Committee will satisfy the pre-approval requirement in this section if it adopts specific policies and procedures for the engagement of the non-audit financial services, and if:

(a) the pre-approval policies and procedures are detailed as to the particular service;

(b) the audit committee is informed of each non-audit financial service; and

(c) the procedures do not include delegation of the audit committee's responsibilities to Management.

MEMBERSHIP AND QUORUM

The Audit Committee shall be comprised of a minimum of three directors, all of whom must be independent.

Each member must be financially literate.

At least one member of the Audit Committee must have accounting or related financial experience.

A majority of the members of the Audit Committee must be present at all Audit Committee meetings to constitute a quorum.

FREQUENCY AND TIMING OF MEETINGS

The Audit Committee will meet on a regular basis, and where practical contemporaneously with Petro-Reef Board meetings.

Regular meetings of the Committee may be held at such time or times as the Board, the Chairman of the Board, or the Audit Committee Chairman may determine and special meetings of the Audit Committee may be called by, or by the order of, the Chairman of the Board, the Audit Committee Chairman, or any member of the Audit Committee.

In accordance with Applicable Corporate Laws, the external auditors may also call a meeting of the Audit Committee.

The external auditors shall receive notice of every meeting of the Committee and the external auditors are entitled to attend and participate in such meetings.

∗The Audit Committee Chairman, or an alternate Audit Committee member, shall provide a report on each Audit Committee meeting to the Board and minutes of Audit Committee meetings shall be prepared and circulated to the Board.

Meetings shall be conducted in accordance with Applicable Corporate Laws, Applicable Securities Laws and the Articles of Incorporation of the Corporation and its By-laws.

OVERSEEING FINANCIAL REPORTING

Monitoring the quality and integrity of Petro-Reef's accounting and financial reporting process, disclosure controls and procedures, and systems of internal control, through discussions with Management, the external auditors and the internal auditors or accountants.

Reviewing the annual audited financial statements to be included in the annual report of Petro-Reef with Management and the external auditors, including Petro-Reef's MD&A disclosure, prior to their release, filing and distribution.

Reviewing the quarterly unaudited financial statements of Petro-Reef and accompanying information with Management and the external auditors, including Petro-Reef's MD&A disclosure, prior to their release, filing and distribution, and reviewing the level and type of financial information provided, from time to time, to financial markets.

Reviewing the financial information contained in prospectuses, offering memoranda, the annual information form and other Periodic Reports, financial or otherwise, requiring Board approval.

Reviewing with the external auditors and Management, the quality, appropriateness and disclosure of Petro-Reef's accounting principles and policies, underlying assumptions and reporting practices, and any proposed changes thereto.

Reviewing any analysis or other written communications prepared by Management, the internal auditors or accountants or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect of alternative generally accepted accounting principles methods.

REVIEWING THE EXTERNAL AUDITORS' PERIODIC REVIEW.

Reviewing the compliance of Management certification of financial reports for the purpose of determining compliance with Applicable Laws.

Reviewing any litigation, claim or other contingency and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of Petro-Reef and the appropriateness of the disclosure thereof in the documents reviewed by the Audit Committee.

Reviewing the results of the external audit, any significant problems encountered in performing the audit, and the Management's response and/or action plan related to any Management Letter issued by the external auditors and any significant recommendations contained therein.

MONITORING INTERNAL AUDITORS OR ACCOUNTANTS

Ensuring that the chief internal auditor or accountant, as the case may be, reports directly to the Audit Committee.

Regularly monitoring the internal audit function's performance, its responsibilities, staffing and budget.

Ensuring that the internal auditors or accountants are accountable to the Audit Committee and to the Board.

MONITORING EXTERNAL AUDITORS

Recommending the retention and, if appropriate, the removal of external auditors (both subject to shareholder approval), evaluating and remunerating them, and monitoring their qualifications, performance and independence.

The external auditor shall be a "participating audit firm" as defined in N.I. 52-108.

Approving and overseeing the disclosure of all audit services provided by the external auditors to Petro-Reef or any of its subsidiaries, determining which non-audit services the external auditors are prohibited from providing, and approving and overseeing the disclosure of permitted non-audit services by the external auditors.

Ensuring that the external auditors are accountable to the Audit Committee and to the Board.

Discussing with the external auditors the quality and not just the acceptability of Petro-Reef's accounting principles, including:

(a) all critical accounting policies and practices used;

(b) any alternative treatments of financial information that have been discussed with Management, the ramification of their use and the treatment preferred by the external auditors; and

(c) any other material written communications between Petro-Reef and the external auditors (including any disagreement with Management), reviewing at least annually, a report by the external auditors describing their internal quality-control procedures; any material issues raised by their most recent internal quality-control review of their firm, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more audits carried out by them, to the extent available, and any steps taken to deal with any such issues.

Reviewing at least annually, the formal written statement from the external auditors stating all relationships that the external auditors have with Petro-Reef and confirming their independence, and holding discussions with the external auditors as to any relationship or services that may impact their objectivity or independence.

Reviewing hiring policies for employees or former employees of Petro-Reef's firm of external auditors.

REVIEWING FINANCINGS

Reviewing the opportunity and parameters of any debt or equity financing.

EVALUATING THE PERFORMANCE OF THE AUDIT COMMITTEE

Ensuring that processes are in place to annually evaluate the performance of the Audit Committee.

Because of the Audit Committee's demanding role and responsibilities, the Corporate Governance Committee shall review any invitation to Audit Committee members to join the audit committee of another entity. Where a member of the Audit Committee simultaneously serves on the audit committee of any other public corporation, including Petro-Reef, the Board shall determine whether such simultaneous service impairs the ability of such member to effectively serve on the Audit Committee.

As appropriate, the Audit Committee may obtain advice and assistance from outside legal, accounting or other advisors and so advise Chairman of the Board and, if appropriate, the external auditors. The Committee shall make arrangements for the appropriate funding and for payment of the external auditors and any advisors retained by it.

∗The internal auditors or accountants and the external auditors must meet separately with the Audit Committee, without Management, once a year, and more frequently as required. The Audit Committee must also meet separately with Management once a year, and more frequently as required.

While the Audit Committee has the responsibilities and powers set forth in this Audit Committee Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that Petro-Reef's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of Management, the internal auditors or accountants and the external auditors.

The Audit Committee shall report annually to the Board on the adequacy of its mandate and the Charter.

Nothing contained in this Charter is intended to transfer to the Audit Committee the Board's responsibility to ensure Petro-Reef's compliance with Applicable Laws or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Audit Committee.

Even though the Audit Committee has a specific mandate and its members may have financial experience, they do not have the obligation to act as auditors or to perform auditing, or to determine that Petro-Reef's financial statements are complete and accurate. Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on:

(a) the integrity of the persons and organizations from whom they receive information;

(b) the accuracy and completeness of the information provided; and

(c) representations made by the Management as to the non-audit services provided to the Corporation by the external auditors.

The Audit Committee's oversight responsibilities are not established for the purpose of priority to provide an independent basis to determine that:

(a) the Management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures; or

(b) the Corporation's financial statements have been prepared and, if applicable, audited in accordance with generally accepted accounting principles.

CHARTER OF THE RESERVES COMMITTEE

Reporting to the Board, the Reserves Committee (the "Reserves Committee") shall be responsible for assisting the Board in its oversight of the reliability and integrity of the reporting and evaluations in respect of the oil and gas activities of Petro-Reef in accordance with N.I. 51-101.

The Reserves Committee has the authority to and shall on behalf of Petro-Reef appoint one or more qualified reserves evaluators or auditors, each of whom is independent of Petro-Reef, to report to the Reserves Committee on the Corporation's reserves data.

The Corporation shall make available to the qualified reserves evaluators or auditors that the Reserves Committee appoints all information reasonably necessary to enable the qualified reserves evaluators or auditors to provide a report that will satisfy the applicable requirements of N.I. 51-101, and the Reserves Committee shall monitor and report to the Board on the performance of the Corporation in that regard.

The Reserves Committee shall also have oversight responsibility for (i) the engagement, evaluation, remuneration and termination of the qualified reserves evaluator or auditor, (ii) the oversight of Management's system of internal controls in relation to the Corporation's oil and gas activities, and (iii) the maintenance by Management of practices and processes to assure compliance with Applicable Securities Laws in relation to the Corporation's oil and gas activities.

The Reserves Committee shall:

(a) review, with reasonable frequency, the Corporation’s procedures relating to the disclosure of information with respect to oil and gas activities, including its procedures for complying with the disclosure requirements and restrictions of N.I. 51-101;

(b) review each appointment of each qualified reserves evaluator or auditor and, in the case of any proposed change in such appointment, determine the reasons for the proposal and whether there have been disputes between the appointed qualified reserves evaluator or auditor and Management;

c) review, with reasonable frequency, the Corporation’s procedures for providing information to the qualified reserves evaluators or auditors who report on reserves data for the purposes of N.I. 51-101;

(d) before approving the filing of reserves data and the report of the qualified reserves evaluators or auditors thereon under N.I. 51-101, meet with appropriate members of Management and each qualified reserves evaluator or auditor, to

  (i) determine whether any restrictions affect the ability of the qualified reserves evaluator or auditor to report on reserves data without reservation; and

  (iv) review the reserves data and the report of the qualified reserves evaluator or auditor thereon; and

(e review and provide its recommendation to the Board in respect of:

  (i) the content of the statement required in Form 51-101F1 of N.I. 51-101;

  (ii) the content of the report required in Form 51-101F2 of N.I. 51-101;

(iii) the content of the report required in Form 51-101F3 of N.I. 51-101;

as in force from time to time.

MEMBERSHIP AND QUORUM

The Reserves Committee shall be comprised of a minimum of three directors of Petro-Reef, two-thirds of whom shall be independent.

A majority of the members of the Reserves Committee shall be:

(a) individuals who are not and have not been, during the preceding 12 months:

  (i) an officer or employee of the Corporation or of an affiliate of the Corporation;

  (ii) a person who beneficially owns 10 percent or more of the outstanding voting securities of the Corporation; or

  (iii) a relative of a person referred to in clause (a)(i) or (ii), residing in the same home as that person; and

(b) are free from any business or other relationship, which could reasonably be seen to interfere with the exercise of their independent judgment.

A majority of the members of the Reserves Committee must be present at all Reserves Committee meetings to constitute a quorum.

FREQUENCY AND TIMING OF MEETINGS

The Reserves Committee will meet on a regular basis, and where practical contemporaneously with Petro-Reef Board meetings.

Regular meetings of the Committee may be held at such time or times as the Board, the Chairman of the Board, or the Reserves Committee Chairman may determine and special meetings of the Reserves Committee may be called by, or by the order of, the Chairman of the Board, the Reserves Committee Chairman, or any member of the Reserves Committee.

The Reserves Committee Chairman, or an alternate Reserves Committee member, shall provide a report on each Reserves Committee meeting to the Board and minutes of Reserves Committee meetings shall be prepared and circulated to the Board.

Meetings shall be conducted in accordance with Applicable Corporate Laws, Applicable Securities Laws and the Articles of Incorporation of the Corporation and its By-laws.

OVERSEEING RESERVES REPORTING

The Reserves Committee shall be responsible for monitoring the quality and integrity of Petro-Reef's reserves reporting process, disclosure controls and procedures, and systems of internal control, through discussions with Management and the qualified reserves evaluators or auditors.

Review the annual reserves reports, to be included in the Disclosure Statements, with Management and the qualified reserves evaluators or auditors, prior to their release, filing and distribution.

Review all interim or updated reserves reports, whether or not they are to be included in the Disclosure Statements, with Management and the qualified reserves evaluators or auditors, prior to their release, filing and distribution.

Review the reserves and other oil and gas activities information contained in prospectuses, offering memoranda, the annual information form and other Periodic Reports, technical or otherwise, requiring Board approval.

Reviewing with the qualified reserves evaluators or auditors and Management, the quality, appropriateness and disclosure of Petro-Reef's underlying assumptions and reporting practices, and any proposed changes thereto.

Review any analysis or other written communications prepared by Management or the qualified reserves evaluators or auditors setting forth significant reporting issues and judgments made in connection with the preparation of any Disclosure Statements.

REVIEWING THE QUALIFIED RESERVES EVALUATORS OR AUDITORS PERIODIC REVIEWS AND REPORTS.

Review the compliance of Management certification of reports for the purpose of determining compliance with Applicable Securities Laws.

Review any litigation, claim or other contingency and any regulatory or other initiatives that could have a material effect upon the value of the reserves of Petro-Reef and the appropriateness of the disclosure thereof in the documents reviewed by the Reserves Committee.

Review the results of the reports and evaluations of the qualified reserves evaluators or auditors, any significant problems encountered in performing that work, and Management's response and/or action plan related to any issues raised by the qualified reserves evaluators or auditors and any significant recommendations by them.

MONITORING MANAGEMENT'S ACTIVITIES

Ensuring that Management reports directly to the Reserves Committee.

Regularly monitoring the internal processes in identifying and recording information relating to the Corporation's reserves.

MONITORING THE QUALIFIED RESERVES EVALUATORS OR AUDITORS

Recommend the retention and, if appropriate, the removal of the qualified reserves evaluators or auditors in accordance with N.I. 51-101, evaluating and remunerating them, and monitoring their qualifications, performance and independence.

Approving and overseeing the disclosure of all engineering and consulting services provided by the qualified reserves evaluators or auditors to Petro-Reef or any of its subsidiaries, determining which services are prohibited from being providing, and approving and overseeing the disclosure of permitted services by the qualified reserves evaluators or auditors.

Discussing with the qualified reserves evaluators or auditors the quality and not just the acceptability of Petro-Reef's reserves disclosure. Review hiring policies for employees or former employees of Petro-Reef's firm of the qualified reserves evaluators or auditors.

EVALUATING THE PERFORMANCE OF THE RESERVES COMMITTEE

Ensure that processes are in place to annually evaluate the performance of the Reserves Committee.

As appropriate, the Reserves Committee may obtain advice and assistance from outside legal or other advisors and so advise the Board and, if appropriate, the external auditors. The Committee shall make arrangements for the appropriate funding and for payment of the qualified reserves evaluators or auditors and any advisors retained by it.

Management and the qualified reserves evaluators or auditors shall have at all times a direct line of communication with the Reserves Committee.

The Reserves Committee shall report annually to the Board on the adequacy of its mandate and the Charter.

Nothing contained in this Charter is intended to transfer to the Reserves Committee the Board's responsibility to ensure Petro-Reef's compliance with Applicable Securities Laws or Stock Exchange Rules or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Reserves Committee.

Even though the Reserves Committee has a specific mandate and its members may have engineering or reserves analysis experience, they do not have the obligation to act as the qualified reserves evaluators or auditors or to perform those functions, or to determine that Petro-Reef's reserves reports are complete and accurate. Members of the Reserves Committee are entitled to rely, absent knowledge to the contrary, on:

(a) the integrity of the qualified reserves evaluators or auditors from whom they receive information;

(b) the accuracy and completeness of the information provided; and

(c) representations made by the Management as to the other services provided to the Corporation by the qualified reserves evaluators or auditors.

APPENDIX 3

REPORT OF

MANAGEMENT DISCUSSION AND ANALYSIS

PETRO-REEF RESOURCES LTD.

ANNUAL REPORT 2006

CONTENTS: **PAGE**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis for Petro-Reef Resources Ltd. should be read in conjunction with the audited financial statements and notes, contained in the annual report for 2006 and are based on information available to April 05, 2007. Additional information regarding Petro-Reef is available in the updated Annual Information Form which has been filed electronically, at the same time as this report, on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com or on Petro-Reef's website at www.petro-reef.ca.

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit	GJs/d	Gigajoules per day
Bbl	barrel	M^3	cubic meters
Bbls	barrels	Mbbls	thousands of barrels
Bcf	billion cubic feet	Mcf	thousand cubic feet
BOE	barrel of oil equivalent (1 BOE = 6 Mcf)	Mcf/d	thousand cubic feet per day
		MMbbls	millions of barrels
Bbls/d	Barrels per day	MMcf	million cubic feet
BOPD	Barrels of oil per day	MMcf/d	million cubic feet per day
FNR	Future net revenue	NGLs	natural gas liquids
GJ	Gigajoule	NPV	net present value

NOTE: In this report all currency values are in Canadian Dollars.

FORWARD-LOOKING STATEMENTS

Some of the statements contained herein (including without limitation, financial and business prospects and financial outlooks) may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Corporation assumes no obligation to update or review them to reflect new events or circumstances.

Forward-looking statements and other information contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry is based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

NOTE:

Petro-Reef cautions that “cash flow from operations” and “netbacks” do not have standardized meanings prescribed by Canadian generally accepted accounting principles and are therefore unlikely to be comparable to similar measures presented by other issuers. Management believes “cash flow from operations,” defined as cash provided by operations before changes in non-cash working capital, is a useful indicator of the Company’s ability to fund future capital expenditures, Petro-Reef calculates netbacks as net dollars per barrel after Crown Royalties, operating expenses and general and administrative expenses.

Reference is made to barrels of oil equivalent (BOE). Barrels of oil equivalent may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101, a BOE conversion ratio for natural gas of 6 Mcf: 1 Bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency a the wellhead.

PETRO-REEF RESOURCES LTD.
CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Joseph Werner(4)
Chief Executive Officer
President & Director
Calgary, Alberta

Theodore M. Donhuysen (4) (5)
Vice-President Exploration & Production
Chief Operating Officer & Director
Calgary, Alberta

Alan P. Hallman(2)
Director
Calgary, Alberta

Dennis K. Ulrich (3)
Director
Medicine Hat, Alberta

Jack P. Donhuysen(2) (5)
Director
Calgary, Alberta

Huba A. Sebo(1) (5)
Director
Calgary, Alberta

Richard W. DeVries(1)(2)
Director
Freeport, The Bahamas

Robert N. Maertens-Poole (4)
Director
Chief Financial Officer
Calgary, Alberta

Gary W. Coleman (3)
Director, Assistant Secretary
Calgary, Alberta

R. Greg Powers (3) (6)
Director
Corporate Secretary
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Stock Listing
TSX Venture Exchange
Trading Symbol: **PER**

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Chartered Accountants
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Bank
National Bank of Canada
301 – 6th Avenue S.W.
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Registrar and Transfer Agent
CIBC Mellon Trust Company
600, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Investor Relations
Bryan Mills Iradesso
400, 805 – 10th Avenue S.W.
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(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Management Committee
(5) Member of the Reserves Committee
(6) Fasken Martineau DuMoulin LLP
3400 First Canadian Centre
350 – 7th Avenue S.W.
Calgary, Alberta T2P 3N9

THE YEAR 2006 IN REVIEW

Petro-Reef Resources Ltd. (TSX-V: PER), a Calgary based crude oil and natural gas exploration and production company with producing properties in Alberta, Canada, capitalized on its drilling success and strong commodity prices to earn $65,060 on cash flow from operations of $3,557,432 in 2006. This compares to earning of $248,714 on cash flow from operations of $2,007,713 in 2005. This is equivalent to 455 BOE/d in 2006 and 182 BOE/d in 2005.

Total production for 2006 was 165,471 barrels of oil equivalent (BOE), an increase of 150% over the production for 2005 of 66,305 BOE.

Petro-Reef's production in 2006 came from two core properties, Alexander/Qui Barre and Peavey/Morinville, both located near Edmonton, Alberta. Alexander/Qui Barre produced about 88% of total production for about 89% of the revenue while, Peavey/Morinville, produced about 11% of total production for about 10% of the revenue. The remaining production came from minor working interest and royalty properties. About 96% of the production was natural gas with about 4% as crude oil and natural gas liquids.

Activities during the year included drilling, completions, tie-ins, and work-overs/re-completions. Additional 2-D and 3-D seismic data were acquired, processed and interpreted.

The company continues to use the following exploration criteria on each prospect to assure high profitability and rate of return on capital investment:

1) Each exploration prospect must exhibit
    a) Potential for a minimum of three hydrocarbon zones.
    b) Potential for:

        (i) 10:1 profit to capital risk ratio
        (ii) a minimum of 30% rate of return on capital invested
        (iii) minimum life of 15 years

2) Both 2-D and 3-D seismic are used to identify and confirm potential drilling locations using state-of-the-art technology.

Management uses cash flow from operations per share to analyze operating performance. Cash flow from operations per share does not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore it may not be comparable with the calculation of similar measures for other entities.

Highlights of Financial and Operations Results for Fiscal Years 2004-2005-2006.
THREE-YEAR REVIEW AND PERCENT CHANGE FROM 2005-2006

	2004	2005	2006	% Changes 2005 to 2006
FINANCIAL				
Crude Oil and Natural Gas Revenue Net of royalties and ARTC	$2,162,656	$3,224,567	$5,749,891	+78
Cash Flow from Operations	1,065,076	2,007,713	$3,557,432	+77
Net (Loss) Earnings from Operations	($542,087)	$248,714	$65,060	-80
Net (Loss) Earnings per Share	($0.03)	$0.01	$0.00	-
Capital Expenditures	$1,148,725	$2,374,843	$7,888,288	+232
Total Assets	$8,691,850	$10,462,289	$15,056,446	+44
Bank Balance (Loan)	($700,000)	$397,904	($376,613)	-
Shareholder's Equity	$4,021,268	$6,029,541	$7,919,194	+31
Common Shares Outstanding				
End of Period	17,738,937	21,438,924	23,685,291	+10
Weighted Average	17,701,232	18,994,641	22,313,869	+17
OPERATIONS				
Average Production				
Crude Oil and NGLs (Bbls/day)	13	2	25	+1,150
Natural Gas (Mcf/day)	954	1,080	2,615	+142
Total BOE per day (6 Mcf:1 bbl)	172	182	455	+150
Finding & Development Cost per BOE (1)	$9.61	$5.27	7.15	+37
Netbacks ($ per BOE) (3)	$23.70	$34.90	22.93	-34
Reserve Replacement Ratio	0.66	2.41	7.14	
Average Selling Price				
Crude Oil ($ per BOE)	$45.25	59.97	64.15	+7
Natural Gas ($ per BOE)	$37.02	57.43	36.90	-36
NGL ($ per BOE)	$48.25	55.50	57.20	+3
Reserves (Proved plus Probable)				
Crude Oil and NGLs (Bbls)	16,300	1,000	95,000	+9,400
Natural Gas (MMcf)	2,569	3,754	7,505	+100
Total BOE	444,467	503,500	1,345,833	+167
Present Value of Reserves (M$) (2)				
Undiscounted before Taxes	$12,848	$26,119	$36,499	+39
Discounted before Taxes at 10%	$9,294	$18,639	$23,857	+28
Reserve Life Index (P+P)	32.6 yrs	22.5 yrs	33.9	+51
Reserve Life Index (P)	18.3 yrs	19.3 yrs	33.4	+73

(1) After revisions due to NI51-101.
(2) Using constant prices and costs.
(3) Using a conversion of 6,000 cubic feet of natural gas for one barrel of oil equivalent.
(4) Crude oil sales were non-operated and reported with total oil and gas sales combined.

Netbacks are calculated by subtracting royalty expenses and operating expenses from revenue per barrel of oil equivalent. These calculations are before Alberta Royalty Tax Credits.

Petro-Reef's reserve replacement ratio for 2006 using proved reserves only was 7.14 to 1, an increase of 196% over the comparative number for 2005. Reserve replacement ratio for a given year is calculated by dividing total reserves at the end of the year by the total reserves at the beginning of the year. The reserve life index for proven plus probable reserves increased by 47% from 22.5 years to 33.9 years.

Operating costs for 2006 averaged about $125,247per month, an increase from an average of about $63,000 per month for 2005. The increased costs were a result of costs of fieldwork required to produce the one new well drilled in June 2006 and the re-completion, and reworking of more wells than in 2005.

Net general and administration costs had a modest increase to approximately $96,513 per month in 2006 from approximately $34,514 per month in 2005 and approximately $33,048 per month in 2004. Except for some minor increases, the highest costs since 2003 were due to additional reporting requirements, legal, accounting, engineering and related third party charges.

Capital expenditures for 2006 were $7,888,288 compared with $2,374,843 in 2005, an increase of 232 percent.

The net present value of proved plus probable reserves at constant prices and costs (undiscounted), before income tax, for 2006 is $36,499,000. This is a 40% increase from $26,119,000 in 2005. The comparable numbers at a 10% discount of future net revenues are $23,857,000 for 2006, and $18,639,000 for 2005, a 30% increase.

There are no long-term financial liabilities and there have been no dividends declared.

At year end the bank loan plus cheques drawn in excess of bank was $376,613.

Revenues fluctuated during 2006 because of changes in volumes of product produced and with changes in product price. Because Petro-Reef produces more than 96% natural gas, natural gas prices fluctuations had more impact than prices for crude oil. The following table shows natural gas prices received by Petro-Reef for 2004, 2005 and 2006 by month and by quarter.

Product Price for Natural Gas ($ per Gigajoule)
Years: 2004-2005-2006

Month of:	$ Price Per GJ Year 2004	$ Price Per GJ Year 2005	$ Price Per GJ Year 2006
January	6.659749	6.233800	8.13720
February	5.757239	6.260490	6.918360
March	5.881507	7.000700	6.229420
Average Price per Quarter:	6.099498	6.498330	7.094967

April	6.274938	7.347800	6.272940
May	6.950898	6.562240	5.269670
June	6.564088	7.052828	5.532040
Average Price per Quarter:	6.596645	6.987623	5.69150

July	6.479279	7.058280	5.385630
August	5.724071	8.727350	6.069370
September	5.326431	10.478270	4.412930
Average Price per Quarter:	5.843260	8.754633	5.289310

October	6.170750	11.725960	5.557470
November	5.878970	8.837250	7.308530
December	6.382450	11.414247	6.669890
Average Price per Quarter:	6.1440570	10.659152	6.511963

Average Price for Year	6.17	8.22	6.15

Note: 1 gigajoule = 1.054615 thousand cubic feet

Crude oil sales prior to May 2006 were insignificant and came from non Petro-Reef operated wells. From May through December 3,382 barrels of crude oil were produced from a well in the Alexander area. The revenue for the sale of the oil was $216,946 for an average price of $64.15

2004 PRODUCTION AND REVENUE SUMMARY BY PRODUCTION DATE

(0) Month	(1) BOE	(2) DOE/Day	(3) REVENUE $	(4) ROYALTIES $	(5) EXPENSES $	(6) (3)-(4)-(5) $	(7) NETBACK $/BOE	(8) NET G&A $	(9) (6)-(8) $
JAN	2,825.17	91.13	137,355.77	12,709.29	43,284.05	81,362.43	28.80	18,837.22	62,525.21
FEB	3,641.01	125.55	133,496.03	13,771.13	42,704.64	77,020.29	21.15	29,074.94	47,945.35
MAR	3,417.61	110.25	127,525.48	14,289.24	48,280.94	64,955.30	19.01	15,259.65	49,695.65
APR	5,770.79	192.36	233,092.98	15,498.94	61,999.80	155,594.24	29.96	45,816.05	109,778.19
MAY	3,992.75	128.80	180,722.54	15,395.47	43,759.92	121,567.15	30.45	16,384.28	105,182.87
JUNE	3,466.69	115.56	145,289.96	13,848.70	48,927.05	82,514.21	23.80	39,837.73	42,676.48
JUL	3,715.14	119.84	152,414.21	13,674.49	37,332.76	101,406.96	27.30	35,132.52	66,274.44
AUG	3,905.77	125.99	149,652.72	23,671.87	80,493.17	45,487.68	11.65	12,289.45	33,198.23
SEP	8,257.77	275.26	281,082.07	62,951.32	58,432.77	159,647.98	19.33	25,906.62	133,741.36
OCT	8,447.87	272.51	342,544.17	71,917.97	55,010.69	215,615.51	25.52	25,410.16	190,205.35
NOV	8,070.05	269.00	320,631.26	85,299.54	52,887.68	182,444.04	22.61	24,348.22	158,095.82
DEC	7,425.08	239.52	318,982.17	91,470.06	43,000.63	184,511.48	24.85	108,273.16	76,238.32
ARTC			253,789.39 76,388.00			1,472,127.27 76,388.00			1,075,557.27 76,388.00
Total	62,935.71	2,065.77	2,600,177.39	434,498.02	616,164.70	1,548,515.27	284.43	396,570.00	1,151,945.27
Average	5,244.64	172.15	216,681.45	36,208.17	51,347.06	129,042.94	23.70	33,047.50	95,995.44

NOTES:

Column (3) Product sales and royalty income
Column (6) Net revenue after royalties and operating expenses
Column (9) Net profit before bank debt
ARTC – Alberta Royalty Tax Credit

2005 PRODUCTION AND REVENUE SUMMARY BY PRODUCTION DATE WITHIN ACCOUNTING

(0) Month	(1) BOE	(2) DOE/Day	(3) REVENUE $	(4) ROYALTIES $	(5) EXPENSES $	(6) (3)-(4)-(5) $	(7) NETBACK $/BOE	(8) NET G&A $	(9) (6)-(8) $
JAN	7,367.51	237.66	310,711.42	70,680.79	64,643.59	175,387.04	23.81	22,325.27	153,061.77
FEB	6,773.74	241.92	288,734.03	60,640.03	59,529.17	168,564.83	24.89	22,844.63	145,720.20
MAR	7,191.67	231.99	343,926.08	68,857.01	60,307.95	214,761.12	29.86	19,485.05	195,276.07
APR	5,609.23	186.97	283,212.95	59,962.41	54,385.15	168,865.39	30.10	10,822.37	158,043.02
MAY	4,970.16	160.33	222,242.41	44,181.74	38,870.44	139,190.23	28.01	20,272.25	118,917.98
JUNE	2,986.45	99.55	140,777.82	19,392.12	75,196.28	46,189.42	15.47	15,554.30	30,635.12
JUL	3,095.79	99.86	179,998.70	31,696.59	62,789.33	85,512.78	27.62	87,883.82	(2,371.04)
AUG	3,901.35	125.85	229,811.06	37,950.26	59,278.69	132,582.11	33.98	32,723.56	99,858.55
SEP	3,825.79	127.53	266,590.43	45,765.99	63,607.76	157,216.68	41.09	31,017.72	126,198.96
OCT	3,107.61	100.25	245,614.59	40,079.51	49,190.15	156,344.93	50.31	10,397.90	145,947.03
NOV	3,418.72	113.96	202,850.89	39,535.41	46,393.77	116,921.71	34.20	28,003.25	88,918.46
DEC	14,141.01	456.16	1,086,446.35	253,558.01	119,574.69	713,313.59	50.44	112,837.66	600,475.93
Total	66,389.03	181.84(1)	3,800,916.73	772,299.93	753,766.97	2,274,849.83	34.27(3)	414,167.78	1,860,682.05
Other Months	(84.00)	(0.23)(1)	(2,644.73)	(45,699.28)	3,936.03	39,118.52	0.63	-	-
Total	66,305.03	-	3,798,272.00	726,600.65	757,703.00	2,313,968.35	-	-	-
ARTC	-	-	152,896.00	-	-	152,896.00	-	-	152,896.00
Total	-	-	3,951,168.00	-	-	2,466,864.35	-	-	2,013,578.05
Average	5,525.42	181.61	329,264.00	60,550.05	63,141.92	205,572.03	34.90	34,513.98	167,798.17

Column (3) Product sales and royalty income
Column (6) Net revenue after royalties and operating expenses
Column (9) Net profit before bank debt
(1) Average
ARTC Alberta Royalty Tax Credit

2006 PRODUCTION AND REVENUE SUMMARY BY PRODUCTION DATE

(0) Month	(1) BOE	(2) BOE / Day	(3) REVENUE $	(4) ROYALTIES $	(5) EXPENSES $	(6) (3)-(4)-(5) $	(7) NET BACK $ / BOE	(8) NET G + A $ (3)	(9) (6) – (8) $
JAN	18,750	605	1,030,866	328,676	142,097	560,093	30.04	20,865	539,228
FEB	16,658	595	778,359	215,596	140,129	422,634	25.79	103,284	319,350
MAR	18,091	584	761,372	207,405	106,892	447,075	24.35	31,016	416,059
APR	16,172	539	706,282	180,048	108,919	417,315	25.46	119,622	297,693
MAY	16,424	530	606,923	157,342	135,131	314,451	18.53	81,268	233,182
JUNE	15,931	531	624,749	138,578	135,586	350,586	21.41	146,966	203,620
JUL	11,831	382	471,832	99,319	119,279	253,234	22.22	83,721	169,513
AUG	9,816	317	416,339	90,931	127,899	197,509	21.92	134,073	63,436
SEP	9,485	316	303,147	60,446	113,231	129,469	13.54	46,494	82,975
OCT	9,014	291	341,579	56,717	131,277	153,585	16.09	73,721	79,864
NOV	11,405	380	559,747	99,835	116,841	343,071	31.03	119,134	223,937
DEC	12,144	393	555,399	138,913	125,687	290,799	24.75	197,997	92,802
Total before the following	165,721	5,463	7,156,594	1,773,806	1,502,968	3,879,820	275	1,158,160	2,721,660
ARTC	-	-	367,103	-	-	367,103	-	-	367,103
Total	165,721	5,463	7,523,697	1,773,806	1,502,968	4,246,923	275	1,158,160	3,088,763
Average	13,810	454	626,975	147,817	125,247	353,910	22.92	96,513	257,397

Column (3) Product sales and royalty income
Column (6) Net revenue after royalties and operating expenses
Column (9) Net profit before bank debt
ARTC Albert Royalty Tax Credit

PROPERTY REVIEW

Petro-Reef Resources Ltd. operated the drilling of 10 development wells and four exploration wells in the Alexander/Qui Barre area in 2006. Of these, 10 wells were completed as natural gas wells, one was completed as a crude oil well and three were dry and abandoned, for a success ratio of 79%. The Peavey/Morinville area saw no new drilling activity, is still primarily outside operated and although still part of the larger core area for Petro-Reef represents a much smaller percentage of the company's production and revenue stream. The shareholders were kept up to date on the progress of field activity with news releases whenever significant new information became available.

A news release dated March 20, 2006 provide details on the renewed drilling program by Petro-Reef as follows:

> As part of the renewed program, Petro-Reef plans to drill five more wells offsetting a successful natural gas discovery in October 2005. In October, the Company announced that it had completed a new natural gas well at 12-28 in its core area of Alexander/Qui Barre. The well tested at 11.91 million cubic feet per day (mmcf/d), equivalent to 1,958 barrels of oil equivalent per day (boe/d). The well was placed on production in December 2005 and has been producing at a stabilized rate of 4.18 mmcf/d (697 boe/d). Petro-Reef's interest in the well is 84 percent before payout of a 400% penalty.
>
> As a result of the success of the 12-28 well drilled in October 2005, Petro-Reef has increased its interest in the Alexander/Qui Barre area by 20%, taking its interest in an additional fifteen (15) wells to a range of between 54 percent and 64 percent on 9,271 gross acres (4,966 net acres) for an average of 51%.
>
> A second well drilled as part of the program in November 2005 was anticipated to produce at 66 bo/d net. This well has since been suspended due to water production. Petro-Reef has a 44% interest in the well. Early production from the well was not included in Petro-Reef's 2005 forecasts.

A subsequent news release dated May 09, 2006 further updated the shareholders as follows:

> Petro-Reef Resources Ltd. is in the process of completing a five-well drilling program offsetting its October 2005 natural gas discovery in Alexander, Alberta. Based on the initial success of the program announced on March 20, 2006, Petro-Reef plans to drill a sixth well in the area within two weeks. Petro-Reef expects to drill up to 25 wells (11.94 net) in 2006 (including the previously announced five well drilling program), rig availability permitting.
>
> Petro-Reef's gas discovery at 12-28 in the Alexander area of Alberta has continued to produce at 4.18 million cubic feet of natural gas per day (697 barrels of oil equivalent per day) since it was put on production in December. The company's interest in the well is 84% (585 boe/d) until revenue from the well reaches 400% of drilling costs. Petro-Reef's interest then reverts to 34%.
>
> The first well offsetting the 12-28 natural gas discovery was drilled at 12-33. Based on well logs, Petro-Reef believes it has hit the same natural gas zone as the 12-28 and identified a previously unknown oil zone. The company has set production casing and expects to complete the well within two weeks. Petro-Reef has a 54% interest in the well.
>
> The second well in the five-well program was drilled at 6-1. Production casing was set and the well has been perforated, fractured and swabbed. Based on the encouraging results of the swab test, Petro-Reef has started a 30-day production test. Petro-Reef's interest in the well is 44%.
>
> The third well in the program was drilled at 5-31. The company has identified a pay zone containing both oil and natural gas. Petro-Reef anticipates starting a 30-day production test on the well in the oil zone within the next week. Petro-Reef has a 64% interest in the well.

The fourth well was drilled at 13-21. The well was deemed to be uneconomic and has been abandoned. The company had a 54% interest in the well.

The fifth well of the program is to be drilled in the next two weeks at 11-27 where Petro-Reef has a 54% working interest.

And again on June 14, 2006 the following information was sent by news release which stated in part that:

The October 2005 natural gas discovery at 12-28 has continued to produce at approximately 4.18 million cubic feet of natural gas per day (697 barrels of oil equivalent per day) since it was put on production in December 2005. The company's interest in the well is 84% (585 BOE/d) until revenue from the well reaches 400% of drilling and completion costs plus 200% of equipping and tie-in costs. Petro-Reef's interest then reverts to 34%. Based on current production levels and commodity prices, this reversion is anticipated to occur in August 2006. The 12-28 is the only well in Petro-Reef's 2006 drilling program that features a working interest agreement of this kind.

The first well offsetting the 12-28 natural gas discovery was drilled about two kilometers north at 12-33. The company set production casing and has completed the same zone as 12-28 with an initial flowing production test of 525 Mcf/d and a crude oil rate of 48 barrels per day. Petro-Reef has 54% interest in the well. Net to Petro-Reef is 73 BOE/d.

The second well in the five-well program was a re-entry at 6-1. The production casing was perforated and fracture stimulated. The well was placed on production May 2, 2006 and is producing crude oil at a rate of 38 barrels per day with 80 Mcf/d of natural gas. Petro-Reef has a 44% interest in the well. Net to Petro-Reef is 22 BOE/d.

The third well in the program was drilled at 5-31. The company has identified a pay zone with 123 feet of gross natural gas and crude oil pay. The well was perforated and fractured in the oil zone and was placed on stream as a flowing oil well on May 19, 2006. After three weeks of production the well is flowing at 42 barrels of crude oil per day with 592 Mcf/d of natural gas. Petro-Reef has a 64% interest in the well. Net to Petro-Reef is 90 BOE/d.

The fourth well was drilled at 13-21. As announced on May 9, 2006, the well was deemed to be uneconomic and has been abandoned.

The fifth well was drilled at 11-27, two kilometers east of the discovery at 12-28. Based on well logs, Petro-Reef has identified four potential crude oil and/or natural gas zones. The zone that is producing at 12-28 was drill stem tested at 11-27 with a maximum wellhead absolute open flow (AOF) potential rate of 7.312 MMcf/d.

A second zone up-hole in the wellbore was drill stem tested with a maximum wellhead AOF potential rate of 2.464 MMcf/d. The combined AOF for the two zones was 9.776 MMcf/d (1,620 BOE/d). Petro-Reef has a 54% interest in the well. A production test will be conducted in the next two weeks to determine the production rate.

Both the first well at 12-33 and the fifth well at 11-27 are anticipated to be placed on stream by August 1, 2006. The other two successful wells have been placed on stream.

After the initial five-well drilling program Petro-Reef drilled an additional well at 1-31 and re-entered a well at 10-33. Both wells have been cased and will be production tested in the next two to three weeks.

Rig availability permitting, the company expects to drill up to 25 wells (11.94 net) in 2006, including the wells that have been drilled to date and the six wells that will be licensed for drilling in the next two to six weeks.

Continued drilling success was announced in a news release letter dated July 27, 2006.

> Petro-Reef's October 2005 natural gas discovery at 12-28 is currently producing at 2.16 million cubic feet of natural gas per day (306 barrels of oil equivalent per day net to Petro-Reef). Based on current production levels and commodity prices, Petro-Reef expects to retain its 84% interest in the well until October 2006. At that time, Petro-Reef's interest will revert to 34% when revenue from the well reaches 400% of drilling and completion costs plus 200% of equipping and tie-in costs. As stated on June 14, 2006, the 12-28 well is the only well in Petro-Reef's drilling program that features a working interest agreement of this kind.
>
> Production tests on two offsetting wells in the same zone as the 12-28 are now complete at 12-33 (two kilometres north) and 11-27 (two kilometres east). Based on the results, the 12-33 and 11-27 are expected to produce 2.5 MMcf/d of natural gas plus 30 barrels per day of oil (447 BOE/d). The company's interest in these two wells is 54%, or 241 BOE/d. Petro-Reef expects to tie in these wells and bring them on stream by August 10, 2006. Based on the success of the offsetting wells, the company plans to drill two more wells in the same reservoir at the end of August and beginning of September 2006 at 8-29 (one kilometre southwest) and 14-20 (2.1 kilometres southwest).
>
> A re-entry well announced on June 14, 2006 at 6-1 has been on stream for 83 days and continues to produce 35 to 38 barrels of oil per day with 80 Mcf/d of natural gas. At Petro-Reef's 44% interest, net production is 22 BOE/d. By early August 2006, the company plans to re-enter a well at 11-14 (3.7 kilometres to the northwest) to conduct a production test in the same oil zone. Petro-Reef's interest in the 11-14 is 50%.
>
> A well announced at 5-31 on June 14, 2006 continued to flow as an oil well until July 24, 2006 with production rates after 65 days of production of 377 Mcf/d of natural gas and 35 barrels per day of crude oil. With a 64% interest in the well, net production to Petro-Reef has been 63 BOE/d. On July 25, 2006, the company started remedial work to complete and place the up-hole zone on stream. This is expected to occur within two weeks. If required, the well will be placed back on stream with a pump.
>
> An offset well was re-entered in July 2006 at 14-30 (one kilometre south), and was perforated and fracture stimulated, yielding initial production rates of up to 1.1 MMcf/d of natural gas (183 BOE/d). Petro-Reef has a 54% interest in the well. Net production to Petro-Reef is 99 BOE/d. Completion tests will continue for 10 to 14 days.
>
> In mid August, Petro-Reef plans to drill a well at 2-1 (1.4 kilometres northwest) as an offset test to the 5-31 oil and gas zone. A farmout agreement provides Petro-Reef with an 84% interest in the 2-1 well.
>
> Petro-Reef has completed two other wells since June 14, 2006 at 16-30 and 1-31, resulting in two natural gas wells testing at a combined rate of 1.5 MMcf/d of natural gas (250 BOE/d). Petro-Reef has an interest of 34% in the 16-30 well and 54% in the 1-31 well. Net to Petro-Reef at an anticipated production rate of 900 Mcf/d is 61 BOE/d.

This was followed on September 14, 2006 with information on even more success.

> Petro-Reef Resources Ltd. announces that it has encountered natural gas in three potential zones in the recently drilled well at 9-33, 1.7 kilometres northeast of its October 2005 natural gas discovery at 12-28 in Alexander, Alberta. The three potential zones include the producing zone at 12-28 plus two additional natural gas zones.
>
> Weather permitting, the 9-33 will be production tested in the next two weeks to confirm the commercial potential of the three zones. The drilling rig has now been moved to 3-7 and is currently drilling. The 3-7 is exploratory and is being drilled on a new structure.

And on September 25, 2006 by:

Petro-Reef Resources Ltd. announces that it has encountered natural gas in two potential zones as well as crude oil in another potential zone in its recently drilled well at 3-7. The 3-7 well is located 4.8 kilometres northwest of Petro-Reef's October 2005 natural gas discovery in the well at 12-28 in the Alexander area of Alberta. The 3-7 was exploratory and was being drilled on a new structure.

Weather permitting, the well at 3-7 will be production tested in the next two to three weeks to confirm the commercial potential of the two natural gas zones. Petro-Reef expects to drill the oil zone at a later date. The drilling rig will be moved to 2-1 and is expected to begin drilling within three days. The 2-1 is a step-out well from producing wells at 6-1 and 5-31. The 2-1 well will help Petro-Reef determine the extent and boundaries of the producing formation.

And on October 20, 2006 by:

Petro-Reef Resources Ltd. announces that it has completed three successful production tests in the company's core area of Alexander, Alberta. The wells at 8-29, 9-33 and 3-7 were production tested based on extended wellhead deliverability natural gas rates and at existing pipeline operating pressures as follows:

Well		**Flow Rate**	**Petro-Reef Interest**	**Petro-Reef Estimated Net Potential BOE/d**
8-29		827 Mcf/d	54.00%	74
9-33	Zone A	1,100 Mcf/d	63.67%	117
	Zone B	1,080 Mcf/d	63.67%	115
3-7	Zone A	836 Mcf/d	54.00%	75
	Zone B	3,930 Mcf/d	54.00%	354

Petro-Reef expects to drill two more wells in the next two months at 9-33 and 3-7 to produce the additional gas zones that were tested but cannot be placed on stream due to potential problems with dual zone production. Additional oil zones that have also been identified are expected to be drilled at a later date.

The well at 2-1, which was announced on September 25, 2006, has finished drilling and production casing has been run. This well is a step-out well to the 5-31 and 6-1 producing oil discoveries. The well will be production tested for oil or natural gas in the next 30 days.

Two additional wells previously announced at 14-20 and 11-14 have not yet been drilled and are awaiting regulatory approval.

Petro-Reef's October 2005 natural gas discovery at 12-28 is still producing at 2,100 mcf/d of natural gas. The well has reverted from an 84% interest to 34% after recovery of 400% of drilling and completion costs plus 200% of equipping and tie-in costs. Petro Reef's net production from the well is now 124 barrels of oil equivalent per day (BOE/d).

With Petro-Reef's existing production, the wells currently being tied-in, and the additional well tie-ins at 8-29, 9-33 and 3-7 the company expects net production to be at approximately 950 BOE/d by early December 2006. The company is on target to achieve its 2006 exit production target of between 1100 and 1550 BOE/d.

Petro-Reef provided an operations update in a December 19, 2006 news release

> Petro-Reef is pleased to report continued positive results from its field operations in Alexander. The well at 2-1 tested natural gas at an initial rate of 1.6 million cubic feet per day with approximately 10 barrels of oil per day. The 14-20 well has been drilled and production casing has been run. Testing will be done as soon as practical. The first twin well at 9-33 is drilling and Petro-Reef expects to run production casing before Christmas. Details will follow when available.

Subsequently Petro-Reef in 2007 drilled three additional successful wells with both natural gas and crude oil potential.

Success has created its own challenges. As each new high pressure natural gas well is added to the gathering pipeline system it becomes more difficult for the more distant, lower pressure wells continue producing at their current rates. As a result Petro-Reef is currently designing a major gas compressor facility to correct the problem and thereby significantly increase natural gas production. June has been set as the target date for this project to become operational.

OUTLOOK

Petro-Reef's current production is estimated to be approximately 700 BOE/d average March production. The Company expects to spend $7.5 million to drill 16 wells (9.1 net) in 2007, all within the company's core operating area of Alexander/Qui Barre. Production has been up to 900 BOE/d but the average was reduced due to having to shut in producing wells while a twin well was being drilled.

FINANCING

On July 19, 2005 Petro-Reef announced a private placement that was reported as follows.

> Petro-Reef Resources Ltd. is pleased to announce that it has agreed to issue by way of a private placement assistance of a finder. The Units are priced at $0.45 and consist of one common Share and one Purchase Warrant. Each Purchase Warrant entitles the holder to purchase one additional Common Share at an exercise price of Cdn $0.70 per Common Share, if exercised within 18 months after the closing of this Offering. The Units will be issued pursuant to prospectus exemptions available under applicable securities legislation in Alberta and Ontario. Sinalta Investments Ltd. has undertaken to act as "finder" for which it will be paid a finders fee of $100,000, and subject to the approval of the TSXV, the finder shall also be granted warrants to acquire up to 500,000 Common Shares of Petro-Reef at an exercise price of Cdn $0.70 per Common Share, if exercised within 18 months after the closing of this Offering. The Company will use the proceeds for oil and gas development and exploration expenditures.
>
> The financing is scheduled to close on or about July 28, 2005 or such other date as the finder and Petro-Reef may agree upon, and is conditional upon receiving regulatory approval, including approval of the TSX Venture Exchange and completion of definitive documentation.
>
> On February 26, 2007 Petro-Reef Resources Ltd. announced that 3,499,987 out of a total 3,824,987 purchase warrants issued by the Corporation under financing that closed in August and September 2005 had been exercised. The warrants, which were exercisable at a price of $0.70 per share, expired on February 20, 2007. As a result the Corporation has received aggregated proceeds of $2,499,990.90.

On December 19, 2006 Petro-Reef announced another private placement as follows.

> Petro-Reef Resources Ltd. is pleased to announce that it has entered into an engagement letter with Primary Capital Inc. (“Primary”) pursuant to which Primary has agreed, subject to completion of satisfactory due diligence, to sell on a “best efforts” basis, up to a maximum of 4,782,609 units ("Units") at a price of $1.15 per Unit for an aggregate purchase price of $5,500,000.35 ($5,115,000.33 net of commissions). Primary will also receive an Over-Allotment Option to offer and sell an additional 478,261 Units for additional gross proceeds of up to $550,000.15 (the "Over-Allotment Option"), which if exercised and fully sold, would give Petro-Reef gross proceeds of $6,050,000.50 ($5,626,500.47 net of commissions). Primary may exercise the Over-Allotment Option up to 2 business days prior to the Closing Date. The Closing Date is expected to be on or about January 19, 2007, or as otherwise agreed by Petro-Reef and Primary.
>
> The Units are comprised of one common share of the Corporation ("Share") and one-half of one warrant ("Warrant"), each whole Warrant being exercisable to purchase one Share for a period of 18 months after the Closing Date at an exercise price of $1.75 per Share, provided that if the closing price of the Shares on the TSX Venture Exchange is equal to or greater than $2.20 per Share for a period of 20 consecutive trading days any time after four months and one day after the Closing Date, the Corporation may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th day after the date on which such notice is given by the Corporation.
>
> Petro-Reef has agreed to pay Primary a commission equal to 7% of the gross proceeds raised, and to issue broker warrants (“Broker Warrants”) to it, entitling Primary to purchase up to that number of Units which is equal to 7% of the number of Units issued under the Offering, at an exercise price of $1.15 per Unit at any time on or before the date which is 18 months after the Closing Date. These Units will be identical to those being offered under the private placement.
>
> Assuming the exercise of all Warrants (including the Warrants comprising the Broker Warrants), Petro-Reef will realize additional gross proceeds of $4,477,717.68 ($4,925,489.54 if the Over-Allotment Option is fully exercised).
>
> The Units will be issued as a private placement to certain investors identified by Primary. The net proceeds received from the sale of the Units will be used to fund the continued exploration and development of Petro-Reef's properties. Closing is subject to normal regulatory approvals. The Units will be subject to a four month hold period from the Closing Date.

The closing of this private placement was reported in a news release dated January 26, 2007.

> Petro-Reef Resources Ltd. has closed its previously announced private-placement financing, raising gross aggregate proceeds of $6,050,000.50. The offering, announced on December 19, 2006, was fully subscribed. Petro-Reef plans to use the net proceeds of the offering to fund continued exploration and development of its core area in Alexander, Alberta.
>
> The offering consisted of 5,260,870 units of the Corporation (“Units”) at a price of $1.15 per Unit. Each Unit consisted of one common share and one-half of the one common share purchase warrants of the Corporation. Each whole common share purchase warrant (“Warrant”) is exercisable to acquire one common share of the Corporation at an exercise price of $1.75 for a period ending on July 25, 2008. If the closing price of the common shares is higher than $2.20 for a period of 20 consecutive days at any time after four months and one day after the closing date, the Corporation may accelerate the expiry date of the Warrants by giving notice to the holders. In such case, the Warrants would expire on the 30th day after the date on which notice is given.

Primary Capital Inc. served as the agent for the private-placement offering and received a 7% cash commission out of the gross proceeds and non-transferable broker warrants ("Broker Warrants") exercisable to acquire 368,260 units of the Corporation ("Broker Units") at a price of $1.15 per Broker Unit until July 25, 2008. Each Broker Unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole common share purchase warrant exercisable to acquire one common share of the Corporation at a price of $1.75 for a period ending on July 25, 2008.

After giving effect to this offering, Petro-Reef has 29,103,661 common shares issued and outstanding.

Subsequently on April 02, 2007 Petro-Reef announced a flow through share private placement as follows.

Petro-Reef Resources Ltd. is pleased to announce that it has entered into an engagement letter with Primary Capital Inc. ("Primary") pursuant to which Primary has agreed, subject to completion of satisfactory due diligence, to sell on a "best efforts" basis, up to a maximum of 1,500,000 common Shares ("Flow Through Shares") at a price of $2.00 per share on a flow through basis for an aggregate purchase price of $3,000,000 ($2,805,000 net of commissions). The Closing Date is expected to be on or about April 13, 2007, or as otherwise agreed by Petro-Reef and Primary.

Petro-Reef has agreed to pay Primary a commission equal to 6.5% of the gross proceeds raised, and to issue broker warrants ("Broker Warrants") to it, entitling Primary to purchase up to that number of common shares of Petro-Reef which is equal to 6.5% of the number of Flow Through Shares issued under the Offering, at an exercise price of $2.00 per share at any time on or before July 25, 2008. These shares will not carry flow through treatment.

The Flow Through Shares will be issued as a private placement to certain investors identified by Primary. The net proceeds received from the sale of the Flow Through Shares will be used to fund the continued exploration and development of Petro-Reef's properties. Closing is subject to normal regulatory approvals. The Flow Through Shares will be subject to a four month hold period from the Closing Date.

The actual closing date was April 25, 2007.

On October 09, 2001 the Corporation entered into an operating line of credit with the National Bank of Canada with a credit facility in the form of a revolving operating demand loan with a limit of one million ($1,000,000) dollars and a non-revolving acquisition demand loan with a maximum limit of one-half million ($500,000) dollars.

On December 30, 2003 the operating ling of credit was increased to two million ($2,000,000) dollars with the non-revolving demand loan for acquisitions and development remaining at one-half million ($500,000) dollars.

On July 24, 2006 the operating line of credit was increased to three million seven hundred and fifty thousand ($3,750,000) dollars with the non-revolving demand loan for acquisitions and development increasing to one million ($1,000,000 dollars).

The results of operations in 2004, 2005 and 2006 are set out in the following tables under three categories:

1) Land acquisitions
2) Petro-Reef operated wells
3) Wells where Petro-Reef is not the operator

Joint-venture partnerships are involved in both the operated and non-operated drilling and accounts for the varying interests held by Petro-Reef.

LAND COSTS FOR THE ACQUISITION OF MINERAL LEASES
(NET OF DISPOSITIONS, RENTALS OR SURFACE LEASES)

YEAR	PERIOD	GROSS ACRES	NET ACRES	COST (NET)	COMMENTS
2004	Q1	6	3	$ 480	Lease Service Only
	Q2	-	-	$ 466	
	Q3	1,189	404	$16,140	
	Q4	1,829	724	$61,506	
TOTAL		**3,024**	**1,113**	**$78,592**	$71 average per net acre
2005	Q1	1,920	653	$103,316	Lease Service Only
	Q2	480	206	$ 32,500	
	Q3	1,920	960	$ 51,837	
	Q4	968	752	$ 35,232	
TOTAL		**5,288**	**2,571**	**$222,885**	$87 average per net acre
2006	Q1	824	761	$167,531	
	Q2	353	42	$ 27,885	
	Q3	253	251	$ 68,529	
	Q4	423	340	$ 99,797	
TOTAL		**1,853**	**1,394**	**$363,743**	$261 average per net acre

Lease Service Only cost refers to third party land company expenses.
In 2006, 46% fewer net acres were acquired than in 2005, at an increased total cost of 63%.
The average cost per net acre increased significantly to $261 in 2006 from $87 in 2005.

SELECTED FINANCIAL INFORMATION

FINANCIAL (year-ended December 31)	2004	2005	2006
Crude Oil and Natural Gas Revenue net of royalties and ARTC	$2,162,656	$3,224,567	$5,749,891
Cash Flow from Operations	$1,065,076	$2,007,713	$3,557,432
Net (Loss) Earnings from Operations	($542,087)	$248,714	$65,060
Net (Loss) Earnings per Share, Basic and Diluted	($0.03)	$0.01	0.00
Capital Expenditures	$1,148,725	$2,374,843	$7,888,288
Total Assets	$8,691,850	$10,462,289	$15,056,446
Bank Balance (Loan)	($700,000)	$397,904	($376,613)
Shareholders' Equity	$4,021,269	$6,029,968	$7,919,194

The following table summarizes the results of the 12 most recently completed quarters.

Summary of Quarterly Results For The Last Twelve Quarters				
		Oil & Gas Sales Net of Royalties And ARTC	**Net Earnings (Loss)**	**Basic and Diluted Earnings Per Share**
2004			(Restated)	
	Q1	$354,288	($81,806)	$0.00
	Q2	$531,591	($75,371)	$0.00
	Q3	$499,139	$34,086	$0.00
	Q4	$777,638	($418,996)	($0.03)
Total		$2,162,656	($542,087)	
2005				
	Q1	$701,154	($14,869)	$0.00
	Q2	$621,790	($24,224)	$0.00
	Q3	$582,100	($21,890)	$0.00
	Q4	$1,319,523	$309,697	($0.01)
Total		$3,224,567	$248,714	
2006				
	Q1	$1,797,362	$75,453	$0.01
	Q2	$1,708,596	$2,619	$0.00
	Q3	$1,045,216	($67,349)	$0.00
	Q4	$1,198,717	$54,337	$0.00
Total		$5,749,891	$65,060	

The following table summarizes the results of the 12 most recently completed quarters.

PETRO-REEF RESOURCES LTD. OPERATED WELLS

DRILLING, COMPLETION & WORKOVERS			
YEAR	**LOCATION**	**COST**	**PER % W.I.**
2004			
Q2	14-30-55-26W4	$147,450	24.00
	05-31-55-26W4	$21,093	44.00
Q3	14-30-55-26W4	$23,319	24.00
	05-31-55-26W4	$17,741	44.00
	09-30-56-24W4	$4,755	71.50
	05-25-56-25W4	$192	39.00
Q4	14-30-55-26W4	$1,757	24.00
	05-31-55-26W4	$219	44.00
	05-25-56-25W4	$18,612	39.00
2005			
Q1	10-30-56-27W4	$17,284	35.13
	13-29-55-26W4	$2,746	44.00
	05-31-55-26W4	$1,641	44.00
	06-15-56-27W4	$152	50.00
	14-25-55-25W4	$13	15.96
	16-26-55-25W4	$274	50.00
	16-26-56-25W4	$332	25.88
	04-19-56-24W4	$26,689	36.50
	06-35-56-25W4	$639	61.28
	07-32-56-25W4	$2,083	72.50
	07-35-56-25W4	$440	62.27
	05-25-56-25W4	$166	39.00
Q2	10-30-56-27W4	$1,253	35.13
	13-29-55-26W4	$193,660	44.00
	14-30-55-26W4	$5,411	24.00
	05-31-55-26W4	$31,294	44.00
	14-25-55-25W4	$431	15.96
	16-26-55-25W4	$329	50.00
	05-36-55-25W4	$308	20.00
	06-35-56-24W4	$3,333	61.28
	07-32-56-25W4	$144	72.50
	07-35-56-25W4	$63	62.27

DRILLING, COMPLETION & WORKOVERS cont.			
YEAR	**LOCATION**	**COST**	**PER % W.I.**
2005			
Q3	12-28-55-26W4	$68,506	54.00
	13-29-55-26W4	$34,348	44.00
	05-31-55-26W4	$61,285	44.00
	06-01-56-27W4	$7,297	44.00
	06-15-56-27W4	$1,136	50.00
	14-25-55-25W4	$59	15.96
	16-26-55-25W4	$53	50.00
	04-19-56-24W4	$383	36.5
	05-36-55-25W4	$965	20.00
	06-35-56-25W4	$2,183	62.27
	07-32-56-25W4	$429	72.50
	07-35-56-25W4	$501	62.27
Q4	10-33-55-26W4	$13,025	54.00
	11-27-55-26W4	$3,918	54.00
	12-28-55-26W4	$488,346	54.00
	12-33-55-26W4	$5,693	54.00
	13-21-55-26W4	$4,271	54.00
	13-29-55-26W4	$927	44.00
	05-31-55-26W4	$6,362	44.00
	06-01-56-27W4	$4,303	44.00
	08-01-56-27W4	$128,790	44.00
	05-36-55-25W4	$557	20.00
	06-35-56-25W4	$1,105	61.28
	07-35-56-25W4	$558	62.27
	05-25-56-25W4	$25,852	39.00
2006			
Q1	10-33-55-26W4	$18,228.93	54.00
	12-33-55-26W4	$129,352.11	44.00
	13-21-055-26W4	$57,754.60	54.00
	05-31-55-26W4	$13,943.26	64.00
	06-01-56-27W4	$75,916.10	44.00
	08-01-56-27W4	$51.11	59.00
	11-27-55-26W4	$41,497.10	54.00
	08-22-56-25W4	$688.05	31.2750257
	05-25-56-25W4	$284.43	39.00
Q2	01-31-55-26W4	$412,167.12	54.00
	10-30-55-26W4	$527.64	35.13
	10-33-55-26W4	$44,817.76	54.00
	12-28-55-26W4	$25,976.73	34.00
	12-33-55-26W4	$297,867.43	44.00
	13-21-55-26W4	$212,982.06	54.00
	13-29-55-26W4	$4.14	34.00

DRILLING, COMPLETION & WORKOVERS cont.			
YEAR	**LOCATION**	**COST**	**PER % W.I.**
2006			
Q2	14-30-55-26W4	$63.86	54.00
	05-31-55-26W4	$340,717.11	64.00
	06-01-56-27W4	$216,570.91	44.00
	06-15-56-27W4	$1,327.99	50.00
	08-01-56-27W4	($41.82)	59.00
	11-27-55-26W4	$403,279.33	54.00
	05-36-55-25W4	$20.00	20.00
	07-35-55-25W4	$9.95	19.9375
Q3	01-31-55-26W4	$151,964.82	54.00
	10-33-55-26W4	$1,200.47	54.00
	11-14-55-26W4	$16,802.93	50.00
	12-28-55-26W4	$1,717.00	34.00
	12-33-55-26W4	$3,874.43	44.00
	13-21-55-26W4	$3,736.83	54.00
	13-29-55-26W4	$2,651.61	34.00
	14-20-55-26W4	$23,460.82	64.00
	14-30-55-26W4	$171,055.76	54.00
	02-01-56-27W4	$36,553.06	84.00
	03-07-56-26W4	$275,794.86	54.00
	05-31-55-26W4	$174,189.08	64.00
	06-01-56-27W4	$8,938.44	44.00
	06-15-56-27W4	$166.90	50.00
	08-01-56-27W4	$43,037.07	59.00
	08-29-55-26W4	$65,111.86	54.00
	100/09-33-055-26W4	$339,944.71	63.67
	11-27-55-26W4	$50,309.04	54.00
	05-36-55-25W4	$29.92	20.00
Q4	01-31-55-26W4	$671.38	54.00
	10-33-55-26W4	$2,041.70	54.00
	11-14-56-27W4	$4,262.05	50.00
	12-33-55-27W4	$2,498.08	44.00
	13-21-55-26W4	$1,542.11	54.00
	14-20-55-26W4	$372,319.38	64.00
	14-30-55-26W4	$75.46	54.00
	02-01-56-27W4	$559,690.34	84.00
	03-07-56-26W4	$118,103.48	54.00
	05-31-55-26W4	($89.88)	64.00
	06-01-56-27W4	$23,129.33	44.00
	06-15-56-27W4	$1,108.97	50.00
	08-01-56-27W4	$12,891.97	59.00
	08-29-55-26W4	$265,803.50	54.00
	100/09-33-55-26W4	$120,655.06	63.67
	102/09-33-55-26W4	$201,223.23	44.00
	11-27-55-26W4	$1,152.47	54.00
	09-30-56-24W4	$63,305.18	71.50

PETRO-REEF RESOURCES LTD. OPERATED WELLS

EQUIPPING & TIE-IN			
YEAR	**LOCATION**	**COST**	**PER % W.I.**
2004			
	10-30-56-27W4	$22,260	35.13
	05-31-55-26W4	$93,669	44.00
Q1	09-30-56-24W4	$39,216	71.50
	05-31-55-26W4	$34,438	44.00
Q2	09-30-56-24W4	$35,710	71.50
	14-30-55-26W4	$57,570	34.00
	05-31-55-26W4	$4,444	44.00
Q3	09-30-56-24W4	$231	71.50
	14-30-55-26W4	$278	34.00
Q4	05-31-55-26W4	($61)	44.00
2005			
	14-30-55-26W4	$3,333	24.00
	05-31-55-26W4	$35,216	44.00
	04-19-56-24W4	$68,343	36.50
	05-25-56-25W4	$63,341	39.00
Q1	09-30-56-24W4	$7,299	71.50
	10-30-56-27W4	$5,109	35.13
	13-29-55-26W4	$3,105	34.00
	14-30-55-26W4	$278	24.00
	04-19-56-24W4	$221	36.50
Q2	09-30-56-24W4	$11,895	71.50
	13-29-55-26W4	$2,112	44.00
Q3	14-30-55-26W4	$88	44.00
	12-28-55-26W4	$345,486	54.00
	14-30-55-26W4	$22,355	24.00
	05-31-55-26W4	$5,333	64.00
	06-01-56-27W4	$134	44.00
	08-01-56-27W4	$97,678	44.00
	05-25-56-25W4	($11,032)	39.00
Q4	09-30-56-24W4	$18,389	71.50
2006			
	12-28-55-26W4	$2,378.22	34.00
	05-31-55-26W4Plant	$29,033.20	49.00
Q1	06-01-56-27W4	$12,194.95	44.00
	08-01-56-27W4	$8,581.26	59.00
	05-25-56-25W4	$1,040.54	39.00

PETRO-REEF RESOURCES LTD. OPERATED WELLS

YEAR	LOCATION	COST	PER % W.I.
2006			
Q2	01-31-55-26W4	$6,706.89	54.00
	10-33-55-26W4	$10,624.70	54.00
	12-28-55-26W4	$1,960.55	34.00
	12-33-55-26W4	$15,028.22	44.00
	16-30-55-26W4	$544.60	34.00
	06-01-56-27W4	$82,848.33	44.00
	08-01-56-27W4	($49,195.00)	59.00
	11-27-55-26W4	$24,083.23	54.00
Q3	12-28-55-26W4	$65,115.48	34.00
	12-33-55-26W4	$132,477.46	44.00
	14-30-55-26W4	$74,988.24	54.00
	16-30-55-26W4	$65,629.04	34.00
	05-31-55-26W4	$115,650.92	64.00
	05-31-55-26W4Plant	$10,673.97	49.00
	06-01-56-27W4	$4,209.47	44.00
	100/09-33055-26W4	$26,575.34	63.67
	11-27-55-26W4	$275,451.10	54.00
Q4	12-28-55-26W4	$13,591.77	34.00
	12-33-55-26W4	$233,729.05	44.00
	14-20-55-26W4	$17,758.49	64.00
	14-30-55-26W4	$1,997.24	54.00
	16-30-55-26W4	$2,540.93	34.00
	02-01-56-27W4	$32,726.51	84.00
	03-07-56-26W4	$142,661.06	54.00
	05-31-55-26W4	$32,221.22	64.00
	06-01-56-27W4	$353.77	44.00
	08-01-56-27W4	($15,165.15)	59.00
	08-29-55-26W4	$145,069.75	54.00
	100/09-33-55-26W4	$152,291.09	63.67
	11-27-55-26W4	$806.29	54.00
	05-25-56-25W4	($29,143.69)	39.00
	09-30-56-24W4	$76,066.95	71.50

PETRO-REEF RESOURCES LTD. NON-OPERATED WELLS

DRILLING, COMPLETION & WORKOVERS				
Year	**Location**	**Cost**	**Status**	**PER % W.I.**
2004				
Q4	06-07-56-25W4	$7,581	Producing Gas Well	12.50
Q4	01-20-56-27W4	$3,895	Producing Gas Well	1.04
2005				
Q1	15-36-55-27W4	$2,056.67	Producing Gas Well	2.09375
Q2	06-07-55-25W4	$23,092.89	Producing Gas Well	12.50
2006				
Q1	07-21-56-27W4	$713.82	Producing Gas Well	50.00
Q1	14-25-55-25W4	$13.97	Producing Gas Well	28.0125
Q1	06-35-56-25W4	$31.84	Producing Gas Well	61.2750257
Q1	06-07-56-25W4	($382.50)	Producing Gas Well	60.9375
Q2	06-35-56-25W4	$30.56	Producing Gas Well	61.2750257
Q3	06-35-56-25W4	$481.53	Producing Gas Well	61.2750257
Q4	14-29-56-25W4	$93.19	Producing Gas Well	100.00
Q4	03-05-56-25W4	$169.93	Producing Gas Well	100.00

PETRO-REEF RESOURCES LTD. NON-OPERATED WELLS

Year	Location	Cost	Status	PER % W.I.
2004				
Q4	06-07-56-25W4	$9,397	Producing Gas Well	60.9375
Q4	01-20-56-27W4	$4,236	Producing Gas Well	1.04
Q4	15-25-56-25W4	$2,756	Producing Gas Well	1.2750257
2005	**Note: There were no wells equipped or tied-in where Petro-Reef was not the operator**			
2006				
Q1	06-07-56-25W4	$1,575.40	Producing Gas Well	60.9375
Q1	15-22-58-25W4	$243.49	Producing Gas Well	100.00
Q2	01-20-56-27W4	$80.01	Producing Gas Well	1.04
Q2	15-36-55-26W4	$70,107.91	Producing Gas Well	21.094
Q3	15-36-55-26W4	$10,413.92	Producing Gas Well	21.094
Q4	15-36-55-26W4	$4,279.28	Producing Gas Well	21.094

The following table represents the pro-forma budget and cash flow for 2007 as prepared by management in respect of revenues expected, less expenses (royalties, operating, interest, general and administrative and professional fees), cash flow, capital expenditures, and net cash flow for the periods indicated.

PETRO-REEF CASH FLOW AND PRO-FORMA BUDGET FOR 2007
QUARTER ENDED
($000's)

	March 31	June 30	Sept. 30	Dec. 31	Total
Gross Crude Oil & Natural Revenue					
Net of Royalties, ARTC and Operating	1,425	1,500	1,782	1,923	6,630
Expenses					
General and Administrative	318	318	318	318	1,272
Cash Flow (Before Capital)	1,107	1,182	1,464	1,605	5,358
Capital Cost					
-Drilling, Completion & Tie-In	1,499	1,333	2,765	1,865	7,462
-Seismic & Land	386	408	568	-	1,362
Net Cash Flow (After Capital)	(778)	(559)	(1,869)	(260)	(3,466)
Bank Loan repaid ($000's)	(375)				(375)
Other					
- Alberta Royalty Tax Credit	152				152
- Warrants Exercised	2,001				2,001
- Private Placements	5,601	2,800			8,401
Cash on Hand	6,601	8,842	6,973	6,713	6,713

Note (1) Due to plant shut down from May 1-13, 2007 for maintenance, revenue will be reduced
Note (2) Royalties and operating expenses are estimated at 40% of gross revenue
Note (3) Management has determined that the Cash Flow estimates can be attained through a combination of cash on hand, cash flow, private placements and necessary bank financing
Note (4) Revenue from wells drilled during the year is not included. The gross of $16,630 is extracted from the independent engineering report as an estimate and not revenues from existing production

Petro-Reef's short-term requirements for cash are met by cash on hand, current cash flow from operations and bank financing. Management has determined that Petro-Reef's cash flow estimates can be attained through a combination of these sources. Long-term cash requirements will depend on the success of the drilling program. Currently, long-term financing is done with bank financing and current cash flow from operations. Consideration for future financing will include increase in bank financing, and issuance of shares from treasury. The company is not nor does it expect to be in default of any of its obligations.

Petro-Reef has no off-balance sheet arrangements.

As the time of writing this report Petro-Reef is not considering any proposed acquisitions or dispositions outside the normal course of business. If, as and when the transaction is proposed, and finalized it shall be reported as required.

The present office lease agreement expires on September 30, 2011. Future lease payments, excluding operating costs, to the end of the lease term are as follows:

2007	$77,577
2008	$80,922
2009	$84,258
2010	$86,762
2011	$65,070

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions and to use judgment regarding assets, liabilities, revenues and expenses. Accordingly, actual results may differ from those estimated amounts.

Recorded amounts for depletion and depreciation, asset retirement obligations and abandonment costs, the impairment of oil and natural gas properties and amounts used for the ceiling test and impairment calculations and based on estimates of oil and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves and the related future cash flows and costs are subject to measurement uncertainty, and the effect on the consolidated financial statements of future periods could be significant.

The total future asset retirement obligation was estimated based on the Company's net ownership in all wells and facilities, estimated costs to reclaim and abandon the wells and the estimated timing of costs to be incurred in future periods. The Company has estimated the net present value of its asset retirement obligation to be $391,648 (2005 – $217,915) as at December 31, 2006 based on a total future liability of $711,198 (2005 – 389,677), which will be incurred between 2006 and 2025. A credit adjusted risk free rate of 6.08 percent (2004 – 7.5 percent) and an inflation rate of two percent were used to calculate the fair value of the asset retirement obligation.

A reconciliation of the asset retirement obligation is provided below:

	2006	**2005**
Balance, beginning of year	$217,915	$155,456
Liabilities incurred in year	142,379	64,423
Liabilities settled in year	(432)	(15,229)
Revisions to estimate	31,786	13,265
Balance, end of year	$391,648	$217,915

The authorized share capital of the company is comprised of an unlimited number of common shares. Details of the changes in the company's issued share capital during 2006 and 2005 are as follows:

	2006		2005	
Common Shares	**Number of shares**	**Amount $**	**Number of shares**	**Amount $**
Balance – Beginning of year	21,438,924	5,558,614	17,738,937	4,772,876
Issued for the exercise of:	1,180,000	1,042,909		
Stock options	1,066,367	959,737	200,000	101,060
Unit private placement	-	-	3,499,987	874,995
Share issue costs (net of $96,500 of tax)	-	(1,500)	-	190,317
Balance – End of year	**23,685,291**	**7,559,760**	**21,438,924**	**5,558,614**

Basic and diluted earnings (loss) per common share are calculated using the weighted average number of common shares outstanding during the year of 25,413,664 (2004 – 21,747,157).

The company has a stock option plan for directors, officers and key employees. The exercise price of each option equals the market price of the company's stock on the date of grant. Options are vested over three years and expire after a maximum exercise period of five years from the date of issuance. A summary of the status of the company's stock option plan as of December 31, 2006 and 2005 and changes during the year is presented below:

	2006		2005	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance beginning of year	2,120,000	$0.50	1,510,000	$ 0.49
Granted	1,040,000	1.24	810,000	0.50
Exercised	(1,180,000)	(0.50)	(200,000)	(0.40)
Expired	-	-	-	-
Balance end of year	1,980,000	0.89	2,120,000	$0.50
Exercisable end of year	940,000	0.50	1,310,000	$0.50

The following table summarizes information about stock options outstanding at December 31, 2006:

		Options outstanding		Options exercisable
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life
$ 0.42	350,000	1.52	350,000	1.52
0.50	430,000	3.54	430,000	3.54
0.52	10,000	3.65	10,000	3.65
0.70	100,000	2.46	100,000	2.46
0.71	50,000	2.21	50,000	2.21
0.90	40,000	4.87	-	-
1.05	50,000	4.73	-	-
1.20	390,000	4.82	-	-
1.30	560,000	4.47	-	-
	1,980,000	3.70	940,000	2.68

Compensation cost of $481,709 (2005 - $176,308) has been recognized for stock options granted during the year.

The weighted average fair value of each option granted during the year ended December 31, 2006 is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2006	2005
Fair value of options granted ($/share)	$ 0.78	$ 0.33
Risk-free interest rate (%)	4.02	3.40
Expected life (years)	3	3
Expected volatility (%)	1.30	102
Expected dividend yield (%)	-	-

CONTRIBUTED SURPLUS

	2006	2005
Balance – Beginning of year	$534,308	$380,060
Stock based compensation expense	$481,709	$176,308
Adjustment for options exercised in the year	($445,408)	($22,060)
Balance – End of year	$570,609	$534,308