

Petro-Reef Resources Ltd. Reports Cash Flow of \$1.1 million in Q2 2006

Calgary, Alberta, August 30, 2006 – Petro-Reef Resources Ltd. (TSX-V:PER), a junior oil and gas company operating in Alberta, continued to grow its production and cash flow in the first half of 2006. Cash flow from operations for the first six months of the year increased 227% in 2006 compared to the first six months of 2005. Over the same period, overall production measured in barrels of oil equivalent per day (BOE/d) increased 196%. Production in the second quarter of 2006 averaged 532 BOE/d with cash flow from operations of \$1.1 million, or \$0.05 per share.

Petro-Reef spent \$2.2 million in the second quarter of 2006 on its active capital program. This compares with capital expenditures of \$498,000 in the previous quarter and \$425,000 during the second quarter of 2005. The company expects to realize the full benefits of this record investment in the third and fourth quarters of 2006.

First Half Highlights

Financial	June 30 2006	June 30 2005	% Change
Crude oil and natural gas revenue net of Royalties and ARTC	\$3,505,958	\$1,322,944	+165
Cash flow from operations	\$2,363,091	\$823,070	+227
Cash flow from operations per share	\$0.06	\$0.05	+20
Net income (loss) for the period	\$78,072	\$(39,093)	-
Net income (loss) per share	\$0.00	\$0.00	-
Capital expenditures	\$2,715,881	\$856,090	+217
Bank balance (loan)	\$1,348,297	\$(1,000,000)	-
Shareholders' equity	\$6,600,111	\$4,173,767	+58
Weighted average common shares outstanding	22,134,124	17,800,815	+24
Operations	June 30 2006	June 30 2005	% Change
Daily Average Production			
Crude oil and NGL (Bbls/day)	11	1	+1,000
Natural gas (Mcf/day)	3,300	1134	+191
Total BOE/day	563	190	+196
Average Selling Price			
Crude oil (\$per Bbl)	62.55	52.38	+19
Natural gas (\$per Mcf)	6.74	7.12	-5
NGL (\$per Bbl)	54.70	50.78	+8

Petro-Reef's October 2005 natural gas discovery at 12-28 in Alexander, Alberta is currently producing at 2.16 million cubic feet per day (MMcf/d) of natural gas (306 barrels of oil equivalent per day (BOE/d) 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.

Production tests on the first two offsetting wells in the same zone as the 12-28 well were completed in late July 2006. The first of the two wells, located two kilometres east at 11-27, was placed on stream on August 21, 2006 at a rate of 2.10 MMcf/d of natural gas. With the company's interest at 54% net production to Petro-Reef is 1.134 MMcf/d of natural gas (189 BOE/d). The second well at 12-33, two kilometres north, has experienced timing delays due to wet weather and regulatory approvals but should be tied-in and on stream by September 20, 2006. The 12-33 well is expected to produce 500 Mcf/d of natural gas plus 30 barrels of crude oil per day (Bopd). With the company's interest at 54% net production to Petro-Reef is 270 Mcf/d of natural gas (45 BOE) plus 16 Bopd.

As announced on July 27, 2006, Petro-Reef expects to drill three wells offsetting the 12-28, 11-27 and 12-33 wells starting on August 30, 2006. Relative to the 12-28 well, the three wells are located one kilometre southwest at 8-29, 2.1 kilometres southwest at 14-20 and 1.75 kilometres northeast at 9-33. In addition to targeting the producing zone at 12-28, the 9-33 well will be evaluating five additional natural gas zones at the up-dip regional side of the prospective lands including the coal bed methane potential.

After almost four months, the well at 6-1 continues to produce at approximately 35 barrels of light sweet crude oil per day with the natural gas rate having dropped from 80 Mcf/d to approximately 10 Mcf/d. With the company's interest at 44%, net production to Petro-Reef is 15 Bopd. With the natural gas rate decreasing the company anticipates producing exclusively for crude oil from the 6-1 well to increase efficiency and strokes per minute for the pump. An off-set well at 11-14, 3.7 kilometres to the northwest, is still waiting for regulatory approval. Petro-Reef has a 50% working interest in this re-entry well, anticipated to commence in the next 30 days.

A well announced at 5-31 on June 14, 2006 has completed its remedial work and has been production tested by swabbing the well at a rate of 250 Mcf/d of natural gas plus 120 Bopd. With the company's interest at 64%, the production test rate net to Petro-Reef is 135 Mcf/d of natural gas, 20 BOE/d, plus 65 Bopd. Facilities are in place and the well is expected to be on-stream in 10 to 14 days.

As announced, a well at 14-30, one kilometre south of 5-31, in the same zone, yielded an initial production test rate of 1.1 MMcf/d of natural gas. With Petro-Reef having a 54% interest, net production to Petro-Reef on the production test is 594 Mcf/d of natural gas (99 BOE/d). The facilities for the well are being built and the company anticipates the well will be on-stream in the next five to seven days.

The well at 2-1, which is to be drilled as an offset to 6-1 and 5-31 will be drilled starting early September 2006. The 2-1 well, 1.4 kilometres northwest of the 5-31 well, provides Petro-Reef with an 84% interest pursuant to a farmout agreement.

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 of natural gas is 61 BOE/d. The well at 16-30 is to be

tioned in by the end of September 2006 with net production to Petro-Reef at 204 Mcf/d of natural gas (34 BOE/d). The second well at 1-31 will be placed on-stream at a later date after the 16-30 well has produced for at least 60 to 90 days.

Petro-Reef also expects to drill a well in September 2006 at 3-7, 2.7 kilometres north of the 5-31 well. This well is exploratory and will be drilled on a new structure.

Rig availability and commodity prices permitting, the company expects to drill up to 25 wells (13.5 net) in 2006, including the nine wells (five net) drilled to date and the six wells currently being licenced.

Petro-Reef's original projected cash flow from operations for the year 2006 of \$8.5 million was based on a price for natural gas of \$9.99 per Mcf at December 31, 2005 as established by the company's independent engineering evaluators. The forecast natural gas price for 2006 was recently revised to \$6.56 per Mcf. This lower price forecast results in a revised cash flow from operations projection for Petro-Reef of \$5.6 million in 2006.

Although Petro-Reef's cash flow is lower than projected because of lower than forecast natural gas prices, the company's production forecast is on track. By the end of September 2006, Petro-Reef expects its net production to exceed 800 BOE/d. Based on the success of recent drilling and the potential of the next six wells, Petro-Reef expects to achieve its 2006 exit production target of between 1,100 and 1,550 BOE/d ahead of schedule.

Petro-Reef's second quarter and first half 2006 financial statements and management's discussion and analysis are available for review on the SEDAR website (www.sedar.com) and on Petro-Reef's website (www.petro-reef.ca).

Petro-Reef Resources Ltd. is a Calgary-based junior oil and gas company focused on petroleum and natural gas lease acquisition and exploration, and development of crude oil and natural gas properties in Alberta, Canada.

Forward-Looking Statements: All statements, other than statements of historical fact, set forth in this news release, including without limitation, assumptions and statements regarding reservoirs, resources and reserves, future production rates, exploration and development results, financial results, and future plans, operations and objectives of the Corporation are forward-looking statements that involve substantial known and unknown risks and uncertainties. Some of these risks and uncertainties are beyond management's control, including but not limited to, the impact of general economic conditions, industry conditions, fluctuation of commodity prices, fluctuation of foreign exchange rates, environmental risks, industry competition, availability of qualified personnel and management, availability of materials, equipment and third party services, stock market volatility, timely and cost effective access to sufficient capital from internal and external sources. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable by the Corporation at the time of preparation, may prove to be incorrect. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements.

Petro-Reef cautions that "cash flow from operations" does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and is 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.

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 at the wellhead.

The TSX Venture Exchange does not accept responsibility for the adequacy or accuracy of this news release.

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