



***MANAGEMENT'S DISCUSSION AND ANALYSIS AND
FINANCIAL STATEMENTS (UNAUDITED)***

***FOR THE THREE AND NINE MONTH
PERIODS ENDED
SEPTEMBER 30, 2007 AND 2006***

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This Management's Discussion and Analysis ("MD&A") of financial condition, future prospects and results of operations of Petro-Reef Resources Ltd. ("Petro-Reef" or the "Corporation") is dated November 19, 2007. It should be read in conjunction with the unaudited interim consolidated financial statements and corresponding notes for the three and nine month periods ended September 30, 2007 and September 30, 2006 and with the audited year end consolidated financial statements of the Corporation for the years ended December 31, 2006 and December 31, 2005.

Petro-Reef's Board of Directors and Audit Committee have reviewed and approved the September 30, 2007 interim consolidated financial statements and related MD&A.

This MD&A provides certain financial measures that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP"). These non-GAAP financial measures may not be comparable to similar measures presented by other issuers. Cash flow from operations and operating netback are not recognized measures under GAAP. Management believes that in addition to net income, funds from operations and operating netback are useful supplemental measures as they demonstrate the Corporation's ability to generate the cash necessary to repay debt or fund future growth through capital investment. Investors are cautioned, however, that these measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of Petro-Reef's performance. Petro-Reef's method of calculating these measures may differ from other companies and accordingly, they may not be comparable to measures used by other companies. Operating netback is calculated on a \$/boe basis and is defined as revenue less royalties and operating expenses.

FORWARD LOOKING ADVISORY

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 except as required by law 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 are 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.

BUSINESS RISKS

Petro-Reef is exposed to risks inherent in the oil and gas business. Operationally, the Corporation faces risks associated with finding, developing and producing oil and gas reserves, such as the availability of rigs and inclement weather. The Corporation continues to follow strict exploration criteria on each prospect to assure high profitability and rate of return on capital investment. Exploration risks are managed by hiring skilled technical staff and by concentrating exploration activity on areas in which Petro-Reef has experience and expertise. Petro-Reef operates most of its production, allowing the Corporation to manage costs, timing and sales of production. Estimates of economically recoverable reserves and the future net cash flow are based on factors such as commodity prices, projected production and future capital and operating costs. These assumptions may differ from actual results. The Corporation has its reserves evaluated annually by an independent engineering firm. Petro-Reef is also exposed to environmental risks and risks associated with the reliance upon relationships with partners. Petro-Reef carries environmental liability, property, drilling and general liability insurance to mitigate its risks. The Corporation is also exposed to financial risks in the form of commodity prices, interest rates, the Canadian to U.S. dollar exchange rate and inflation. Petro-Reef manages commodity prices risks by focusing its capital program on areas that are expected to generate attractive rates of return.

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit	GJs/d	Gigajoules per day
bbl	barrel	M3	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
bbls/d	Barrels per day	MMbbls	millions of barrels
boe/d	Barrels of oil per day	mmcf	million cubic feet
FNR	Future net revenue	mmcf/d	million cubic feet per day
GJ	Gigajoule	NGLs	natural gas liquids
		NPV	net present value

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 equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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

Additional information about Petro-Reef is available on SEDAR at www.sedar.com.

SELECTED THIRD QUARTER INFORMATION

Financial

<i>Three months ended September 30</i>	2007	<i>2006</i>	<i>% Growth</i>
Gross Revenue	\$1,795,473	\$1,190,883	50.8%
Cash Flow From Operations	\$951,444	\$590,330	61.2%
Earnings	(\$288,379)	(\$67,349)	n/a
Weighted Average Shares – Basic	33,574,781	22,392,458	49.9%
Weighted Average Shares – Diluted	39,495,976	28,268,911	39.7%
Shares at Quarter End – Basic	33,574,781	22,650,791	48.2%

	September 30, 2007	<i>December 31, 2006</i>	<i>% Growth</i>
Total Assets	\$26,497,285	\$15,056,446	76.0%
Long-term Financing	nil	nil	n/a

RESULTS OF OPERATIONS

Production

<i>Three months ended September 30</i>	2007	<i>2006</i>	<i>% Growth</i>
	Average	<i>Average</i>	
Crude Oil and NGL (bbls/d)	27	28	(3.0%)
Natural Gas (mcf/d)	3,406	1,861	83.0%
Combined (boe/d)	595	338	75.9%

<i>Nine months ended September 30</i>	2007	<i>2006</i>	<i>% Growth</i>
	Average	<i>Average</i>	
Crude Oil and NGL (bbls/d)	26	17	52.6%
Natural Gas (mcf/d)	3,319	2,830	17.3%
Combined (boe/d)	579	489	18.5%

Financial

<i>Three months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Gross Revenue	\$1,795,473	\$1,190,883	50.8%	\$32.79	\$38.25
Royalties	\$298,392	\$145,667	104.8%	\$5.45	\$4.68
Revenue After Royalties	\$1,497,081	\$1,045,216	43.2%	\$27.34	\$33.57
Operating Expenses	\$418,590	\$360,409	16.1%	\$7.65	\$11.58
Operating Netback	\$1,078,491	\$684,807	57.4%	\$19.70	\$22.00
General & Administrative Expenses	\$209,802	\$92,631	126.5%	\$3.83	\$2.98
Interest Expense (Income)	(\$82,755)	\$1,846	n/a	(\$1.51)	\$0.06
Non-cash Expenses	\$1,226,155	\$488,179	151.2%	\$22.39	\$15.68
Income Before Income Taxes	(\$274,711)	\$102,151	n/a	(\$5.02)	\$3.29
Income Tax Expense	\$13,668	\$169,500	(91.9%)	\$0.25	\$5.44
Net Income (Loss)	(\$288,379)	(\$67,349)	n/a	(\$5.27)	(\$2.16)
Per Share – Basic	(\$0.01)	(\$0.00)			
Per Share - Diluted	(\$0.01)	(\$0.00)			

<i>Nine months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Gross Revenue	\$6,567,758	\$5,694,950	15.3%	\$41.56	\$42.77
Royalties	\$1,251,542	\$1,143,775	9.4%	\$7.92	\$8.59
Revenue After Royalties	\$5,316,216	\$4,551,175	16.8%	\$33.64	\$34.18
Operating Expenses	\$1,236,657	\$1,129,163	9.5%	\$7.82	\$8.48
Operating Netback	\$4,079,559	\$3,442,012	18.5%	\$25.81	\$25.70
General & Administrative Expenses	\$598,813	\$466,738	28.3%	\$3.79	\$3.51
Interest Expense (Income)	(\$142,558)	\$1,851	n/a	(\$0.90)	\$0.01
Non-cash Expenses	\$3,177,374	\$2,766,813	14.8%	\$20.10	\$20.78
Income Before Income Taxes	\$445,930	\$186,610	139.0%	\$2.82	\$1.40
Income Tax Expense	\$270,100	\$175,887	53.6%	\$1.71	\$1.32
Net Income	\$175,830	\$10,723	1,539.7%	\$1.11	\$0.08
Per Share – Basic	\$0.01	\$0.00			
Per Share - Diluted	\$0.01	\$0.00			

Revenue

<i>Three months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Gross Revenue	\$1,795,473	\$1,190,883	50.8%	\$32.79	\$38.25

Gross revenue increased 50.8% to \$1,795,473 for the three month period ended September 30, 2007 compared to \$1,190,883 for the same period ended September 30, 2006. Petro-Reef realized an all in price per unit of production for the three month period ended September 30, 2007 of \$32.79, down 14.3% compared to the realized price per unit of production of \$38.25 per boe for the same period ended September 30, 2006.

Revenues increased as a result of a 75.9% increase in production year over year. The increase in production was sufficient to offset the 14.3% decrease in realized commodity prices.

<i>Nine months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Gross Revenue	\$6,567,758	\$5,694,950	15.3%	\$41.56	\$42.77

Gross revenue increased 15.3% to \$6,567,758 for the nine month period ended September 30, 2007 compared to \$5,694,950 for the same period ended September 30, 2006. Petro-Reef realized an all in price per unit of production for the nine month period ended September 30, 2007 of \$41.56, down 2.8% compared to the realized price per unit of production of \$42.77 per boe for the same period ended September 30, 2006.

Below is a breakdown of gross revenue prices realized by Petro-Reef for the three and nine month periods ended September 30, 2007:

<i>Three months ended September 30</i>	2007	2006	% Change
Crude Oil and NGL (\$ / bbl)	\$62.55	\$64.67	(3.3%)
Natural Gas (\$ / mcf)	\$5.12	\$5.93	(13.7%)

<i>Nine months ended September 30</i>	2007	2006	% Change
Crude Oil and NGL (\$ / bbl)	\$57.69	\$64.11	(10.0%)
Natural Gas (\$ / mcf)	\$6.76	\$8.95	(24.5%)

Royalties

<i>Three months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Royalties	\$298,392	\$145,667	104.8%	\$5.45	\$4.68

Royalties increased 104.8% to \$298,392 for the three month period ended September 30, 2007 compared to \$145,667 for the same period ended September 30, 2006. Royalties on a per unit of production basis rose 16.5% to \$5.45 for the three month period ended September 30, 2007 compared to \$4.68 for the same period ended September 30, 2006. Royalties paid increased as a result of a 75.9% increase in production which resulted in a 50.8% increase in revenues during the quarter. Royalties rose at a higher rate relative to revenue as a result of Petro-Reef bringing onstream higher productivity wells which are initially attributed higher royalty rates on a per unit of production basis.

The effective royalty rate rose to 16.6% for the three month period ended September 30, 2007 from 12.2% for the same period ended September 30, 2006. This increase in the effective royalty rate was a result of higher Crown royalties payable on new production as well as an increase in production from lands which pay Crown royalties.

<i>Nine months ended September 30</i>	2007	<i>2006</i>	<i>% Growth</i>	2007	<i>2006</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Royalties	\$1,251,542	\$1,143,775	9.4%	\$7.92	\$8.59

Royalties increased 9.4% to \$1,251,542 for the nine month period ended September 30, 2007 compared to \$1,143,775 for the same period ended September 30, 2006. Royalties on a per unit of production basis fell 7.8% to \$7.92 for the Nine month period ended September 30, 2007 compared to \$8.59 for the same period ended September 30, 2006.

The effective royalty rate fell to 19.1% for the nine month period ended September 30, 2007 from 20.1% for the same period ended September 30, 2006. Royalty rates for the nine month period were higher than for the three month period as a result of higher Crown royalties payable by the Corporation during the first quarter 2007 resulting from higher realized natural gas prices.

Operating Expenses

<i>Three months ended September 30</i>	2007	<i>2006</i>	<i>% Growth</i>	2007	<i>2006</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Operating Expenses	\$418,590	\$360,409	16.1%	\$7.65	\$11.58

Operating Expenses rose 16.1% to \$418,590 the three month period ended September 30, 2007 compared to \$360,409 for the same period ended September 30, 2006. Production expenses on a per unit of production basis fell 34.0% to \$7.65 for the three month period ended September 30, 2007 compared to \$11.58 for the same period ended September 30, 2006.

Operating expenses rose on an aggregate basis as a result of a 75.9% increase in production year over year. The reduction in operating expenses on a per unit of production basis was a result of operating synergies realized as a result of higher production volumes being processed through facilities and pipeline which were previously underutilized. Petro-Reef expects the trend of lower operating expenses on a per unit of production basis to continue as new production is brought onstream.

<i>Nine months ended September 30</i>	2007	<i>2006</i>	<i>% Growth</i>	2007	<i>2006</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Production Expenses	\$1,236,657	\$1,129,163	9.5%	\$7.82	\$8.48

Production expenses increased 9.5% to \$1,236,657 for the nine month period ended September 30, 2007 compared to \$1,129,163 for the same period ended September 30, 2006. Production expenses on a per unit of production basis fell 7.7% to \$7.82 for the nine month period ended September 30, 2007 compared to \$8.48 for the same period ended September 30, 2006.

General & Administrative Expenses

<i>Three months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
General & Administrative Expenses	\$209,802	\$92,631	126.5%	\$3.83	\$2.98

General & administrative expenses rose 126.5% to \$209,802 for the three month period ended September 30, 2007 compared to \$92,631 for the same period ended September 30, 2006. General & administrative expenses on a per unit of production basis rose 28.5% to \$3.83 for the three month period ended September 30, 2007 compared to \$2.98 for the same period ended September 30, 2006. General and administrative expenses increased as a result of the increased staffing requirements to manage higher production volumes. General and administrative expenses on a per unit of production basis are expected to fall in subsequent quarters as production increases.

<i>Nine months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
General & Administrative Expenses	\$598,813	\$466,738	28.3%	\$3.79	\$3.51

General & administrative expenses rose 28.3% to \$598,813 for the nine month period ended September 30, 2007 compared to \$466,738 for the same period ended September 30, 2006. General & administrative expenses on a per unit of production basis rose 8.1% to \$3.79 for the nine month period ended September 30, 2007 compared to \$3.51 for the same period ended September 30, 2006.

Net Interest Expense (Income)

<i>Three months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Net Interest Expenses (Income)	(\$82,755)	\$1,846	n/a	(\$1.51)	\$0.06

Petro-Reef earned interest income of \$82,755 for the three month period ended September 30, 2007 compared to interest expense of \$1,846 for the same period ended September 30, 2006. Petro-Reef Resources Ltd. had cash and short-term investments of \$6,012,225 as at September 30, 2007 with \$675,000 in bank debt, the balance of which was subsequently repaid early in October. Petro-Reef invests all short-term investments in investment grade banker's acceptance. As a result, Petro-Reef Resources has no exposure to asset backed commercial paper.

<i>Nine months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Net Interest Expenses (Income)	(\$142,558)	\$1,851	n/a	(\$0.90)	\$0.01

Petro-Reef earned interest income of \$142,558 for the nine month period ended September 30, 2007 compared to interest expense \$1,851 for the same period ended September 30, 2006.

Non Cash Expenses

<i>Three months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Depletion and Amortization	\$807,741	\$311,884	159.0%	\$14.75	\$10.02
Accretion Expense	\$4,168	\$4,156	0.3%	\$0.08	\$0.13
Stock-Based Compensation	\$414,246	\$171,657	141.3%	\$7.57	\$5.51
Loss on Settlement of Asset Retirement Obligation	-	\$482	(100.0%)	-	\$0.02
Total Non Cash Items	\$1,226,155	\$488,179	151.2%	\$22.39	\$15.68

Non cash expenses rose 151.2% to \$1,226,155 for the three month period ended September 30, 2007 compared to \$488,179 for the same period ended September 30, 2006. On a per unit of production basis, non cash expenses increased 42.8% to \$22.39 for the three month period ended September 30, 2007 compared to \$15.68 for the same period ended September 30, 2006.

Depletion and amortization expense increased 159.0% to \$807,741 as a result of the larger depletable asset base from Petro-Reef's 2007 capital expenditures program.

Stock-based compensation rose 141.3% as a result of the issuance of 1,215,000 stock options during the nine month period ended September 30, 2007.

<i>Nine months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Depletion and Amortization	\$2,102,734	\$2,454,160	(14.3%)	\$13.30	\$18.43
Accretion Expense	\$15,096	\$11,497	31.3%	\$0.10	\$0.09
Stock Based Compensation	\$1,059,544	\$300,588	252.5%	\$6.70	\$2.26
Loss on Settlement of Asset Retirement Obligation	-	\$568	(100.0%)	-	\$0.00
Total Non Cash Items	\$3,177,374	\$2,766,813	14.8%	\$20.10	\$20.78

Non cash expenses rose 14.8% to \$3,177,374 for the nine month period ended September 30, 2007 compared to \$2,766,813 for the same period ended September 30, 2006. On a per unit of production basis, non cash expenses decreased 3.2% to \$20.10 for the nine month period ended September 30, 2007 compared to \$20.78 for the same period ended September 30, 2006.

Income Taxes

<i>Three months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Current Tax	-	-	-	-	-
Future Tax	\$13,668	\$169,500	(91.9%)	\$0.25	\$5.44
Total Income Taxes	\$13,668	\$169,500	(91.9%)	\$0.25	\$5.44

Income taxes fell to \$13,668 for the three month period ended September 30, 2007 compared to \$169,500 for the same period ended September 30, 2006. On a per unit of production basis, income taxes decreased to \$0.25 for the three month period ended September 30, 2007 compared to \$5.44 for the same period ended September 30, 2006. Petro-Reef has not paid and does not expect to pay cash taxes for the balance of 2007.

<i>Nine months ended September 30</i>	2007	2006	% Growth	2007	2006
				(\$ / boe)	(\$ / boe)
Current Tax	-	-	-	-	-
Future Tax	\$270,100	\$175,887	53.6%	\$1.71	\$1.32
Total Income Taxes	\$270,100	\$175,887	53.6%	\$1.71	\$1.32

Income taxes increased to \$270,100 for the nine month period ended September 30, 2007 compared to an income tax expense of \$175,887 for the same period ended September 30, 2006. On a per unit of production basis, income taxes increased to \$1.71 for the nine month period ended September 30, 2007 compared to an expense of \$1.32 for the same period ended September 30, 2006.

LIQUIDITY AND FINANCIAL CONDITION

	September 30, 2007	December 31, 2006
Working Capital	\$2,344,731	(\$4,225,810)
Oil and Gas Properties	\$18,546,171	\$13,171,164

Petro-Reef's working capital surplus at September 30, 2007 was \$2,344,731 compared to a deficit of \$4,225,810 at December 31, 2006. The working capital position improved as a result of the issuance of \$3,000,000 in flow-through shares in April 2007, \$6,000,000 by way of a private placement financing in January 2007 and the exercise of warrants in February 2007 raising proceeds of approximately \$2,500,000. As at September 30, 2007, Petro-Reef Resources had cash and short-term investment holdings of \$6,012,225.

Petro-Reef's bank credit facility is structured as a \$7,750,000 revolving operating demand loan and a \$2,250,000 non-revolving acquisition / development demand loan. As at September 30, 2007, Petro-Reef Resources Ltd. was in compliance with all of its bank covenants.

Based on current cash holdings, forecast cash flows from operations and available bank credit financing, Petro-Reef is confident in its ability to fund ongoing capital and operating expenditures.

Capitalized resource properties as at September 30, 2007 were \$18,546,171 net of accumulated depletion, compared to \$13,171,164 as at December 31, 2006. Oil and gas properties increased as a result of continued developments of oil and gas properties, the construction of infrastructure and the acquisition of undeveloped land. For the three and nine month periods ended September 30, 2007 Petro-Reef incurred \$2,960,159 and \$7,578,551 respectively in net capital expenditures.

During the quarter Petro-Reef incurred approximately \$1,300,000 of drilling and completion costs relating to wells drilled and completed during the quarter. Petro-Reef brought onstream a new well located at 13-6 in Alexander in October at a rate of 4.0 mmcf/d (59% working interest Petro-Reef).

A major central plant facility was constructed at 08-01 and began operation on July 5, 2007. Plant operations include compression, dehydration, separation and water disposal. Smaller existing compressors have been replaced or relocated now that the plant is operational allowing for a reduction in operating costs and centralization of operating activities. With Petro-Reef's drilling success a new challenge was created as production from each new well was added to the existing natural gas gathering system. This increased the back pressure in the pipeline system significantly and consequently reduced the ability of the lower pressure formations to maintain the same levels of production.

Cash Flow From Operations

For the three month period ended September 30, 2007, Petro-Reef generated cash flows from operations of \$951,444 (\$0.03 per basic/diluted share), an increase of 61.2% compared to \$590,330 (\$0.03 per basic/diluted share) for the three month period ended September 30, 2006. For the nine month period ended September 30, 2007 the Corporation generated cash flows from operations of \$3,623,304 (\$0.10 per basic/diluted share), a 22.7% increase compared to \$2,953,423 (\$0.13 per basic/diluted share) for the nine month period ended September 30, 2006.

Cash flow from operations, representing cash generated from operating activities before changes in non-cash working capital items, is a non-GAAP measure. Management utilizes cash flow as a key measure to assess the ability of the Corporation to finance operating activities and capital expenditures. In addition, cash flow has been described and presented in order to provide shareholders and potential investors with information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. This performance indicator may not be comparable to similar measures used by other companies.

<i>Three months ended September 30</i>	2007	2006
Net Income (Loss) For The Period	(\$288,379)	(\$67,349)
Future Income Tax Provision	13,668	169,500
Accretion Expense	4,165	4,156
Loss on Settlement of Asset Retirement Obligation	-	482
Stock-Based Compensation	414,246	171,657
Depletion And Amortization	807,741	311,884
Cash Flow From Operations	\$951,444	\$590,330
<i>Nine months ended September 30</i>	2007	2006
Net Income For The Period	\$175,830	\$10,723
Future Income Tax Provision	270,100	175,887
Accretion Expense	15,096	11,497
Loss on Settlement of Asset Retirement Obligation	-	568
Stock-Based Compensation	1,059,544	300,588
Depletion And Amortization	2,102,734	2,454,160
Cash Flow From Operations	\$3,623,304	\$2,953,423

Capital Resources

The Corporation's share capital is as follows:

	<i>September 30, 2007</i>		<i>December 31, 2006</i>	
	<i>No. of Shares</i>	<i>Amounts</i>	<i>No. of Shares</i>	<i>Amounts</i>
Common Shares	33,547,781	\$17,044,071	23,685,291	\$7,559,760

In the first quarter of 2007, the Corporation issued 5,260,870 units priced at \$1.15 per unit. Each unit consisted of one common share and one half of a common share purchase warrant. During the second quarter of 2007 the Corporation issued 1,500,000 flow-through shares priced at \$2.00. In the first half of 2007, 3,824,987 warrants were exercised generating gross proceeds of \$2,677,491. No warrants or options were exercised during the third quarter of 2007.

COMMITMENTS AND CONTINGENCIES

Petro-Reef has met its flow-through obligations relating to its equity issue in April 2007. The Corporation was required to incur exploration and development activities by December 31, 2008 of \$3,000,000 as a result of flow-through shares issued in April 2007. As an incentive for junior oil and gas companies, the Canadian Tax Act allows \$1,000,000 of eligible Canadian development expenses to be reclassified as Canadian exploration expenses which ultimately reduces the exploration commitment associated with the Corporation's recent flow-through share equity issue. As a result, Petro-Reef had to incur \$2,000,000 of eligible Canadian exploration expenses and \$1,000,000 of eligible Canadian development expenses by December 31, 2008. As at September 30, 2007, the Corporation has incurred qualifying exploration expenditures of approximately \$2,371,985 and \$1,532,719 of eligible development expenditures.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation does not have any off-balance sheet arrangements.

OUTLOOK

Petro-Reef entered the fourth quarter of 2007 with several exploration and recompletion drilling opportunities. In October 2007, Petro-Reef commenced drilling a deep exploration test at 15-29 in Alexander, Alberta. The 15-29 well is targeting reef prospects in the Devonian formation which have been identified by the interpretation of 3-D seismic. Production casing has been set and the Corporation plans to production test the well within 30 days. Depending on the results, Petro-Reef has identified several follow-up locations offsetting the 15-29 including land that was purchased in September where the Corporation has a 94% working interest. Petro-Reef recently drilled a well at 05-06 in Alexander targeting a shallower natural gas formation. Production casing has been set and the well is expected to be tested within 30 days.

Petro-Reef has focused significant capital resources towards the construction of key infrastructure in its core area of Alexander. The completion of the natural gas compression and dehydration facility located at 8-1 in Alexander is the centerpiece of the Corporation's infrastructure system. At 8-1, Petro-Reef is in the process of constructing a prorationing crude oil battery, which is expected to allow for further infill crude oil development drilling. Petro-Reef has also identified several development crude oil locations and intends to begin to proceed with a crude oil development drilling program upon the completion of the prorationing crude oil battery.

Petro-Reef's natural gas compressor located at 8-1 is currently running close to its capacity. Depending on the success of the Corporation's exploration drilling, Petro-Reef may have to twin the existing 1,265 hp compressor at the 8-1 facility to handle incremental production. The Corporation is currently reviewing the economics of twinning gathering lines heading into the 8-1 natural gas facility. Twinning of the gathering line will allow the Corporation to maximize production from lower pressure natural gas wells which experienced a reduction in production due to backing out which occurred when the Corporation brought onstream higher pressure / higher deliverability natural gas wells.

Subsequent to the quarter end, Petro-Reef brought onstream a new well located at 13-06 in Alexander at a rate of approximately 3.5 mmcf/d (59% working interest Petro-Reef) and production has held flat since being brought onstream. As a result of the addition of the 13-06 well, current production is approximately 900 boe/d.

On October 25, 2007, the Province of Alberta announced its intention to significantly alter the Crown royalty regime for both natural gas and crude oil. While the increase in royalties is significant and material, Petro-Reef does not expect a significant decrease in future net revenues as the majority of the Corporation's wells currently pay freehold royalties. Approximately two third of all royalties payable by the Corporation are on freehold lands. If the Crown increases freehold mineral taxes (currently between 8% to 10%), the Corporation's royalties will increase.

SELECTED QUARTERLY INFORMATION

	2007			2006					2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Revenue	\$1,795,473	\$2,228,590	\$2,543,695	\$1,456,725	\$1,190,883	\$1,937,954	\$2,566,850	\$1,534,911	
Cash flow	\$951,444	\$1,104,425	\$1,567,436	\$604,010	\$590,330	\$1,111,085	\$1,252,007	\$940,085	
Net Income (Loss)	(288,379)	\$27,455	\$467,906	\$54,337	(\$67,349)	\$2,619	\$75,453	\$279,959	
Net Income (Loss) Per Share	(\$0.01)	\$0.00	\$0.01	\$0.00	(\$0.00)	\$0.00	\$0.00	\$0.01	
Capital Expenditures	\$2,960,159	\$2,190,597	\$2,427,755	\$2,694,363	\$2,478,043	\$2,218,013	\$497,869	\$1,341,366	
Total Assets	\$26,488,367	\$26,691,045	\$25,712,699	\$15,056,446	\$13,565,661	\$12,103,363	\$10,316,473	\$10,462,289	
Shareholders Equity	\$19,473,249	\$19,347,503	\$16,168,187	\$7,919,194	\$7,003,587	\$6,600,111	\$6,103,921	\$6,029,968	
Avg. Daily Production (boe/d)	595	544	594	354	338	534	593	225	

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

DIRECTORS AND OFFICERS

Joseph Werner^{(3) (5)}

Chief Executive Officer
President & Director
Calgary, Alberta

Theodore M. Donhuysen^{(4) (5)}

Vice-President Exploration & Production
Chief Operating Officer & Director
Calgary, Alberta

John R. Pantazopoulos⁽⁵⁾

Vice President Finance
Chief Financial Officer
Calgary, Alberta

Robert N. Maertens-Poole

Director
Calgary, Alberta

Alan P. Hallman^{(2) (3)}

Director
Calgary, Alberta

Jack P. Donhuysen^{(1) (2) (4)}

Director
Calgary, Alberta

Huba A. Sebo⁽¹⁾

Director
Calgary, Alberta

Richard W. DeVries⁽¹⁾⁽²⁾

Director
Freeport, The Bahamas

R. Greg Powers^{(3) (6)}

Director, Corporate Secretary
Legal Counsel
Calgary, Alberta

Peter A. Lubey⁽⁴⁾

Director
Calgary, Alberta

Dennis K. Ulrich

VP Shareholder Relations
Southern Alberta
Medicine Hat, Alberta

Head Office

970 – 10655 Southport Road S.W.
Calgary, Alberta T2W 4Y1
Telephone: +1 (403) 265-6444
Facsimile: +1 (403) 264-1348
E-mail: info@petro-reef.ca
Website: www.petro-reef.ca

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Bank

National Bank of Canada
301 – 6th Avenue S.W.
Calgary, Alberta T2P 4M9

Registrar and Transfer Agent

CIBC Mellon Trust Corporation
600, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Stock Listing

TSX Venture Exchange
Trading Symbol: **PER**

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Governance Committee
- (4) Member of the Reserves Committee
- (5) Member of the Management Committee
- (6) Partner Fasken Martineau DuMoulin LLP
3400 First Canadian Centre
350 – 7th Avenue S.W.
Calgary, Alberta T2P 3N9

FINANCIAL STATEMENTS (UNAUDITED)

***FOR THE THREE AND NINE MONTH
PERIODS ENDED***

SEPTEMBER 30, 2007 AND 2006

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Petro-Reef discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended September 30, 2007

PETRO-REEF RESOURCES LTD.
Balance Sheet
As at September 30, 2007 and December 31, 2006
Unaudited

ASSETS	September 30, 2007	December 31, 2006
Current assets		
Bank	\$12,225	\$-
Short term investments	6,000,000	-
Accounts receivable	1,896,551	1,864,015
Prepaid expenses and deposits	42,338	21,267
	<u>7,951,114</u>	<u>1,885,282</u>
Property, plant and equipment (note 2)	<u>18,546,171</u>	<u>13,171,164</u>
	<u>\$26,497,285</u>	<u>\$15,056,446</u>
LIABILITIES		
Current liabilities		
Cheques drawn in excess of bank	176,874	\$1,613
Bank line of credit (note 3)	675,000	375,000
Accounts payable and accrued charges	4,763,510	5,734,479
	<u>5,606,383</u>	<u>6,111,092</u>
Future income taxes	904,612	634,512
Asset retirement obligation (note 4)	<u>504,041</u>	<u>391,648</u>
	<u>7,024,036</u>	<u>7,137,252</u>
SHAREHOLDERS' EQUITY		
Share capital (note 5)	17,044,071	7,559,760
Warrants (note 5)	1,182,909	606,719
Broker warrants (note 5)	331,828	-
Contributed surplus (note 5)	1,556,505	570,609
Deficit	<u>(642,064)</u>	<u>(817,894)</u>
	<u>19,473,249</u>	<u>7,919,194</u>
	<u>\$26,497,285</u>	<u>\$15,056,446</u>

See accompanying notes to the financial statements

SIGNED ON BEHALF OF THE BOARD

"Joseph Werner"

Director

"Huba A. Sebo"

Director

PETRO-REEF RESOURCES LTD.**Statement of Operations, other Comprehensive Income and Deficit****For the three months and nine months ended September 30, 2007 and 2006****Unaudited**

	3-months Ended September 30/07	3-months Ended September 30/06	9-months Ended September 30/07	9-months Ended September 30/06
Revenue				
Oil and gas sales, net of royalties and ARTC	\$1,497,081	\$1,045,216	\$5,316,216	\$4,551,175
Expenses				
Production expenses	418,590	360,409	1,236,657	1,129,163
Accretion expense	4,168	4,156	15,096	11,497
Depletion and depreciation	807,741	311,884	2,102,734	2,454,160
Stock-based compensation	414,246	171,657	1,059,544	300,588
General and administrative	209,802	92,631	598,813	466,738
Interest expense	2,877	3,329	10,850	5,116
Loss on settlement of asset retirement obligation	-	482	-	568
	<u>1,857,424</u>	<u>944,548</u>	<u>5,023,694</u>	<u>4,367,830</u>
Earnings before the following	(360,343)	100,668	292,522	183,345
Interest income	<u>85,632</u>	<u>1,483</u>	<u>153,408</u>	<u>3,265</u>
	(274,711)	102,151	445,930	186,610
Future income tax	<u>13,668</u>	<u>169,500</u>	<u>270,100</u>	<u>175,887</u>
Net income (loss)for the period	<u>(\$288,379)</u>	<u>(\$67,349)</u>	<u>\$175,830</u>	<u>\$10,723</u>
Deficit – Beginning of period	<u>(\$353,684)</u>	<u>(\$804,882)</u>	<u>(\$817,894)</u>	<u>(\$882,954)</u>
Deficit – End of period	<u>(\$642,064)</u>	<u>(\$872,231)</u>	<u>(\$642,064)</u>	<u>(872,231)</u>
Basic and diluted income per common share	<u>(\$0.01)</u>	<u>\$0.00</u>	<u>\$0.01</u>	<u>\$0.00</u>

See accompanying notes to the financial statements

PETRO-REEF RESOURCES LTD.**Statement of Cash Flow****For the three months and nine months ended September 30, 2007 and 2006****Unaudited**

	3-months Ended September 30/07	3-months Ended September 30/06	9-months Ended September 30/07	9-months Ended September 30/06
Cash provided by (used in)				
Operating activities				
Net income for the period	(\$288,379)	(\$67,349)	\$175,830	\$10,723
Items not effecting working capital				
Accretion expense	4,168	4,156	15,096	11,497
Depletion and depreciation	807,741	311,884	2,102,734	2,454,160
Loss on settlement of asset retirement obligation	-	482	-	568
Stock-based compensation	414,246	171,657	1,059,544	300,588
Future income taxes	13,668	169,500	270,100	175,887
Cash flow from operations	951,444	590,330	3,623,304	2,953,423
Asset retirement obligations	-	(511)	-	(999)
Net change in non-cash operating working capital items	(589,918)	231,034	(1,151,177)	1,051,401
	<u>361,526</u>	<u>820,853</u>	<u>2,472,127</u>	<u>4,003,825</u>
Financing activities				
Bank line of credit	851,874	-	476,874	-
Proceeds from share issue	-	-	9,050,000	-
Share issue costs	-	-	(827,233)	(1,500)
Proceeds from exercise of stock options and warrants	-	299,167	2,096,034	663,807
	<u>851,874</u>	<u>299,167</u>	<u>10,795,675</u>	<u>662,307</u>
Investing activities				
Expenditures on property, plant and equipment	(2,960,159)	(2,478,043)	(7,578,511)	(5,193,926)
Net change in non-cash investing working capital items	(507,619)	855,788	147,674	975,952
	<u>(3,467,778)</u>	<u>(1,622,255)</u>	<u>(7,430,837)</u>	<u>(4,217,974)</u>
Change in cash during the period	(\$2,254,378)	(\$502,235)	\$5,836,964	\$448,158
Cash and cash equivalents				
- Beginning of period	<u>\$8,089,729</u>	<u>\$1,348,297</u>	<u>(\$1,613)</u>	<u>\$397,904</u>
Cash and cash equivalents, End of period	<u><u>\$5,835,351</u></u>	<u><u>\$846,062</u></u>	<u><u>\$5,835,351</u></u>	<u><u>\$846,062</u></u>

See accompanying notes to the financial statements

PETRO-REEF RESOURCES LTD.
Notes to Financial Statements
As at September 30, 2007 and December 31, 2006

1. Accounting policies

The interim financial statements of Petro-Reef Resources Ltd. (the "Corporation") have been prepared following the same accounting policies and methods of computation as for the financial statements of the Corporation as at December 31, 2006. The interim financial statements contain disclosures, which are supplemental to the Corporation'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 Corporation's financial statements and notes thereto for the year ended December 31, 2006.

The Corporation has a working capital surplus of \$2,344,731 as at September 30, 2007 compared to a working capital deficit of \$4,225,810 as at December 31, 2006. The Corporation is subject to certain debt covenants pertaining to demand operating facilities (Note 3). At September 30, 2007 the Corporation was in compliance with all covenants.

2. Property, plant, and equipment

	September 30, 2007		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and Natural Gas	\$29,113,958	(\$10,619,859)	\$18,494,099
Furniture and Fixtures	103,325	(51,253)	52,072
Taxes paid	\$29,217,284	(\$10,631,414)	\$18,546,171
	December 31, 2006		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and Natural Gas	\$21,659,267	(\$8,528,679)	\$13,130,588
Furniture and Fixtures	80,275	(39,699)	40,576
Taxes paid	\$21,739,542	\$8,568,378	\$13,171,164

No interest or general and administrative expenses were capitalized during the period. Unproven property costs of \$2,243,188 (December 31, 2006 - \$1,249,477) have been excluded from capitalized costs subject to depletion.

3. Demand operating facilities

Facility A is a revolving operating demand loan with a maximum limit of \$7,750,000. Facility B is a non-revolving acquisition/development demand loan that provides an additional \$2,250,000 of financing. Interest is at prime plus 0.75% per annum for Facility A and 1.0% per annum for the Facility B. At September 30, 2007 the balance owing on the current loan was \$675,000 (December 31, 2006 - \$375,000).

The facilities are secured by \$20,000,000 floating charge debenture over all the Corporation's assets with a negative pledge and undertaking to provide fixed charges on the Corporation's major producing properties at the request of the bank. The facilities are repayable on demand.

PETRO-REEF RESOURCES LTD.
Notes to Financial Statements
As at September 30, 2007 and December 31, 2006

4. Asset retirement obligation

The total future asset retirement obligation was estimated based on the Corporation'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 Corporation has estimated the net present value of its asset retirement obligation to be \$504,041 (December 31, 2006 - \$391,648) as at September 30, 2007. A credit adjusted risk free rate of 5.36 percent (2006 - 5.36 percent) and an inflation rate of 2 percent were used to calculate the fair value of the asset retirement obligation.

A reconciliation of the asset retirement obligation is provided below:

	Nine months Ended September 30, 2007	Year Ended December 31, 2006
Balance, beginning of period	\$391,648	\$217,915
Liabilities incurred in period	97,297	142,379
Liabilities settled in period	-	(432)
Accretion Expense	15,096	31,786
Balance, end of period	<u>\$504,041</u>	<u>\$391,648</u>

5. Share capital

a) Class A common shares

	Nine months Ended September 30, 2007		Year Ended December 31, 2006	
	Shares	Amount	Shares	Amount
Balance, beginning of period	23,685,291	\$7,559,760	21,438,924	\$5,558,614
Exercise of options (iii)	370,000	280,647	1,180,000	1,042,909
Exercise of warrants (iv)	2,758,620	2,495,758	1,066,367	959,737
Unit private placement (i)	5,260,870	4,867,088	-	-
Flow through shares (ii)	1,500,000	3,000,000	-	-
Share issue costs	-	(120)	-	-
Share issue costs (i)	-	(788,706)	-	(1,500)
Share issue costs (ii)	-	(370,356)	-	-
Balance, end of period	<u>33,574,781</u>	<u>\$17,044,071</u>	<u>23,685,291</u>	<u>\$7,559,760</u>

- (i) In the first quarter 2007, the Corporation issued 5,260,870 units priced at \$1.15 per unit. Each unit consisted of one Common Share and one-half of the one common share Purchase Warrant. Each whole common share Purchase Warrant entitles the holder to purchase one additional Common Share at an exercise price of \$1.75 per Common Share until July 25, 2008. The warrants have been ascribed a fair value of \$.45 using the Black-Scholes pricing model assuming a risk-free interest rate of 4.01%; weighted average life of 1.5 years; dividend yield of nil; and expected volatility rate of 106%. Primary Capital Inc., the agent, was paid a cash commission of \$423,500, and was granted non transferable Broker Warrants to acquire 368,260 Common Shares at an exercise price of \$1.15 until July 25, 2008 and to acquire one half of the one common share Purchase Warrant. Each whole common share Purchase Warrant entitles the holder to purchase one additional Common Share at an exercise price of \$1.75 per Common Share until July 25, 2008. These Broker Warrants have been recorded as share issue costs estimated at \$248,407 using the Black-Scholes pricing model assuming a risk-free interest rate of 4.01%; weighted average life of 1.5 years; dividend yield of nil; and expected volatility rate of 106%. Legal and other costs incurred, related to this private placement, were \$116,779.

PETRO-REEF RESOURCES LTD.
Notes to Financial Statements
As at September 30, 2007 and December 31, 2006

(ii) In the second quarter 2007, the Corporation issued 1,500,000 flow - through shares priced at \$2.00.

Primary Capital Inc. was paid a cash commission of \$225,000, and was granted non transferable Broker Warrants to acquire 97,500 Common Shares at an exercise price of \$2.00 until July 25, 2008. These Broker Warrants have been recorded as share issue costs estimated at \$83,421 using the Black-Scholes pricing model assuming a risk-free interest rate of 4.047%; weighted average life of 1.25 years; dividend yield of nil; and expected volatility rate of 128%. Legal and other costs incurred, related to the issuance of these flow - through shares, were \$61,935.

(iii) The increase in share capital as a result of the exercise of stock options is comprised of cash received of \$165,000 and compensation expensed previously of \$115,647.

(iv) The increase in share capital as a result of the exercise of warrants is comprised of the amount of cash received of \$1,931,039 and the reclassification to share capital of the ascribed value related to the warrants exercised of \$564,719. These warrants were issued by the Corporation under financings that closed in August and September of 2005.

b) Warrants

	Nine months Ended September 30, 2007		
	Exercise Price	Number	Amount
Balance, beginning of period	\$0.70	2,933,620	\$606,719
Exercise of warrants	0.70	(2,758,620)	(564,719)
Expiry of warrants	0.70	(175,000)	(42,000)
Unit private placement ((note 5(1)(i)))	1.75	2,630,435	1,182,909
Balance, end of period		2,630,435	\$1,182,909

	Year Ended December 31, 2006		
	Exercise Price	Number	Amount
Balance, beginning of period	\$0.70	3,999,987	\$820,000
Exercise of warrants	0.70	(1,066,367)	(213,281)
Balance, end of period		2,933,620	\$606,719

c) Broker warrants

	Nine months Ended September 30, 2007		
	Exercise Price	Number	Amount
Balance, beginning of period	\$ -	-	\$-
Unit private placement (note 5(a)(i))	1.15	368,260	248,407
Flow through shares (note 5(a)(ii))	2.00	97,500	83,421
Balance, end of period		465,760	\$331,828

d) Contributed surplus

	Nine months Ended September 30, 2007	Year Ended December 31, 2006
Balance, beginning of period	\$570,609	\$534,308
Stock-based compensation recognized in the period	1,059,544	481,709
Adjustments for stock options exercised in the period	(115,648)	(445,408)
Expiry of warrants	42,000	-
Balance, end of period	\$1,556,505	\$570,609

PETRO-REEF RESOURCES LTD.
Notes to Financial Statements
As at September 30, 2007 and December 31, 2006

e) Per share amounts

Earnings per common share are calculated using the weighted average number of common shares outstanding during the period. A reconciliation of the denominators used in the per share calculation is outlined below:

	Nine months Ended September 30, 2007	Year Ended December 31, 2006
Basic weighted average common shares	31,714,113	22,109,165
Effect of diluted options and warrants	3,107,863	3,304,499
Diluted weighted average common shares	<u>34,821,976</u>	<u>25,413,664</u>

6. Stock based compensation

The Corporation has a stock option plan for directors, officers and key employees. The exercise price of each option equals the market price of the Corporation's stock on the date of grant. Options vest after one year and expire after a maximum period of five years from the date of issue.

A summary of the status of the Corporation's stock option plan as of September 30, 2007 and December 31, 2006 and changes during the period are presented below:

	Nine months Ended September 30, 2007		Year Ended December 31, 2006	
	Weighted Number of Options	Weighted Average Exercise Price	Weighted Number of Options	Weighted Average Exercise Price
Balance beginning of year	1,980,000	\$0.89	2,120,000	\$0.50
Granted	1,215,000	\$1.64	1,040,000	\$1.24
Exercised	(370,000)	\$0.48	(1,180,000)	(\$0.50)
Balance end of period	<u>2,825,000</u>	<u>\$1.23</u>	<u>1,980,000</u>	<u>\$0.89</u>
Exercisable end of period	<u>1,460,000</u>	<u>\$0.80</u>	<u>940,000</u>	<u>\$0.50</u>