

**PETRO-REEF RESOURCES LTD.**

**PRESS RELEASE**

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

Calgary, Alberta  
June 7, 2004

**PETRO-REEF ANNOUNCES RESULTS OF FIRST QUARTER 2004**

The first quarter report for Petro-Reef Resources Ltd. was presented as follows:



Notable from the highlights is that although the average natural gas price for the three month period is twenty-four percent less (24%), the cash flow from operations for the comparable period increased by fifty-seven percent (57%).

The following tabulations compares first quarter natural gas prices per gigajoule for a period of four years, for natural gas sold only by Petro-Reef.

**First Quarter Product Price for Natural Gas (\$ per Gigajoule)  
Years 2001-2002-2003-2004**

Month of:	2001	2002	2003	2004
January	10.3364	2.910568	6.643443	6.659749
February	7.438433	2.91909	8.516847	5.7577239
March	7.324812	4.048778	8.081131	5.881507
Total Price per Quarter	25.099645	9.878436	23.241421	18.298495
Average Price per Quarter	8.366548333	3.292812	7.747140333	6.099498

Production and revenue are compared for the first quarter of 2004 versus 2003 in the next two tables.

**2004 PRODUCTION & REVENUE SUMMARY (Unaudited)**

	<u>Production BOE / Day</u>	<u>Production BOE / Month</u>	<u>Price \$/BOE</u>	<u>Royalty Expenses \$/BOE</u>	<u>Netback \$/BOE</u>	<u>Gross Revenue \$ After Royalties</u>	<u>Operating Expenses \$</u>	<u>Cash Flow (1) \$</u>
JAN	79.66	2,469.57	46.07	3.97	29.36	112,466.45	39,959.27	72,507.18
FEB	129.35	3,751.11	42.57	4.17	22.04	125,244.88	42,573.08	82,671.80
MAR	110.19	3,415.94	40.46	3.36	17.24	114,875.58	55,978.07	58,897.51
<b>3 Month Average</b>	<b>106.40</b>	<b>3,212.21</b>	<b>43.11</b>	<b>3.83</b>	<b>22.21</b>	<b>117,528.97</b>	<b>46,170.14</b>	<b>71,358.83</b>

Note 1: Cash Flow for this report is before Alberta Royalty Tax Credits, general and administrative costs, interest expense, and income taxes.

**2003 PRODUCTION & REVENUE SUMMARY (Unaudited)**

	<u>Production BOE / Day</u>	<u>Production BOE / Month</u>	<u>Price \$/BOE</u>	<u>Royalty Expenses \$/BOE</u>	<u>Netback \$/BOE</u>	<u>Gross Revenue \$ After Royalties</u>	<u>Operating Expenses \$</u>	<u>Cash Flow (1) \$</u>
JAN	38.00	1,178.03	45.35	4.20	26.28	44,774.35	13,658.90	31,115.45
FEB	58.19	1,629.21	47.95	6.58	34.47	74,022.32	17,858.35	56,163.97
MAR	60.37	1,871.34	50.71	2.38	40.71	92,696.31	16,486.43	76,209.88
<b>3 Month Average</b>	<b>52.19</b>	<b>1,559.53</b>	<b>48.00</b>	<b>4.39</b>	<b>33.85</b>	<b>70,497.66</b>	<b>16,001.23</b>	<b>54,496.43</b>

## **PROPERTY REVIEW**

Ninety-seven point two percent (97.2%) of Petro-Reef's production in 2003 came from two core properties, Peavey/Morinville with fifty-one percent (51%) and Alexander/Qui Barre with forty-six point two percent (46.2%) of the production. The remaining two point eight percent (2.8%) comes from minor working interest and royalty properties.

In the Peavey/Morinville prospect area no new wells were drilled in the first quarter of 2004. Also, there was no acquisition or disposition of lands. One well at 09-30-056-24W4M was re-completed as a natural gas well in the Viking formation with a production rate of 350 thousand cubic feet per day and natural gas liquids of twenty-five barrels per day. Petro-Reef has seventy-one point five percent (71.5%) working interest in this well. In order to produce the well a pipeline was laid to tie-in to facilities at 05-25-056-25W4M. Both the wells and the facilities are operated by Petro-Reef.

Plans for the Peavey/Morinville area are to continue with the process of adding additional production. The work in 2003 has added pipeline capability and has developed a central processing facility to handle more natural gas as required.

In the Alexander/Qui Barre prospect area no new wells were drilled in the first quarter of 2004. Also, there was no acquisition or disposition of land. During December 2003 production rates for the well at 05-31-055-26W4M declined such that by early January 2004 the natural gas production had dropped to about 1.35 million cubic feet per day with about twenty-five barrels of crude oil per day. It was determined that additional equipment and facilities were required to improve production. This took a period of six weeks in January and February 2004 during which time the well was not producing. In addition complications arose due to mechanical failures brought about by a spell of severe cold weather conditions. The well was placed back on production on February 22, 2004. Since then compression facilities have been added in order to be able to deliver the natural gas at pipeline pressure.

Plans for the Alexander/Qui Barre area are to drill a well at 14-30-055-26W4M, one half (1/2) mile from the well at 05-31-056-26W4M. It has been licensed to a depth of 1,700 meters as a test into the Leduc formation. Tentative drilling date has been scheduled for late June 2004. The locations for the wells in this area were defined with the aid of an eight square mile 3D seismic program recorded in 2003.

During the first quarter of 2004 the company filed three press releases, copies of which are appended hereto.

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

- 1) Each exploration prospect must exhibit
  - a) A minimum three hydrocarbon zone potential.
  - b) Each zone must show the 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) The use of 2-D and 3-D seismic to identify and confirm potential drilling locations using state-of-the-art technology.

On behalf of Petro-Reef and the board of directors, I would like to thank the shareholders for their continued support. We will continue to endeavor to meet and hopefully exceed your expectations in what has started as an exciting first part of fiscal year 2004.

Dated: May 31, 2004

“Joseph Werner”  
Joseph Werner  
President and  
Chief Executive Officer

## **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, certain of which are beyond Petro-Reef's control, including: the impact of general economic conditions in Canada, the United States and worldwide; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations of companies with respect to announced transactions and final valuations thereof; and obtaining required approvals of regulatory authorities.

Petro-Reef's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Petro-Reef will derive therefrom.

## **ABBREVIATIONS**

ARTC	Alberta Royalty Tax Credit
Bbl	barrel
Bbls	barrels
Bcf	billion cubic feet
*BOE	barrel of oil equivalent (6 Mcf = 1 BOE)
Bopd	Barrels of oil per day
GJ	Gigajoule
GJs/d	Gigajoules per day
Mbbls	thousands of barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMbbls	millions of barrels
MMcf	million cubic feet
MMcf/d	million cubic feet per day
FNR	future net revenue
NGL	natural gas liquids
NPV	net present value
RLI	reserve life index

\*Note that natural gas is converted to a barrel of oil equivalent (BOE) using six thousand cubic feet equal to one BOE unless otherwise stated. This conversion conforms to the Canadian Securities Regulators National Instrument 51-101. A BOE is a very approximate comparative measure that could be misleading in some cases, particularly if used in isolation.

**PETRO-REEF RESOURCES LTD.  
CORPORATE INFORMATION**

**DIRECTORS AND OFFICERS**

**Joseph Werner** <sup>(1) (3)</sup>  
Chief Executive Officer  
President & Director  
Calgary, Alberta

**Theodore M. Donhuysen** <sup>(2)</sup>  
Vice-President Exploration and Production  
Chief Operating Officer & Director  
Calgary, Alberta

**Robert N. Maertens-Poole** <sup>(3) (4) (5)</sup>  
Chief Financial Officer  
Treasurer and Director  
Calgary, Alberta

**John Lagadin** <sup>(2) (4) (5)</sup>  
Director  
Calgary, Alberta

**Alan P. Hallman** <sup>(1) (2) (4)</sup>  
Director  
Calgary, Alberta

**Dennis K. Ulrich** <sup>(1) (3) (5)</sup>  
Director  
Medicine Hat, Alberta

**R. Greg Powers** <sup>(6)</sup>  
Corporate Secretary  
Legal Counsel  
Calgary, Alberta

- (1) Member of the Audit Committee.
- (2) Member of the Reserves Committee.
- (3) Member of the Executive Committee.
- (4) Member of the Governance Committee.
- (5) Member of the Compensation Committee.

**Head Office**

2020, 800 - 5th Avenue S.W.  
Calgary, Alberta, Canada T2P 3T6  
Telephone: (403) 265-6444  
Facsimile: (403) 264-1348  
E-Mail: petroreef@shawcable.com

**Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants  
3100 111 5th Avenue SW  
Calgary, Alberta T2P 5L3

**Bank**

National Bank of Canada  
600 407 8th Avenue SW  
Calgary, Alberta T2P 1E5

**Registrar and Transfer Agent**

CIBC Mellon Trust Company  
600 333 7th Avenue SW  
Calgary, Alberta T2P 2Z1

**Stock Listing**

TSX Venture Exchange  
Trading Symbol PER

- (6) Baker & McKenzie  
2600 255 5th Avenue SW  
Calgary, Alberta T2P 3G6

**PETRO-REEF RESOURCES LTD.**  
**FINANCIAL STATEMENTS (UNAUDITED)**  
**MARCH 31, 2004 AND 2003**

**PETRO-REEF RESOURCES LTD.**

2020, 800 - 5<sup>th</sup> Avenue S.W.

Calgary, Alberta T2P 3T6

Canada

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[petroreef@shawcable.com](mailto:petroreef@shawcable.com)

**NOTICE TO READER**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended March 31, 2004.

**PETRO-REEF RESOURCES LTD.**  
**Balance Sheet**  
**As at March 31, 2004 and December 31, 2003**  
**Unaudited**

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	<b>2004</b>	<b>2003</b> <b>(Restated - note 2)</b>
<b>ASSETS:</b>		
<b>Current assets</b>		
Accounts receivable	\$ 419,334	\$ 992,523
Prepaid expenses and deposits	<u>39,714</u>	<u>6,977</u>
	459,048	999,500
<b>Property, plant and equipment</b> (note 3)	<u>7,258,951</u>	<u>7,175,224</u>
	<u>\$ 7,717,999</u>	<u>\$ 8,174,724</u>
<b>LIABILITIES:</b>		
<b>Current liabilities</b>		
Cheques drawn in excess of bank	\$ 9,545	\$ 409,474
Bank line of credit (note 4)	1,475,000	1,150,000
Accounts payable and accrued charges	<u>1,395,300</u>	<u>1,647,684</u>
	2,879,845	3,207,158
<b>Future income taxes</b>	474,424	529,424
<b>Asset retirement obligation</b> (note 5)	<u>193,909</u>	<u>190,436</u>
	<u>3,548,178</u>	<u>3,927,018</u>
<b>SHAREHOLDERS' EQUITY:</b>		
<b>Share capital</b> (note 6)	4,743,176	4,743,176
<b>Contributed surplus</b> (note 7)	98,032	94,111
<b>Deficit</b>	<u>(671,387)</u>	<u>(589,581)</u>
	<u>4,169,821</u>	<u>4,247,706</u>
	<u>\$ 7,717,999</u>	<u>\$ 8,174,724</u>

SIGNED ON BEHALF OF THE BOARD  
"Joseph Werner"  
 Director

"Robert N. Maertens-Poole"  
 Director

**PETRO-REEF RESOURCES LTD.**  
**Statement of Operations and Deficit**  
**For the three months ended March 31, 2004 and 2003**  
**Unaudited**

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	<b>2004</b>	<b>2003</b> (Restated – note 2)
<b>Revenue</b>		
Oil and gas sales, net of royalties and ARTC	<u>\$ 354,288</u>	<u>\$ 211,493</u>
<b>Expenses</b>		
Accretion expense	3,473	3,069
Depletion and depreciation	254,804	69,058
General and administrative	63,173	80,082
Interest expense	27,213	3,780
Production	138,510	48,004
Stock based compensation	<u>3,921</u>	<u>3,921</u>
	<u>491,094</u>	<u>207,914</u>
<b>Earnings (loss) before the following</b>	(136,806)	3,579
<b>Future income taxes (recovery)</b>	<u>(55,000)</u>	<u>4,188</u>
<b>Net loss for the period</b>	(81,806)	(609)
<b>Deficit – Beginning of period</b>	<u>(589,581)</u>	<u>(440,861)</u>
<b>Deficit – End of period</b>	<u><b>\$ (671,387)</b></u>	<u><b>\$ (441,470)</b></u>
<b>Basic and diluted loss per common share</b>	<u><b>\$ (0.004)</b></u>	<u><b>\$ (0.000)</b></u>

**PETRO-REEF RESOURCES LTD.**  
**Statement of Cash Flows**  
**For the three months ended March 31, 2004 and 2003**  
**Unaudited**

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	<b>2004</b>	<b>2003</b> <b>(Restated - note 2)</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (81,806)	\$ (609)
Items not effecting working capital		
Depletion and depreciation	254,804	69,058
Stock based compensation	3,921	3,921
Accretion expense	3,473	3,069
Future income taxes	<u>(55,000)</u>	<u>4,188</u>
Cash flow from operations	125,392	79,627
Net change in non-cash operating working capital items (note 8)	<u>30,070</u>	<u>(163,518)</u>
	<u>155,462</u>	<u>(83,891)</u>
<b>Financing activities</b>		
Bank line of credit	<u>325,000</u>	<u>725,000</u>
<b>Investing activities</b>		
Expenditures on property, plant and equipment	(338,531)	(130,335)
Net change in non-cash investing working capital items (note 8)	<u>257,998</u>	<u>(774,731)</u>
	<u>(80,533)</u>	<u>(905,066)</u>
<b>Change in cheques drawn in excess of bank during the period</b>	399,929	(263,957)
<b>Cheques drawn in excess of bank – Beginning of period</b>	<u>(409,474)</u>	<u>258,865</u>
<b>Cheques drawn in excess of bank – End of period</b>	<u>\$ (9,545)</u>	<u>\$ (5,092)</u>
<b>Supplemental information</b>		
Interest paid	\$ 27,214	\$ 3,780

**PETRO-REEF RESOURCES LTD.**  
**Notes to Financial Statements**  
**March 31, 2004 and 2003**

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**1. Accounting policies**

The interim financial statements of Petro-Reef Resources Ltd. (the "Company") have been prepared following the same accounting policies and methods of computation as for the financial statements of the Company as at December 31, 2003. The interim financial statements contain disclosures, which are supplemental to the Company's annual financial statements. Certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted except as noted below. The year end financial statements should be read in conjunction with the Company's financial statements and notes thereto for the year ended December 31, 2003.

The Company has a working capital deficit of \$2,420,797 as at March 31, 2004 and \$2,207,658 as at December 31, 2003. The Company's ability to continue as a going concern is dependent upon the continued support of the Company's creditors, which management expects will be received. Without such creditor support, the Company's assets and liabilities may not be realized or discharged in the normal course, with the result that the carrying amounts could be adjusted materially.

**2. Change in accounting policies**

**Asset retirement obligation**

Effective January 1, 2004, the Company adopted the new Canadian accounting standard for asset retirement obligations. The new standard requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the property, plant and equipment and depleted and depreciated using a unit of production method over estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time (accretion), and changes in the estimated future cash flows underlying the obligation. The effect of adoption of the new standard on the financial statements is disclosed below.

The effect of this change in accounting policy has been recorded retroactively with restatement of prior periods. The effect of the adoption is presented below as increases (decreases):

Balance Sheet	<b><u>December 31, 2003</u></b>
Asset retirement costs, included in property, plant and equipment	\$ 122,861
Accumulated depletion and depreciation on asset retirement costs, included in property, plant and equipment	41,294
Asset retirement obligations	190,436
Accumulated future site restoration liability	(50,575)
Future income tax liability	(16,466)
Deficit	(41,828)
	<b>Three months ended</b>
Statement of Operations	<b><u>March 31, 2003</u></b>
Accretion expense	\$ 3,069
Depletion and depreciation on asset retirement costs	938
Provision for future site restoration	<u>(1,675)</u>
Net loss impact	<b><u>\$ 2,332</u></b>
Basic and diluted net loss per share	<b><u>\$ 0.00</u></b>

There was no impact on the Company's cash flow as a result of adopting this new policy. See note 5 for additional information on the asset retirement obligation and the impact on the financial statements.

**PETRO-REEF RESOURCES LTD.**  
**Notes to Financial Statements**  
**March 31, 2004 and 2003**

**Stock based compensation**

On October 1, 2003 the Company adopted the new Canadian accounting standards with respect to stock based compensation, prospectively with an effective date of January 1, 2003. As a result, the net loss for the three months ended March 31, 2003 has been adjusted by \$3,921 to reflect the portion of the December 31, 2003 adjustment of stock based compensation related to that period.

**3. Property, plant, and equipment**

	<b>March 31, 2004</b>		
	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net</b>
Petroleum and natural gas	\$ 10,421,590	\$ 3,177,122	\$ 7,244,468
Furniture and fixtures	31,104	16,621	14,483
	<u>\$ 10,452,694</u>	<u>\$ 3,193,743</u>	<u>\$ 7,258,951</u>
	<b>December 31, 2003</b>		
	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net</b>
Petroleum and natural gas	\$ 10,085,109	\$ 2,922,946	\$ 7,162,163
Furniture and fixtures	35,777	22,716	13,061
	<u>\$ 10,120,886</u>	<u>\$ 2,945,662</u>	<u>\$ 7,175,224</u>

No interest on general and administrative expenses were capitalized during the period. Unproven property costs of \$244,131 (2003 – \$244,131) have been excluded from capitalized costs subject to depletion.

**4. Bank line of credit**

The current line of credit is \$2,000,000, with an additional \$500,000 available for development drilling and acquisition financing. Interest is at prime plus 1.25% per annum for the current loan and 1.5% per annum for the development loan. At March 31, 2004 the balance owing on the current loan was \$1,475,000 (2003 - \$1,150,000)

The line of credit is secured by \$5,000,000 floating charge debenture over all the Company's assets with a negative pledge and undertaking to provide fixed charges on the Company's major producing properties at the request of the bank. The credit facilities are repayable on demand and are reviewed periodically by the bank, the next review being scheduled August 2004.

**5. Asset retirement obligation**

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 \$193,909 as at March 31, 2004 based on a total future liability of \$312,504 which will be incurred between 2004 and 2024. A credit adjusted risk free rate of 7.5 percent and an inflation rate of 2 percent were used to calculate the fair value of the asset retirement obligation.

**PETRO-REEF RESOURCES LTD.**  
**Notes to Financial Statements**  
**March 31, 2004 and 2003**

A reconciliation of the asset retirement obligation is provided below:

	<b>Three months ended March 31 2004</b>	<b>March 31 2003</b>	<b>Year Ended December 31 2003</b>
Balance, beginning of period	\$ 190,436	\$ 168,190	\$ 168,190
Liabilities incurred in period	-	-	9,632
Liabilities settled in period	-	-	-
Accretion expense	3,473	3,069	12,614
Balance, end of period	<u>\$ 193,909</u>	<u>\$ 171,259</u>	<u>\$ 190,436</u>

**6. Share capital**

The authorized share capital of the company is composed of an unlimited number of preferred shares and an unlimited number of common shares.

Issued and outstanding common shares

	<u>Shares</u>	<u>Amount</u>
March 31, 2004 and December 31, 2003	<u>17,688,937</u>	<u>\$ 4,743,176</u>

Basic and diluted loss per common share are calculated using the weighted average number of common shares outstanding during the period of 17,688,937 (2003 – 17,688,937)

**7. Stock based compensation**

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 vest equally over three years and expire after a maximum exercise period of five years from the date of issue. Compensation costs attributable to share options granted is measured at fair value at the grant date and expensed over the expected exercise time frame with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The 50,000 shares granted during the first quarter, vest over three years and expire March 16, 2009

As at March 31, 2004, the following options were issued:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2004	1,310,000	\$ 0.42
Granted	50,000	0.71
Expired	-	-
Outstanding at March 31, 2004	<u>1,360,000</u>	<u>0.43</u>
Exercisable at March 31, 2004	<u>403,333</u>	<u>\$ 0.47</u>

**PETRO-REEF RESOURCES LTD.**  
**Notes to Financial Statements**  
**March 31, 2004 and 2003**

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The outstanding options have a range of exercise prices between \$.30 and \$.71 per share and a weighted average number of years to expiry of 3.1. The exercisable options have a range of exercise prices between \$.30 and \$.49 per share and have a weighted average number of years to expiry of .89.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	<b>Three months ended March 31, 2004</b>
Fair value of options granted (\$/share)	.55
Risk-free interest rate (%)	3.02
Expected life (years)	3
Expected volatility (%)	136
Expected dividend yield (%)	-

**8. Cash flows**

	<u><b>2004</b></u>	<u><b>2003</b></u>
Changes in non-cash working capital		
Operating Activities:		
Accounts receivable	\$ 503,940	\$ 10,214
Prepaid deposits	(32,737)	(22,976)
Accounts payable and accrued charges	<u>(441,133)</u>	<u>(150,756)</u>
	<u>30,070</u>	<u>(163,518)</u>
Investing Activities:		
Accounts receivable	69,249	(35,883)
Accounts payable and accrual charges	<u>188,749</u>	<u>(738,846)</u>
	<u>257,998</u>	<u>(774,729)</u>
	<u>\$ 288,068</u>	<u>\$ (938,247)</u>