

**PETRO-REEF RESOURCES LTD.**

**PRESS RELEASE**

TSX Venture Stock Exchange  
Symbol PER  
Common Shares Outstanding 17,688,937

Calgary, Alberta  
May 18, 2004

**PETRO-REEF ANNOUNCES RESULTS OF 2003 ANNUAL REPORT**

The 2003 Annual Report of Petro-Reef Resources Ltd. was mailed to registered shareholders and to Intermediaries May 14, 2004.

The three year review tabulates the financial and operations results for the company to year end 2003.

	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>FINANCIAL</b>			
Crude Oil and Natural Gas Revenue Net of royalties and ARTC	\$894,261	\$643,712	\$815,592
Cash Flow from Operations	\$244,486	\$168,213	\$463,284
Cash Flow from Operations per Share	\$0.01	\$0.01	\$0.03
Net (Loss) Earnings from Operations	(\$148,453)	(\$126,498)	\$108,063
Net (Loss) Earnings per Share	(\$0.01)	(\$0.01)	\$0.01
Capital Expenditures	\$1,557,439	\$872,447	\$961,100
Total Assets	\$8,093,157	\$6,686,347	\$6,410,979
Bank Loan	\$1,150,000	-	-
Shareholder's Equity	\$4,837,288	\$4,743,176	\$4,694,176
Common Shares Outstanding			
End of Period	17,688,937	17,688,937	17,588,937
Weighted Average	17,688,937	17,602,362	17,588,937
<b>OPERATIONS</b>			
<b>Daily Average Production</b>			
Crude Oil and NGLs (Bbls/day)	6	4	0.4
Natural Gas (Mcf/day)	409	470	519
Total BOE per day 6:1	74	82	87
Finding & Development Cost per BOE <sup>(1)</sup>	\$18.00	\$14.87	\$7.67
Netbacks (\$per BOE) <sup>(3)</sup>	\$23.95	\$15.48	\$24.03
Reserve Replacement Ratio	3.2	1.8	4.3
<b>Average Selling Price</b>			
Crude Oil (\$per BOE)	43.21	40.12	- <sup>(5)</sup>
Natural Gas (\$per BOE)	39.96	24.24	32.04 <sup>(4)</sup>
NGL (\$per BOE)	44.14	40.80	-
<b>Reserves (Proved plus Probable)</b>			
Crude Oil and NGLs (Bbls)	40,400	103,400	8,900
Natural Gas (MMcf)	2,527	1,795	2,142
Total BOE	461,600	402,567	366,067
<b>Present Value of Reserves (MS) <sup>(2)</sup></b>			
Undiscounted before Taxes	13,277	10,378	6,024
Discounted before Taxes at 10%	9,490	6,297	4,080
Established Reserve Life Index (P+P)	24.4 yrs	30 yrs	22 yrs
Proven Reserve Life Index	15.4 yrs	30 yrs	22 yrs

(1) After revisions due to policy 51-101.

(2) Using Constant Prices and Costs.

(3) Using 6 to 1 conversion.

(4) Includes NGL

(5) Crude Oil sales were non-operated and reported with total oil and gas sales combined.

The reserves report made note of increase in reserves to the company. The calculation of reserves changed for 2003 from previous years' requirements.

### **1) Reserves**

As a result of more stringent reserve reporting rules and guidelines many oil and gas companies have had to report a major reduction in proven plus probable reserves. Petro-Reef's proven plus probable net reserves however, based on an independent engineering year-end evaluation, indicated an increase of fifteen percent (15%) to 461.6 MBOE from 402.0 MBOE in the previous year before 2003 production, and an increase of twenty-two percent (22%) after 2003 production.

Reserves were ninety-three percent (93%) natural gas and seven percent (7%) crude oil and NGLs.

New reserve additions (after revisions) during fiscal year 2003 were 165.2 MBOE of which eighty-six percent (86%) was natural gas. The company's reserve replacement ratio was 6.1 to 1.

Of the total net reserves reported, Petro-Reef's reserves are fifty-two percent (52%) proved and forty-eight percent (48%) probable.

- Proven reserves – are reserves that can be estimated to be recoverable with a high degree of certainty.
- Probable reserves – are those reserves where recovery is less certain than with proven reserves. Under the definition, there is equal probability that actual remaining quantities recovered will be greater – or less – than the sum of the estimated proven plus probable reserves.
- Possible reserves – are less likely to be recoverable than probable reserves. The probability that remaining amounts recovered will exceed the sum of the estimated proved plus probable plus possible reserve is ten percent (10%).

### **Reserves reconciliation**

The previous evaluation dated January 1, 2003 was prepared using definitions in accordance with National Policy 2-B. National Policy 2-B required probable reserves adjustments to account for risk associated with their ultimate recovery. Petro-Reef previously applied a recoverable risk factor of fifty percent (50%) in reporting its probable reserves. Under new National Instrument 51-101 definitions, estimates are prepared such that there is a fifty percent (50%) chance of recovering at least the full proved plus probable reserves. The reserves reconciliation reflects current proved plus probable reserves as opposed to the January 1, 2003 Status Report which used proved plus fifty percent (50%) risk adjusted probable reserves. The January 1, 2004 report was prepared by Sproule Associates Limited.

### **2) Reserves Value**

Using a ten percent (10%) NPV, the value of proved plus probable reserves has increased by twenty-one percent (21%) compared with last year's established reserves using forecast prices and costs.

### **3) Reserve Life Index (as at January 1, 2004)**

Based on established reserves and production volumes, Petro-Reef's reserve life index was 24.4 years at the end of 2003 compared with 30 years at the end of 2002 – a nineteen percent (19%) decrease. This is using National Instrument 51-101 for 2003 and National Policy 2-B for 2002. Petro-Reef's reserve life index (RLI) is an indication of the number of years it would take to deplete the Company's reserves. The RLI is obtained by dividing the year end reserves by the average daily production of oil, natural gas and natural gas liquids for a calendar year as estimated and determined by the independent reserves evaluator.

#### **4) Evaluation Standards**

The reserves report has been prepared by Sproule Associates Limited using state-of-the-art geological and engineering knowledge and techniques. It has been prepared with the Code of Ethics of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (“APEGGA”). Finally, this report adheres in all material aspects to the “best practices” recommended in the COGE Handbook which are in accordance with principals and definitions established by the Calgary Chapter of the Society of Petroleum Evaluation Engineers. The COGE Handbook is incorporated by reference in National Instrument 51-101.

#### **5) The Evaluation of the petroleum and natural gas**

The Evaluation of the petroleum and natural gas reserves of Petro-Reef Resources Ltd. has been approved by the company’s reserve committee and the board of directors.

The entire report has been filed and is available for review on the SEDAR website [www.sedar.com](http://www.sedar.com)

Petro-Reef Resources Ltd. is a Calgary based crude oil and natural gas exploration and production company with producing properties in Alberta, Canada.

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