



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTH PERIODS ENDED
JUNE 30, 2009 AND 2008

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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 August 27, 2009. It should be read in conjunction with the interim financial statements and corresponding notes for the three month period ended June 30, 2009.

The Corporation's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those methods it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been revised to ensure consistency with the financial statements.

Management has established systems of internal controls, which are designed to provide reasonable assurance that the Corporation's assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

Petro-Reef's Board of Directors has reviewed and approved the June 30, 2009 interim 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, cash flow from operations and operating netback are useful supplemental measures that 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.

READER ADVISORY REGARDING FORWARD LOOKING INFORMATION

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.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management.

DESIGN OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

Effective for the year-end 2006, securities regulations state that the Corporation is to design and implement internal controls over financial reporting and disclose in its MD&A any material changes in the Corporation's internal control over financial reporting that occurred during the Corporation's most recent interim period. Internal controls are processes designed and implemented by management to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements and other financial information for external purposes in accordance with Canadian GAAP. For the period ended June 30, 2009, the Chief Executive Officer and the Chief Financial Officer have designed internal controls over financial reporting, or caused them to be designed under their supervision. Management has concluded that internal controls are adequately designed in this regard, considering the employees involved and the control procedures in place, including management and Audit Committee oversight. Occasionally, the Corporation requires outside assistance and advice on taxation, new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size. It should be noted, that a corporation's control system, no matter how well designed, can provide only reasonable, but not absolute, assurance of detecting, preventing and deterring errors or fraud. There have been no changes in internal controls from the prior year.

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 ensure 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 estimates 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 price risk by focusing its capital program on areas that are expected to generate attractive rates of return.

ABBREVIATIONS

bbl	barrel	GJs/d	gigajoules per day
bbls	barrels	M3	cubic meters
bcf	billion cubic feet	Mbbls	thousands of barrels
bhp	brake horsepower	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. 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 QUARTERLY INFORMATION

Financial

<i>Three months ended June 30</i>	2009	<i>2008</i>	% Growth
Gross Revenue	\$2,092,159	\$6,294,649	(66.8%)
Cash Flow From Operations	\$619,432	\$3,394,919	(81.8%)
Net Income	(\$1,491,526)	\$884,916	n/a
Per Share (Basic / Diluted)	(\$0.04)	\$0.02	

	June 30, 2009	<i>December 31, 2008</i>	% Growth
Total Assets	\$35,365,058	\$38,971,225	(9.3%)
Current Financing	\$12,113,011	\$9,445,187	28.2%
Total Long-term Financial Liabilities	-	-	n/a

RESULTS OF OPERATIONS

Production

<i>Three months ended June 30</i>	2009	<i>2008</i>	% Growth
	Average	<i>Average</i>	
Crude Oil and NGL (bbls/d)	137	145	(5.6%)
Natural Gas (mcf/d)	4,259	5,719	(25.5%)
Combined (boe/d)	847	1,098	(22.9%)

<i>Six months ended June 30</i>	2009	<i>2008</i>	% Growth
	Average	<i>Average</i>	
Crude Oil and NGL (bbls/d)	145	118	23.2%
Natural Gas (mcf/d)	4,282	5,584	(23.3%)
Combined (boe/d)	859	1,049	(18.1%)

Financial

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Gross Revenue	\$2,092,159	\$6,294,649	(66.8%)	\$27.15	\$62.98
Unrealized Loss on Financial Instruments	(\$397,297)	-	n/a	(\$5.16)	-
Royalties	\$109,458	\$1,143,631	(90.4%)	\$1.42	\$11.44
Revenue After Royalties	\$1,585,404	\$5,151,018	(60.1%)	\$20.58	\$51.54
Operating Expenses	\$949,036	\$933,211	1.7%	\$12.32	\$9.34
Operating Netback	\$636,368	\$4,217,807	(80.4%)	\$8.26	\$42.20
General & Administrative Expenses	\$274,730	\$660,304	(58.4%)	\$3.57	\$6.61
Interest Expense	\$139,503	\$162,584	(14.2%)	\$1.81	\$1.63
Non-cash Expenses	\$2,134,091	\$2,196,785	(2.9%)	\$27.70	\$21.97
Income (Loss) Before Income Taxes	(\$1,911,956)	\$1,198,134	n/a	(\$24.81)	\$11.99
Income Tax Expense (Recovery)	(\$420,430)	\$313,218	n/a	(\$5.46)	\$3.14
Net Income (Loss)	(\$1,491,526)	\$884,916	n/a	(\$19.36)	\$8.85
Per Share – Basic	(\$0.07)	\$0.02			
Per Share - Diluted	(\$0.07)	\$0.02			

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Gross Revenue	\$4,748,080	\$11,025,343	(56.9%)	\$30.53	\$57.76
Unrealized Loss on Financial Instruments	(\$406,929)	-	-	(\$2.62)	-
Royalties	\$571,853	\$2,177,818	(73.7%)	\$3.68	\$11.41
Revenue After Royalties	\$3,769,298	\$8,847,525	(57.4%)	\$24.24	\$46.35
Operating Expenses	\$1,787,490	\$1,620,340	10.3%	\$11.49	\$8.49
Operating Netback	\$1,981,808	\$7,227,185	(72.6%)	\$12.74	\$37.86
General & Administrative Expenses	\$536,215	\$969,001	(44.7%)	\$3.45	\$5.08
Interest Expense	\$231,730	\$231,566	0.1%	\$1.49	\$1.21
Non-cash Expenses	\$4,321,422	\$4,219,268	2.4%	\$27.79	\$22.10
Income (Loss) Before Income Taxes	(\$3,107,559)	\$1,807,350	n/a	(\$19.98)	\$9.47
Income Tax Expense (Recovery)	(\$725,892)	\$520,740	n/a	(\$4.67)	\$2.73
Net Income (Loss)	(\$2,381,667)	\$1,286,610	n/a	(\$15.32)	\$6.74
Per Share – Basic	(\$0.07)	\$0.04			
Per Share - Diluted	(\$0.07)	\$0.04			

Revenue

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	2008
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Gross Revenue	\$2,092,159	\$6,294,649	(66.8%)	\$27.15	\$62.98
Unrealized Loss on Financial Instruments	(\$397,297)	-	-	(\$5.16)	-
Total Revenue	\$1,694,862	\$6,294,649	(73.1%)	\$21.99	\$62.98

Gross revenue decreased 66.8% to \$2,092,159 for the three month period ended June 30, 2009 compared to \$4,730,694 for the same period ended June 30, 2008. Petro-Reef realized an all in price per unit of production for the three month period ended June 30, 2009 of \$27.15 representing a 56.9% decrease compared to the realized price per unit of production of \$62.98 for the same period ended June 30, 2008.

At period end, in accordance with generally accepted accounting principles, Petro-Reef is required to calculate and reflect a "mark-to-market" value of its financial instruments on the balance sheet. Furthermore, during each period end, the prior period's mark to market is reversed and a new mark to market adjustment is calculated with the difference being recorded to unrealized gain (loss) on financial instruments on the statement of operations and retained earnings. The periodic cash settlement of these various financial instruments is recorded in realized gain (loss) on financial instruments on the statement of operations and retained earnings.

At the end of the second quarter, Petro-Reef entered into funded collar transactions whereby Petro-Reef provided a floor on 65% natural gas production at prices in excess of current spot market prices. As a consequence of obtaining a floor of \$4.00 / GJ on 3,000 GJ / D of production, Petro-Reef is required to make a payment of \$0.29 / GJ. As a result of this obligation, Petro-Reef has an unrealized loss on financial instruments of \$397,297 for the quarter. Petro-Reef anticipates this loss will be reversed in subsequent quarters as spot commodity prices remain below the floor price of Petro-Reef's collars.

Below is a summary of gross prices realized by Petro-Reef for the three month period ended June 30:

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Change</i>
Crude Oil and NGL (\$ / bbl)	\$58.49	\$111.98	(47.8%)
Natural Gas (\$ / mcf)	\$3.42	\$9.13	(62.6%)

Natural gas prices fell 62.6% during the quarter as Petro-Reef did not have any hedges in place during the quarter which meant all production was sold at spot prices. During the quarter, Petro-Reef acquired a floor on 65% of its natural gas production at a price of \$4.00 / GJ which is above current market prices. Due to higher prices for crude oil and the floor protection Petro-Reef acquired at the end of the second quarter, Petro-Reef anticipates higher realized commodity prices in subsequent quarters.

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	2008
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Gross Revenue	\$4,748,080	\$11,025,343	(56.9%)	\$30.53	\$57.76
Unrealized Loss on Financial Instrument	(\$406,929)	-	n/a	(\$2.62)	-
Total Revenue	\$4,341,151	\$11,025,343	(60.6%)	\$27.91	\$57.76

Gross revenue decreased 56.9% to \$4,748,080 for the three month period ended June 30, 2009 compared to \$11,025,343 for the same period ended June 30, 2008. Petro-Reef realized an all in price per unit of production for the three month period ended June 30, 2009 of \$30.53 representing a 47.1 % decrease compared to the realized price per unit of production of \$57.76 for the same period ended June 30, 2008.

Below is a summary of gross prices realized by Petro-Reef for the six month period ended June 30:

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Change</i>
Crude Oil and NGL (\$ / bbl)	\$50.50	\$101.78	(50.4%)
Natural Gas (\$ / mcf)	\$4.14	\$8.46	(51.0%)

Royalties

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Royalties	\$109,458	\$1,143,631	(90.4%)	\$1.42	\$11.44

Royalties decreased 90.4% to \$109,458 for the three month period ended June 30, 2009 compared to \$1,143,631 for the same period ended June 30, 2008. Royalties on a per unit of production basis decreased 87.6% to \$1.42 for the three month period ended June 30, 2009 compared to \$11.44 for the same period ended June 30, 2008.

Royalties decreased as a result of higher deductions allowed on freehold royalties as well as an increase in the percentage of production which attracts freehold royalties. Lower commodity prices provided a lower effective Crown royalty rate during the period as well. Petro-Reef also benefited from higher gas cost allowance deductions provided by the Crown on existing production as this reduced the effective royalty rate to below 5% on most Crown sections during the quarter.

The effective royalty rate fell to 5.2% for the three month period ended June 30, 2009 from 18.2% for the same period ended June 30, 2008. Petro-Reef anticipates its effective royalty rate to increase in subsequent quarters as commodity prices rise.

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Royalties	\$571,853	\$2,177,818	(73.7%)	\$3.68	\$11.41

Royalties decreased 73.7% to \$571,853 for the three month period ended June 30, 2009 compared to \$2,177,818 for the same period ended June 30, 2008. Royalties on a per unit of production basis decreased 67.8% to \$3.68 for the three month period ended June 30, 2009 compared to \$11.41 for the same period ended June 30, 2008.

The effective royalty rate fell to 12.0% for the three month period ended June 30, 2009 from 19.8% for the same period ended June 30, 2008.

Operating Expenses

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Operating Expenses	\$949,036	\$933,211	1.7%	\$12.32	\$9.34

Operating expenses rose 1.7% to \$949,036 for the three month period ended June 30, 2009 compared to \$933,211 for the same period ended June 30, 2008. Production expenses on a per unit of production basis increased 31.9% to \$12.32 for the three month period ended June 30, 2009 compared to \$9.34 for the same period ended June 30, 2008.

Operating costs increased during the quarter as a result of higher than expected repairs and maintenance required at Petro-Reef's 5-31 well and facility which accounted for approximately \$50,000 in one-time expenditures during the quarter. As production volumes increase in subsequent quarters, Petro-Reef anticipates operating costs on a per unit of production basis will decrease.

Operating Expenses

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Operating Expenses	\$1,787,490	\$1,620,340	10.3%	\$11.49	\$8.49

Operating expenses rose 10.3% to \$1,787,490 for the six month period ended June 30, 2009 compared to \$1,620,340 for the same period ended June 30, 2008. Production expenses on a per unit of production basis increased 35.4% to \$11.49 for the three month period ended June 30, 2009 compared to \$8.49 for the same period ended June 30, 2008.

General & Administrative Expenses

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
General & Administrative Expenses	\$274,730	\$660,304	(58.4%)	\$3.57	\$6.61

General & administrative expenses fell 58.4% to \$274,730 for the three month period ended June 30, 2009 compared to \$660,304 for the same period ended June 30, 2008. General & administrative expenses on a per unit of production basis fell 46.1% to \$3.57 for the three month period ended June 30, 2009 compared to \$6.61 for the same period ended June 30, 2008.

Since the end of 2008, Petro-Reef has focused on significantly reducing general & administrative costs during these periods of low commodity prices. Over the past several months, Petro-Reef has cancelled non-essential services, reduced staff levels and reduced variable compensation for all staff. As a result of the focus on cost control and reduction, Petro-Reef was able to significantly decrease general & administrative expenses during the quarter both on an aggregate and per unit of production basis. Petro-Reef anticipates general & administrative costs on a per unit of production basis to stay flat as lower overhead recoveries from partners due to lower capital expenditures will be offset by expected higher production.

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
General & Administrative Expenses	\$536,215	\$969,011	(44.7%)	\$3.45	\$5.08

General & administrative expenses fell 44.7% to \$536,215 for the six month period ended June 30, 2009 compared to \$969,011 for the same period ended June 30, 2008. General & administrative expenses on a per unit of production basis fell 32.1% to \$3.45 for the six month period ended June 30, 2009 compared to \$5.08 for the same period ended June 30, 2008.

Interest Expense

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Interest Expenses	\$139,503	\$162,584	(14.2%)	\$1.81	\$1.63

Petro-Reef interest expense fell 14.2% to \$139,503 for the three month period ended June 30, 2009 compared to interest expense of \$162,584 for the same period ended June 30, 2008. Net interest expense on a per unit of production basis was \$1.81, compared to an interest expense of \$1.63 per unit of production in 2008.

Petro-Reef's interest expense decreased as a result of lower interest rates realized during the period.

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Interest Expenses	\$231,730	\$231,566	0.1%	\$1.49	\$1.21

Petro-Reef incurred interest expense of \$231,730 for the six month period ended June 30, 2009 compared to interest expense of \$231,566 for the same period ended June 30, 2008. Net interest expense on a per unit of production basis was \$1.49, compared to an interest expense of \$1.21 per unit of production in 2008.

Non Cash Expenses

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Depletion and Amortization	\$2,060,472	\$2,032,351	1.4%	\$26.74	\$20.33
Accretion Expense	\$25,218	\$117	21,453.8%	\$0.33	\$0.00
Stock-Based Compensation	\$48,401	\$164,317	(70.5%)	\$0.63	\$1.64
Total Non Cash Items	\$2,134,091	\$2,196,785	(2.9%)	\$27.70	\$21.97

Non cash expenses decreased 2.9% to \$2,134,091 for the three month period ended June 30, 2009 compared to \$2,196,785 for the same period ended June 30, 2008. On a per unit of production basis, non cash expenses increased 26.1% to \$27.70 for the three month period ended June 30, 2009 compared to \$21.97 for the same period ended June 30, 2008.

Depletion and amortization expenses increased 1.4% to \$2,060,472 as a result of capital expenditures incurred over the last year. Stock based compensation fell 70.5% as stock options were granted at the end of the quarter.

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Depletion and Amortization	\$4,161,842	\$3,797,423	9.6%	\$26.76	\$19.89
Accretion Expense	\$49,576	\$14,237	248.2%	\$0.32	\$0.07
Stock-Based Compensation	\$110,004	\$407,608	(73.0%)	\$0.71	\$2.14
Total Non Cash Items	\$4,321,422	\$4,219,268	2.4%	\$27.79	\$22.10

Non cash expenses rose 2.4% to \$4,321,422 for the six month period ended June 30, 2009 compared to \$4,219,268 for the same period ended June 30, 2008. On a per unit of production basis, non cash expenses increased 25.7% to \$27.79 for the six month period ended June 30, 2009 compared to \$22.10 for the same period ended June 30, 2008.

Income Taxes

<i>Three months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Current Tax	-	-	-	-	-
Future Tax	(\$420,430)	\$313,218	n/a	(\$5.46)	\$3.14
Total Income Taxes	(\$420,430)	\$313,218	n/a	(\$5.46)	\$3.14

Non-cash income tax recovery was \$420,430 for the three month period ended June 30, 2009 compared to an expense of \$313,218 for the same period ended June 30, 2008. On a per unit of production basis, income tax recovery was \$5.89 for the three month period ended June 30, 2009 compared to an expense of \$3.14 for the same period ended June 30, 2008.

<i>Six months ended June 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Current Tax	-	-	-	-	-
Future Tax	(\$725,892)	\$256,435	n/a	(\$2.00)	\$2.73
Total Income Taxes	(\$725,892)	\$256,432	n/a	(\$2.00)	\$2.73

Non-cash income tax recovery was \$725,892 for the six month period ended June 30, 2009 compared to an expense of \$256,432 for the same period ended June 30, 2008. On a per unit of production basis, income tax recovery was \$2.00 for the three month period ended June 30, 2009 compared to an expense of \$2.73 for the same period ended June 30, 2008.

LIQUIDITY AND FINANCIAL CONDITION

	June 30, 2009	<i>December 31, 2008</i>
Working Capital	(\$12,785,194)	(\$12,589,011)
Oil and Gas Properties	\$33,837,366	\$36,599,536

Petro-Reef's working capital deficit at June 30, 2009 was \$12,785,194 compared to a deficit of \$12,589,011 at December 31, 2008. Included in the working capital deficit was \$12,113,011 in outstanding bank lines of credit which is included in current liabilities. As at June 30, 2009, Petro-Reef's bank credit facility was structured as a \$14,000,000 revolving operating demand loan and a \$4,000,000 non-revolving acquisition / development demand loan. As at June 30, 2009, Petro-Reef Resources Ltd. was in compliance with its bank covenants. Included in the working capital deficit was \$437,294 of current liabilities relating to financial instruments. This liability is expected to be reversed in subsequent quarters as the unrealized loss is converted into realized gains on the in the money collars Petro-Reef entered into during the quarter. Excluding the financial instruments, Petro-Reef's working capital deficit would have been \$12,347,899, which would have represented a \$241,113 reduction from December 31, 2008.

Recent developments in the current financial markets have affected the ability of Petro-Reef to obtain financing outside of available cash flow and bank lines of credit. Although commodity prices have fallen significantly from highs reached in July 2008, with a low cost structure (royalties, operating and general & administrative expenses), Petro-Reef is confident in its abilities to generate sufficient cash flow to continue with its capital development strategy. Petro-Reef's revolving operating demand loan was reviewed by our senior lender and will be reduced by \$400,000 per month until September 2009 at which time the facility will remain flat at \$13,000,000.

Subsequent to the quarter end, Petro-Reef announced it had successfully closed a \$1,500,000 flow-through equity issue. The proceeds of this offering will be used to drill exploration drilling locations in Petro-Reef's northern acreage where the Corporation holds a 100% working interest on key sections of land.

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

Capitalized resource properties as at June 30, 2009 were \$33,837,366 net of accumulated depletion, compared to \$36,599,536 as at December 31, 2008. Oil and gas properties increased as a result of continued development of oil and gas properties, the construction of infrastructure and the acquisition of undeveloped land. For the six month period ended June 30, 2009 Petro-Reef incurred \$1,385,056 in net capital expenditures.

Cash Flow From Operations

For the three month period ended June 30, 2009, Petro-Reef generated cash flows from operations of \$619,432 (\$0.02 per basic / diluted share), a decrease of 81.8% compared to \$3,394,919 (\$0.10 per basic share) for the three month period ended June 30, 2008. Cash flow from operations decreased as a result of lower production and lower commodity prices realized during the quarter.

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 June 30</i>	2009	<i>2008</i>
Net Income For The Period	(\$1,491,526)	\$884,916
Future Income Tax Provision	(\$420,430)	\$313,218
Unrealized Loss on Financial Instruments	\$397,297	-
Accretion Expense	\$25,218	\$117
Stock-Based Compensation	\$48,401	\$164,317
Depletion And Amortization	\$2,060,472	\$2,032,351
Cash Flow From Operations	\$619,432	\$3,394,919

For the six month period ended June 30, 2009, Petro-Reef generated cash flows from operations of \$1,620,793 (\$0.05 per basic / diluted share), a decrease of 73.1% compared to \$6,026,618 (\$0.18 per basic share) for the six month period ended June 30, 2008. Cash flow from operations decreased as a result of lower production and lower commodity prices realized during the period.

<i>Six months ended June 30</i>	2009	<i>2008</i>
Net Income For The Period	(\$2,381,667)	\$1,286,610
Future Income Tax Provision	(\$725,892)	\$520,740
Unrealized Loss on Financial Instruments	\$406,929	-
Accretion Expense	\$49,576	\$14,237
Stock-Based Compensation	\$110,004	\$407,608
Depletion And Amortization	\$4,161,842	\$3,797,423
Cash Flow From Operations	\$1,620,793	\$6,026,618

Capital Resources

The Corporation's share capital is as follows:

	<i>June 30, 2009</i>		<i>December 31, 2008</i>	
	<i>No. of Shares</i>	<i>Amount</i>	<i>No. of Shares</i>	<i>Amount</i>
Common Shares	34,122,541	\$18,109,233	34,161,541	\$18,130,397

For the six month period ended June 30, 2009, Petro-Reef issued 1,025,000 stock options to staff, officers, directors and consultants to the Corporation.

Commencing in October 2008, Petro-Reef commenced with a normal course issuer bid whereby Petro-Reef had the ability to purchase up to 1,729,452 common shares of the Corporation. For the period ended June 30, 2009, Petro-Reef acquired 39,000 shares for total proceeds of \$10,365 (\$0.27 / share). All shares repurchased have been cancelled. As a result of the transaction, share capital was reduced by \$20,741 while contributed surplus increased by \$10,365.

OFF-BALANCE SHEET ARRANGEMENTS

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

SUBSEQUENT EVENT

On August 6, 2009, Petro-Reef announced that it closed an offering of flow-through units at a price of \$0.30 for gross proceeds of \$1,510,110. Each flow through unit was comprised of one common share issued on a “flow-through” basis and one transferable common share purchase warrant. The offering resulted in the issuance of 5,033,700 shares and warrants. Each warrant entitles the holder to purchase one common share of the Corporation, not to be issued on a flow-through basis, at a price of \$0.40 per share until August 6, 2010. Proceeds from the equity offering will be used to fund the drilling of Petro-Reef’s high impact exploration locations on its northern acreage in its core area of Alexander and will constitute Canadian exploration expenses as defined in the Income Tax act (Canada) and will be renounced to subscribers for the 2009 taxation year.

OUTLOOK

During the period, Petro-Reef conducted a process whereby the Corporation was seeking opportunities to maximize shareholder value. During the process, Petro-Reef met with several companies and reviewed potential transactions with several interested parties. The Board of Directors determined that after reviewing the proposals presented to the Corporation that the Corporation was best served to continue to develop its exploration acreage to the north as well as continue with the downspacing application to allow Petro-Reef to drill up to 50 low risk development oil locations in its core area of Alexander. To assist in this process, Petro-Reef announced on August 6th that it had successfully closed a \$1.5mm flow-through equity offering, which will allow Petro-Reef to drill up to 3 high impact exploration locations on 100% owned Petro-Reef lands. Petro-Reef is in the process of obtaining regulatory approval for seven wells, including four exploration locations and three development oil locations. Petro-Reef anticipates drilling 4-5 wells for the balance of 2009, with follow-up locations to be identified after reviewing the results from the 2009 drilling program.

RELATED PARTY TRANSACTIONS

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties.

During the six month period ended June 30, 2009, the Corporation purchased engineering services in the amount of \$231,467 (June 30, 2008 - \$924,610) from a corporation controlled by a Director of the Corporation. The Corporation also purchased professional services in the amount of \$13,764 (June 30, 2008 - \$65,345) from a law firm which an Officer of the Corporation is a partner of. The Corporation also purchased land consulting services in the amount of \$16,430 (June 30, 2008 - \$16,666) from a land consulting firm controlled by a relative of two Directors of the Corporation.

COMMITMENTS

The present office lease agreement expires on December 31, 2011. Future lease payments to the end of the lease term under the Corporation’s office lease are as follows:

2009	\$42,129
2010	\$86,762
2011	\$65,070

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires the Corporation to make assumptions, judgments and estimates that may have a significant impact on the financial statements. Estimates are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they become known.

ACCOUNTING STANDARDS

Effective January 1, 2008, the Corporation was required to adopt the CICA Handbook Section 1506 - Accounting Changes that provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retroactively unless otherwise permitted or where the effect is impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The adopted accounting standard did not have any effect on the Corporation.

As of January 1, 2008, the Corporation was required to adopt two new CICA standards, Section 3862 – Financial Instruments – Disclosures, and Section 3863 – Financial Instruments – Presentation, which will replace Section 3861 – Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

As of January 1, 2008, the Corporation adopted CICA Handbook Section 1535 – Capital Disclosures, which requires entities to disclose objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements.

Section 1400 – “General Standards of Financial Statement Presentation”, effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Corporation’s ability to continue as a going concern. The adoption of this new section did not have an impact on the financial statements.

FUTURE POLICIES

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA’s Accounting Standards Board confirmed that IFRS will replace Canadian GAAP in 2011 for profit oriented Canadian publicly accountable enterprises. Petro-Reef will be required to report its results in accordance with IFRS beginning in 2011. The Corporation has engaged external advisors to assist in the development and execution of a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information.

The key elements of Petro-Reef’s changeover plan will include:

- determine appropriate changes to accounting policies and required amendments to financial disclosures;
- identify and implement changes in associated processes and information systems;
- comply with internal control requirements;
- communicate collateral impacts to internal business groups; and

- educate and train internal and external stakeholders.

The Corporation is currently analyzing accounting policy alternatives and identifying implementation options for the corresponding process changes. Petro-Reef will update its IFRS changeover plan to reflect new and amended accounting standards issued by the International Accounting Standards Board. As IFRS is expected to change prior to 2011, the impact of IFRS on the Corporation's Consolidated Financial Statements is not reasonably determinable at this time.

SELECTED QUARTERLY INFORMATION

	2009		2008	
	Q2	Q1	Q4	Q3
Total Revenue	\$1,694,862	\$2,646,289	\$3,347,635	\$4,501,683
Cash flow	\$619,432	\$1,001,361	\$1,040,310	\$2,411,635
Net Income (Loss)	(\$1,491,526)	(\$890,140)	(\$776,824)	\$453,787
Net Income (Loss) Per Share	(\$0.04)	(\$0.03)	(\$0.02)	\$0.01
Capital Expenditures	\$430,314	\$954,742	\$4,386,938	\$3,391,583
Total Assets	\$35,365,058	\$37,322,551	\$38,971,225	\$36,719,035
Shareholders Equity	\$18,695,015	\$20,137,718	\$20,977,053	\$21,805,557
Avg. Daily Production (boe/d)	847	872	878	871

	2008		2007	
	Q2	Q1	Q4	Q3
Revenue	\$6,294,649	\$4,730,694	\$1,957,256	\$1,795,473
Cash flow	\$3,394,919	\$2,631,699	\$779,831	\$951,444
Net Income (Loss)	\$884,916	\$401,694	(\$665,008)	(\$199,246)
Net Income (Loss) Per share	\$0.02	\$0.01	(\$0.02)	(\$0.01)
Capital Expenditures	\$1,811,045	\$13,110,324	\$3,126,358	\$2,960,159
Total Assets	\$34,682,220	\$35,324,313	\$28,603,828	\$26,488,367
Shareholders Equity	\$20,594,571	\$19,369,032	\$19,483,847	\$19,473,249
Avg. Daily Production (boe/d)	1,098	1,000	771	595

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

DIRECTORS AND OFFICERS

Theodore M. Donhuysen ^{(3) (4) (5)}
Chief Executive Officer
President & Director
Calgary, Alberta

John R. Pantazopoulos ⁽²⁾⁽⁵⁾
Chief Financial Officer & Director
Vice President Finance
Calgary, Alberta

Larry A. Ness
Vice President Engineering
Calgary, Alberta

Jack P. Donhuysen ⁽³⁾⁽⁴⁾
Director
Calgary, Alberta

Alan P. Hallman ^{(1) (2) (3)}
Director
Calgary, Alberta

Peter A. Lubey ^{(1) (4)}
Director
Calgary, Alberta

Huba A. Sebo ⁽¹⁾⁽²⁾
Director
Calgary, Alberta

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Chartered Accountants
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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