

PETRO-REEF RESOURCES LTD.
FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2009 AND 2008

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, 2009.

PETRO-REEF RESOURCES LTD.
Balance Sheet
As at September 30, 2009 and December 31, 2008

ASSETS	September 30, 2009	December 31, 2008
Current assets		
Cash and cash equivalents	\$920	\$97
Accounts receivable	\$1,543,598	\$2,011,161
Prepaid expenses and deposits	\$434,127	\$360,431
	<u>\$1,978,645</u>	<u>\$2,371,689</u>
Property, plant and equipment (note 2)	<u>\$32,261,592</u>	<u>\$36,599,536</u>
	<u>\$34,240,237</u>	<u>\$38,971,225</u>
LIABILITIES		
Current liabilities		
Bank line of credit (note 3)	\$10,667,867	\$9,445,187
Financial Instruments	\$386,045	\$30,365
Accounts payable and accrued charges	\$2,071,012	\$5,485,149
	<u>\$13,124,924</u>	<u>\$14,960,701</u>
Future income taxes	\$740,518	\$1,681,349
Asset retirement obligation (note 4)	<u>\$1,427,881</u>	<u>\$1,352,123</u>
	<u>\$15,293,323</u>	<u>\$17,994,173</u>
SHAREHOLDERS' EQUITY		
Share capital (note 5a)	\$18,631,849	\$18,130,397
Warrants (note 5a)	\$785,473	
Contributed surplus (note 5b)	\$3,220,903	\$3,058,528
Deficit	<u>(\$3,691,310)</u>	<u>(\$211,872)</u>
	<u>\$18,946,915</u>	<u>\$20,977,053</u>
	<u>\$34,240,237</u>	<u>\$38,971,225</u>
Commitments (note 8) See accompanying notes to the financial statements		
SIGNED ON BEHALF OF THE BOARD		
"Ted Donhuysen" Director	"Alan Hallman" Director	

PETRO-REEF RESOURCES LTD.**Statement of Operations, Comprehensive Income (Loss) and Deficit****For the three and nine month periods ended September 30, 2009 and 2008**

	3-months Ended September 30, 2009	3-months Ended September 30, 2008	9-months Ended September 30, 2009	9-months Ended September 30, 2008
Revenue				
Gross Revenue	\$1,932,320	\$4,501,683	\$6,571,181	\$15,527,026
Realized Gain on Financial Instruments	\$232,189	-	\$341,408	-
Unrealized Gain (Loss) on Financial Instruments	\$20,884	-	(\$386,045)	-
Royalties	\$107,860	\$1,003,340	\$679,713	\$3,181,158
	<u>\$2,077,532</u>	<u>\$3,498,343</u>	<u>\$5,846,830</u>	<u>\$12,345,868</u>
Expenses				
Production expenses	\$813,254	\$756,135	\$2,600,744	\$2,376,475
Accretion expense (note 4)	\$26,112	\$33,752	\$75,688	\$47,989
Depletion and depreciation	\$2,130,422	\$1,660,495	\$6,292,264	\$5,457,918
Stock-based compensation (note 6)	\$42,005	\$116,407	\$152,009	\$524,015
General and administrative	\$316,676	\$238,083	\$852,890	\$1,207,084
Net interest expense	\$94,163	\$92,490	\$325,893	\$324,056
	<u>\$3,422,632</u>	<u>\$2,897,362</u>	<u>\$10,299,488</u>	<u>\$9,937,537</u>
Earnings (loss) before taxes	<u>(\$1,345,100)</u>	<u>\$600,981</u>	<u>(\$4,452,658)</u>	<u>\$2,408,331</u>
Future income tax	<u>(\$247,328)</u>	<u>\$147,194</u>	<u>(\$973,220)</u>	<u>\$667,934</u>
Net income (loss) and comprehensive income (loss) for the period	<u>(\$1,097,772)</u>	<u>\$453,787</u>	<u>(\$3,479,438)</u>	<u>\$1,740,397</u>
Deficit – Beginning of period	<u>(\$2,593,538)</u>	<u>\$111,166</u>	<u>(\$211,872)</u>	<u>(\$1,175,444)</u>
Deficit – End of period	<u>(\$3,691,310)</u>	<u>\$564,953</u>	<u>(\$3,691,310)</u>	<u>\$564,953</u>
Basic and diluted net income (loss) per common share	<u>(\$0.03)</u>	<u>\$0.01</u>	<u>(\$0.09)</u>	<u>\$0.05</u>

See accompanying notes to the financial statements

PETRO-REEF RESOURCES LTD.
Statement of Cash Flow
For the three and nine month periods ended September 30, 2009 and 2008

Cash provided by (used in)	3-months Ended September 30, 2009	3-months Ended September 30, 2008	9-months Ended September 30, 2009	9-months Ended September 30, 2008
Operating activities				
Net income (loss) for the period	(\$1,097,772)	\$453,787	(\$3,479,438)	\$1,740,397
Items not effecting working capital				
Accretion expense	\$26,112	\$33,752	\$75,688	\$47,989
Unrealized Loss (Gain) on Financial Instruments	(\$20,884)	-	\$386,045	-
Depletion and depreciation	\$2,130,422	\$1,660,495	\$6,292,264	\$5,457,918
Stock-based compensation	\$42,005	\$116,407	\$152,009	\$524,015
Future income taxes	(\$247,328)	\$147,194	(\$973,220)	\$667,934
	<u>\$832,555</u>	<u>\$2,411,635</u>	<u>\$2,453,348</u>	<u>\$8,438,253</u>
Net change in non-cash operating working capital items	\$12,803	\$795,945	(\$3,013,459)	(\$2,351,080)
	<u>\$845,358</u>	<u>\$3,207,580</u>	<u>(\$560,111)</u>	<u>\$6,087,173</u>
Financing activities				
Bank line of credit	(\$1,445,144)	(\$260,117)	\$1,222,680	\$7,110,613
Repurchase of Shares	-	-	(\$10,365)	-
Proceeds from Share Issuance	\$1,307,661	-	\$1,307,661	-
Proceeds from exercise of stock options and warrants	-	\$501,479	-	\$822,379
	<u>(\$137,483)</u>	<u>\$241,362</u>	<u>\$2,519,976</u>	<u>\$7,932,992</u>
Investing activities				
Expenditures on property, plant and equipment	(\$540,705)	(\$3,391,583)	(\$1,581,136)	(\$18,307,751)
Net change in non-cash investing working capital items	(\$166,670)	(\$57,663)	(\$377,906)	(\$633,626)
	<u>(\$707,375)</u>	<u>(\$3,449,246)</u>	<u>(\$1,959,043)</u>	<u>(\$18,941,377)</u>
Change in cash during the period	\$500	(\$303)	\$823	(\$4,921,212)
Cash and cash equivalents				
- Beginning of period	\$420	\$400	\$97	\$4,921,309
Cash and cash equivalents, End of period	<u>\$920</u>	<u>\$97</u>	<u>\$920</u>	<u>\$97</u>

See accompanying notes to the financial statements.

1. Accounting policies

Petro-Reef Resources Ltd. (the "Corporation") is engaged in the exploration for and production of crude oil and natural gas in Canada. The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in Canada.

Significant accounting policies are summarized as follows:

Oil and gas operations

The Corporation follows the full cost method of accounting for crude oil and gas operations whereby all costs related to the acquisition of, exploration for and development of crude oil and natural gas reserves are capitalized. Such costs include leasehold acquisition costs, geological and geophysical costs, lease rentals, drilling, plant and equipment costs and related overhead. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets with no gain or loss recognized, unless such a sale would result in a change of more than twenty percent in the depletion rate.

The Corporation places a limit on the carrying value of property, plant and equipment (the "ceiling test"). The carrying value is assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves using forward pricing, the lower of cost and market of unproved properties and the cost of major development projects exceed the carrying value. When the carrying value is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value of assets exceeds the discounted proved and probable reserves using a risk free rate, and the cost, less any impairment, of unproved properties that contain no probable reserves.

Depletion is computed using the unit-of-production method based on gross estimated proved oil and gas reserves (converted to equivalent units on the basis of estimated relative energy content). In determining the appropriate depletion rate, the Corporation includes the net book value of its oil and gas properties, as well as the estimated future costs to be incurred in developing proved reserves and excludes the unimpaired cost attributable to unproved properties.

Depreciation

Depreciation of furniture and fixtures is calculated using the declining balance method at an annual rate of 20%. Depreciation of computer equipment is calculated using the declining balance method at an annual rate of 45%. Leasehold improvements are amortized over the useful life of 5 years using the straight-line method.

Asset retirement obligation

The Corporation records a liability for the fair value of legal obligations associated with the retirement of long lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

Stock options

The Corporation has an incentive stock option plan for employees, officers, directors and consultants as described in note 6. The Corporation records stock based compensation expense using the fair value method. The fair value of an option is calculated at the grant date, and expensed on a straight line basis over the vesting term of the option. The Corporation records the cumulative stock based compensation as a contributed surplus. When options are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated stock based compensation for the exercised option. Any consideration received on the exercise of stock options is credited to share capital.

Revenue recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Corporation are recognized when title passes from the Corporation to its customers.

Earnings per share

The Corporation uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. This method assumes that any proceeds from the exercise of in-the-money stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

Joint ventures

Substantially all of the Corporation's activities are conducted jointly with other industry partners and accordingly, these financial statements reflect only the Corporation's proportionate interest in such activities.

Cash and Cash equivalents

Cash and cash equivalents consist of all cash on hand and balances with banks, as well as all highly liquid short-term investments. The Corporation considers all highly liquid short-term investments with original terms to maturity of three months or less to be cash equivalents.

Flow Through Share Issuance

The Corporation finances a portion of its exploration program through the issuance of flow-through shares. Under the terms of the flow-through share agreements, and as provided for under the Income Tax Act, the tax attributes of qualifying exploration costs incurred by the Corporation are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, the amount for which the shares are issued is reduced by the tax effect of the tax benefits renounced to subscribers at the time the renunciation documents are filed with the tax authorities.

Measurement uncertainty

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions and to use judgment regarding assets, liabilities, revenues and expenses. Accordingly, actual results may differ from those estimated amounts.

Recorded amounts for depletion and depreciation, asset retirement obligations and amounts used for the ceiling test and impairment calculations are based on estimates of oil and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves and

the related future cash flows and costs are subject to measurement uncertainty, and the effect on the financial statements of future periods could be significant.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The consolidated financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Corporation's joint venture partners. The effect on the consolidated financial statements resulting from such adjustments, if any, will be reflected prospectively.

Share Purchase Warrants

The Corporation estimates the fair value of share purchase warrants issued. Fair value is estimated using the Black-Scholes method. When exercised the fair value is added to share capital to represent the cost to the Corporation of issuing the warrants.

Future Income Taxes

The Corporation follows the asset and liability method for accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Comprehensive Income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Because the Corporation does not have any OCI, the Corporation's financial statements do not include a Statement of Comprehensive Income which would otherwise describe the components of comprehensive income. Accordingly, since there are no cumulative changes in OCI to be included in accumulated other comprehensive income ("AOCI"), the Corporation has not presented AOCI as a new category within shareholders' equity in the balance sheet and has not included a Statement of Accumulated Other Comprehensive Income, which would otherwise provide the continuity of the AOCI balance.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions.

Measurements in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities classified as "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets

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classified as “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. The methods used by the Corporation in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Cash and cash equivalents are designated as “held-for-trading” and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and deposits are designated as “loans and receivables” and accounts payable and accrued liabilities are designated as “other liabilities”.

Risk management assets and liabilities are derivative financial instruments classified as “held-for-trading” unless designated for hedge accounting.

Adopted 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 ACCOUNTING 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;
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- 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.

2. Property, plant, and equipment

	September 30, 2009		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and Natural Gas	\$57,712,782	(\$25,536,303)	\$32,176,479
Furniture and Fixtures	\$175,295	(\$90,183)	\$85,112
Total	\$57,888,077	(\$25,626,486)	\$32,261,592

	December 31, 2008		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and Natural Gas	\$55,795,423	(\$19,300,962)	\$36,494,461
Furniture and Fixtures	\$187,819	(\$82,744)	\$105,075
Total	\$55,983,242	(\$19,383,706)	\$36,599,536

At September 30, 2009, unproven oil and gas properties with a cost of \$1,235,490 (December 31, 2008 - \$5,060,570) have been excluded from the depletion and depreciation calculation. Future capital costs required to developed proved reserves in the amount of \$1,909,000 (December 31, 2008 - \$1,909,000) are included in the depletion and depreciation calculation.

During the nine month period ended September 30, 2009, the Corporation capitalized \$41,550 with respect to overhead expenditures relating to the exploration and development of the Corporation's properties.

3. Demand operating facilities

Facility A is a revolving operating demand loan with a maximum limit of \$14,000,000. Facility B is a non-revolving acquisition/development demand loan that provides an additional \$4,000,000 of financing. Interest is at prime plus 0.375% per annum for Facility A and prime plus 0.75% per annum for Facility B. Petro-Reef has the ability to borrow by way of Bankers Acceptances. At September 30, 2009 the balance owing on both facilities was \$10,667,867 (September 30, 2008 - \$7,110,613).

The facilities are secured by a \$40,000,000 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. The facilities have a working capital covenant whereby the total current assets (including undrawn amounts under facility A) must be greater than 1.0x total current liabilities. Petro-Reef's working capital ratio as at

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September 30, 2009 was approximately 2.6x (1.6x as at December 31, 2008). Petro-Reef is in compliance with its working capital covenant.

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 \$1,427,812 (December 31, 2008 - \$1,352,123) as at September 30, 2009. A credit adjusted risk free rate of 10.0 percent (2008 - 5.74 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:

	Period Ended September 30, 2009	Period Ended December 31, 2008
Balance, beginning of period	\$1,352,123	\$539,840
Liabilities incurred in period	\$1	\$250,415
Liabilities incurred – revisions	-	\$298,998
Liabilities acquired in period	-	\$190,021
Accretion Expense	\$75,688	\$72,849
Balance, end of period	<u>\$1,427,812</u>	<u>\$1,352,123</u>

The estimated undiscounted amount of asset retirement obligation of \$2,087,854 (December 31, 2008 - \$2,087,854).

5. Share capital

a) Class A common shares

	Period Ended September 30, 2009		Year Ended December 31, 2008	
	Shares	Amount	Shares	Amount
Balance, beginning of period	34,161,541	\$18,130,397	33,714,781	\$17,946,983
Exercise of options (ii)	-	-	506,000	\$633,580
Exercise of warrants (i)	-	-	368,260	\$552,763
Share Repurchase (iii)	(39,000)	(\$20,741)	(427,500)	(\$227,358)
Flow through shares (iv)	5,033,700	\$724,637	-	(\$765,000)
Share issue costs (net of tax effect) (i)	-	(\$202,449)	-	(\$10,571)
Balance, end of period	<u>39,156,241</u>	<u>\$18,631,843</u>	<u>34,161,541</u>	<u>\$18,130,397</u>

- (i) 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 \$36,198 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 58%. Legal and other costs incurred, related to the issuance of these flow - through shares, were \$61,935. As part of the flow – through share offering, Petro-Reef has renounced to investors and must incur \$3,000,000 in eligible exploration expenditures on or before December 31, 2008. Petro-Reef met its obligations as of December 31, 2007. The actual renunciation was filed with the government in early Q1 – 2008 and, as a result, a tax adjustment to share capital has been accounted for during this period.

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- (ii) During the twelve month period ended December 31, 2008, 506,000 stock options were exercised at an average exercise price of \$0.79 and compensation expense previously of \$272,136 was included in share capital. No stock options were exercised during the nine month period ended September 30, 2009.
- (iii) During the period ended December 31, 2008, Petro-Reef acquired 427,500 common shares for total proceeds of \$130,296, all of which have been subsequently cancelled. A reduction of \$227,358 was recorded against share capital to account for the retirement of these shares. During the period ended September 30, 2009, 39,000 common shares were acquired for gross proceeds of \$10,365, all of which have been subsequently cancelled. A reduction of \$20,741 was recorded against share capital to account for the retirement of these shares.
- (iv) During the quarter, Petro-Reef issued 5,033,700 units, consisting of a flow-through common share issued at a price of \$0.30 as well as a common share warrant with an exercise price of \$0.40 per warrant for gross proceeds of \$1,510,100. Share capital was reduced by \$785,473 as this is the deemed cost associated with the issuance of the warrants using the Black Scholes calculation. Share issuance costs of \$202,449 were incurred which also serve as a reduction in share capital.

b) Contributed surplus

	Nine-Month Period Ended September 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	\$3,058,528	\$1,659,194
Stock-based compensation recognized in the period	\$152,008	\$603,055
Adjustments for stock options exercised in the period	-	(\$234,780)
Normal Course Issuer Bid	\$10,365	\$97,061
Expiry of warrants	-	\$933,998
Balance, end of period	<u>\$3,220,901</u>	<u>\$3,058,528</u>

c) 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:

	Three Month Period Ended September 30, 2009	Nine Month Period Ended September 30, 2009
Basic weighted average common shares	37,164,887	38,950,741
Effect of diluted options and warrants	53,947	65,192
Diluted weighted average common shares	<u>37,218,835</u>	<u>39,015,933</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 June 30, 2009 and December 31, 2008 and changes during the period are presented below:

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	Period Ended September 30, 2009		Year Ended December 31, 2008	
	Weighted Number of Options	Weighted Average Exercise Price	Weighted Number of Options	Weighted Average Exercise Price
Balance beginning of Period	2,375,000	\$1.33	3,050,000	\$1.18
Granted	1,025,000	\$0.26	465,000	\$1.26
Exercised	-	-	(506,000)	\$0.79
Expired	(200,000)	\$0.79	(634,000)	\$1.33
Balance end of period	3,200,000	\$1.33	2,375,000	\$1.33
Exercisable end of period	1,750,000	\$1.35	1,585,000	\$1.36

Compensation costs recognized in the period were \$152,008 (December 31, 2008 - \$603,055). The remaining life for all outstanding stock options is 3.0 years.

7. 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 nine month period ended September 30, 2009, the Corporation purchased engineering services in the amount of \$316,513 (September 30, 2008 - \$1,056,036) from a corporation controlled by a Director of the Corporation. The Corporation also purchased professional services in the amount of \$112,671 (September 30, 2008 - \$72,922) from a law firm which an Officer of the Corporation is a partner of.

8. 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	\$21,065
2010	\$86,762
2011	\$65,070
