



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTH PERIODS ENDED
SEPTEMBER 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 November 25, 2009. It should be read in conjunction with the interim financial statements and corresponding notes for the three month period ended September 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 September 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 September 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 September 30</i>	2009	<i>2008</i>	% Growth
Gross Revenue	\$1,932,320	\$4,501,683	(57.1%)
Cash Flow From Operations	\$832,555	\$2,411,635	(65.5%)
Net Income	(\$1,097,772)	\$453,787	n/a
Per Share (Basic / Diluted)	(\$0.03)	\$0.01	n/a

	September 30, 2009	<i>December 31, 2008</i>	% Growth
Total Assets	\$34,240,237	\$38,971,225	(12.1%)
Current Financing	\$10,667,867	\$9,445,187	12.9%

RESULTS OF OPERATIONS

Production

<i>Three months ended September 30</i>	2009	<i>2008</i>	% Growth
	Average	<i>Average</i>	
Crude Oil and NGL (bbls/d)	131	136	(4.0%)
Natural Gas (mcf/d)	4,288	4,407	(2.7%)
Combined (boe/d)	845	871	(2.9%)

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	% Growth
	Average	<i>Average</i>	
Crude Oil and NGL (bbls/d)	140	124	13.2%
Natural Gas (mcf/d)	4,284	5,188	(17.4%)
Combined (boe/d)	854	989	(13.6%)

Financial

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Gross Revenue	\$2,164,508	\$4,501,683	(51.9%)	\$27.84	\$56.83
Unrealized Gain (Loss) on Financial Instruments	\$20,884	-	n/a	\$0.27	-
Royalties	\$107,860	\$1,003,340	(89.2%)	\$1.39	\$12.67
Revenue After Royalties	\$2,077,532	\$3,498,343	(40.6%)	\$26.72	\$44.16
Operating Expenses	\$813,254	\$756,135	7.6%	\$10.46	\$9.55
Operating Netback	\$1,264,278	\$2,742,208	(53.9%)	\$16.26	\$34.61
General & Administrative Expenses	\$316,676	\$238,083	33.0%	\$4.07	\$3.01
Interest Expense	\$94,163	\$92,490	1.8%	\$1.21	\$1.17
Non-cash Expenses	\$2,198,539	\$1,810,654	21.4%	\$28.27	\$22.86
Income (Loss) Before Income Taxes	(\$1,345,100)	\$600,981	n/a	(\$17.30)	\$7.59
Income Tax Expense (Recovery)	(\$247,328)	\$147,194	n/a	(\$3.18)	\$1.86
Net Income (Loss)	(\$1,097,772)	\$453,787	n/a	(\$14.12)	\$5.73
Per Share – Basic	(\$0.03)	\$0.01			
Per Share - Diluted	(\$0.03)	\$0.01			

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Gross Revenue	\$6,912,588	\$15,527,026	(55.5%)	\$29.63	\$57.31
Unrealized Loss on Financial Instruments	(\$386,045)	-	n/a	(\$1.65)	-
Royalties	\$679,713	\$3,181,158	(78.6%)	\$2.91	\$11.74
Revenue After Royalties	\$5,846,830	\$12,345,868	(52.6%)	\$25.07	\$45.57
Operating Expenses	\$2,600,744	\$2,376,475	9.4%	\$11.15	\$8.77
Operating Netback	\$3,246,086	\$9,969,393	(67.4%)	\$13.92	\$36.80
General & Administrative Expenses	\$852,890	\$1,207,084	(29.3%)	\$3.66	\$4.46
Interest Expense	\$325,893	\$324,056	0.6%	\$1.40	\$1.20
Non-cash Expenses	\$6,519,961	\$6,029,922	8.1%	\$27.95	\$22.26
Income (Loss) Before Income Taxes	(\$4,452,658)	\$2,408,331	n/a	(\$19.09)	\$8.89
Income Tax Expense (Recovery)	(\$973,220)	\$667,934	n/a	(\$4.17)	\$2.47
Net Income (Loss)	(\$3,479,438)	\$1,740,397	n/a	(\$14.92)	\$6.42
Per Share – Basic	(\$0.09)	\$0.05			
Per Share - Diluted	(\$0.09)	\$0.05			

Revenue

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	2008
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Gross Revenue	\$2,164,508	\$4,501,683	(51.9%)	\$27.84	\$56.83
Unrealized Gain on Financial Instruments	\$20,884	-	-	\$0.27	-
Total Revenue	\$2,185,392	\$4,501,683	(51.5%)	\$28.11	\$56.83

Gross revenue decreased 51.5% to \$2,185,392 for the three month period ended September 30, 2009 compared to \$4,501,683 for the same period ended September 30, 2008. Petro-Reef realized an all in price per unit of production for the three month period ended September 30, 2009 of \$28.11 representing a 51.0% decrease compared to the realized price per unit of production of \$56.83 for the same period ended September 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 September 30:

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Change</i>
Crude Oil and NGL (\$ / bbl)	\$65.88	\$112.71	(41.5%)
Natural Gas (\$ / mcf)	\$3.76	\$7.77	(51.7%)

Natural gas prices fell 51.7% during the quarter to \$3.76. 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. During the period, Petro-Reef realized \$232,189 in cash hedging gains which increased Petro-Reef's realized natural gas price by \$0.60 / mcf or approximately 19.0%.

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	2008
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Gross Revenue	\$6,912,588	\$15,527,026	(55.5%)	\$29.63	\$57.31
Unrealized Loss on Financial Instrument	(\$386,045)	-	n/a	(\$1.65)	-
Total Revenue	\$6,526,543	\$15,527,026	(58.0%)	\$27.98	\$57.31

Gross revenue decreased 58.0% to \$6,526,543 for the three month period ended September 30, 2009 compared to \$15,527,026 for the same period ended September 30, 2008. Petro-Reef realized an all in price per unit of production for the three month period ended September 30, 2009 of \$27.98 representing a 51.2% decrease compared to the realized price per unit of production of \$57.31 for the same period ended September 30, 2008.

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

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	<i>% Change</i>
Crude Oil and NGL (\$ / bbl)	\$55.30	\$105.84	(47.8%)
Natural Gas (\$ / mcf)	\$4.01	\$8.28	(51.5%)

Included in the realized natural gas price is a realized hedging gain of \$341,408, which resulted in an increased realized natural gas price of \$0.30 / mcf or approximately 8.0% increase.

Royalties

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Royalties	\$107,860	\$1,003,340	(89.2%)	\$1.39	\$12.67

Royalties decreased 89.2% to \$107,860 for the three month period ended September 30, 2009 compared to \$1,003,340 for the same period ended September 30, 2008. Royalties on a per unit of production basis decreased 89.1% to \$1.39 for the three month period ended September 30, 2009 compared to \$12.67 for the same period ended September 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 5.0% for the three month period ended September 30, 2009 from 22.3% for the same period ended September 30, 2008. Petro-Reef anticipates its effective royalty rate to increase in subsequent quarters as commodity prices rise.

Subsequent to the end of the quarter, Petro-Reef drilled a well on lands which attract Crown royalties. As a result of the drilling, Petro-Reef has earned a royalty credit of approximately \$260,000 which will be used to reduce the Crown royalties payable by the Corporation. As per Canadian GAAP, this royalty credit will not be accounted for as a reduction in royalties, rather, as a reduction in capital expenditures.

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Royalties	\$679,713	\$3,181,158	(78.6%)	\$2.91	\$11.74

Royalties decreased 78.6% to \$679,713 for the nine month period ended September 30, 2009 compared to \$3,181,158 for the same period ended September 30, 2008. Royalties on a per unit of production basis

decreased 75.2% to \$2.91 for the nine month period ended September 30, 2009 compared to \$11.74 for the same period ended September 30, 2008.

The effective royalty rate fell to 9.8% for the three month period ended September 30, 2009 from 20.5% for the same period ended September 30, 2008.

Operating Expenses

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Operating Expenses	\$813,254	\$756,135	7.6%	\$10.46	\$9.55

Operating expenses rose 7.6% to \$813,254 for the three month period ended September 30, 2009 compared to \$756,135 for the same period ended September 30, 2008. Production expenses on a per unit of production basis increased 9.5% to \$10.46 for the three month period ended September 30, 2009 compared to \$9.55 for the same period ended September 30, 2008.

Operating costs increased during the quarter as a result of higher repairs and maintenance on certain wells and an increase in water handling charges. During the quarter, repairs were undertaken to Petro-Reef's water injection facility which required all water produced from wells to be trucked to a third party for disposal instead of being injected into the Petro-Reef owned and operated water injection well. These costs are not reoccurring and operating cost are expected to fall on a per unit of production basis in subsequent quarters as production increases resulting in higher utilization of Petro-Reef's operated facilities.

Operating Expenses

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Operating Expenses	\$2,600,744	\$1,236,657	9.4%	\$11.15	\$8.77

Operating expenses rose 9.4% to \$2,600,744 for the nine month period ended September 30, 2009 compared to \$1,236,657 for the same period ended September 30, 2008. Production expenses on a per unit of production basis increased 27.1% to \$11.15 for the nine month period ended September 30, 2009 compared to \$8.77 for the same period ended September 30, 2008.

General & Administrative Expenses

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
General & Administrative Expenses	\$316,676	\$238,083	33.0%	\$4.07	\$3.01

General & administrative expenses rose 33.0% to \$316,676 for the three month period ended September 30, 2009 compared to \$238,083 for the same period ended September 30, 2008. General & administrative expenses on a per unit of production basis rose 35.3% to \$4.07 for the three month period ended September 30, 2009 compared to \$3.01 for the same period ended September 30, 2008.

Lower overhead recoveries from working interest partners due to lower capital spending during the quarter resulted in higher than expected general & administrative expenses. Included in general & administrative

expenses was a one-time expense relating to the write-off of computer software of approximately \$50,000. Had this item been excluded from results, general & administrative costs would have increased by 12.0% and costs on a per unit of production basis would have been \$3.43.

Based on increasing production, expected higher general & administrative recoveries due to higher capital expenditures as well as continued focus on cost control, Petro-Reef anticipates general & administrative expenses on a per unit of production basis to fall in subsequent quarters.

<i>Nine Months ended September 30</i>	2009	2008	% Growth	2009	2008
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
General & Administrative Expenses	\$852,890	\$1,207,084	(29.3%)	\$3.66	\$4.46

General & administrative expenses fell 29.3% to \$852,890 for the nine month period ended September 30, 2009 compared to \$1,207,084 for the same period ended September 30, 2008. General & administrative expenses on a per unit of production basis fell 18.0% to \$3.66 for the six month period ended September 30, 2009 compared to \$4.46 for the same period ended September 30, 2008.

Interest Expense

<i>Three months ended September 30</i>	2009	2008	% Growth	2009	2008
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Interest Expenses	\$94,163	\$92,490	1.8%	\$1.21	\$1.17

Petro-Reef interest expense rose 1.8% to \$94,163 for the three month period ended September 30, 2009 compared to interest expense of \$92,490 for the same period ended September 30, 2008. Net interest expense on a per unit of production basis was \$1.21, compared to an interest expense of \$1.17 per unit of production in 2008.

Petro-Reef's interest expense increased as a result of higher debt levels which were partially offset by lower interest rates.

<i>Nine Months ended September 30</i>	2009	2008	% Growth	2009	2008
				<i>(\$ / boe)</i>	<i>(\$ / boe)</i>
Interest Expenses	\$325,893	\$324,056	0.6%	\$1.40	\$1.20

Petro-Reef incurred interest expense of \$325,893 for the nine month period ended September 30, 2009 compared to interest expense of \$324,056 for the same period ended September 30, 2008. Net interest expense on a per unit of production basis was \$1.40, compared to an interest expense of \$1.20 per unit of production in 2008.

Non Cash Expenses

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Depletion and Amortization	\$2,130,422	\$1,660,495	28.3%	\$27.40	\$20.96
Accretion Expense	\$26,112	\$33,752	(22.6%)	\$0.34	\$0.43
Stock-Based Compensation	\$42,005	\$116,407	(63.9%)	\$0.53	\$1.47
Total Non Cash Items	\$2,198,539	\$1,810,654	21.4%	\$28.27	\$22.86

Non cash expenses increased 21.4% to \$2,198,539 for the three month period ended September 30, 2009 compared to \$1,660,495 for the same period ended September 30, 2008. On a per unit of production basis, non cash expenses increased 23.7% to \$28.27 for the three month period ended September 30, 2009 compared to \$22.86 for the same period ended September 30, 2008.

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Depletion and Amortization	\$6,292,264	\$5,457,918	15.3%	\$26.98	\$20.15
Accretion Expense	\$75,688	\$47,989	57.7%	\$0.32	\$0.18
Stock-Based Compensation	\$152,009	\$524,015	(71.0%)	\$0.65	\$1.93
Total Non Cash Items	\$6,519,961	\$6,029,922	8.1%	\$27.95	\$22.26

Non cash expenses rose 8.1% to \$6,519,961 for the nine month period ended September 30, 2009 compared to \$6,029,922 for the same period ended September 30, 2008. On a per unit of production basis, non cash expenses increased 25.6% to \$27.95 for the nine month period ended September 30, 2009 compared to \$22.26 for the same period ended September 30, 2008.

Income Taxes

<i>Three months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Current Tax	-	-	-	-	-
Future Tax	(\$247,328)	\$147,194	n/a	(\$3.18)	\$1.86
Total Income Taxes	(\$247,328)	\$147,194	n/a	(\$3.18)	\$1.86

Non-cash income tax recovery was \$247,328 for the three month period ended September 30, 2009 compared to an expense of \$147,194 for the same period ended September 30, 2008. On a per unit of production basis, income tax recovery was \$3.18 for the three month period ended September 30, 2009 compared to an expense of \$1.86 for the same period ended September 30, 2008.

<i>Nine Months ended September 30</i>	2009	<i>2008</i>	<i>% Growth</i>	2009	<i>2008</i>
				(\$ / boe)	<i>(\$ / boe)</i>
Current Tax	-	-	-	-	-
Future Tax	(\$973,220)	\$667,934	n/a	(\$1.77)	\$2.47
Total Income Taxes	(\$973,220)	\$667,934	n/a	(\$1.77)	\$2.47

Non-cash income tax recovery was \$973,220 for the nine month period ended September 30, 2009 compared to an expense of \$667,934 for the same period ended September 30, 2008. On a per unit of production basis, income tax recovery was \$1.77 for the nine month period ended September 30, 2009 compared to an expense of \$2.47 for the same period ended September 30, 2008.

LIQUIDITY AND FINANCIAL CONDITION

	September 30, 2009	<i>December 31, 2008</i>
Working Capital	(\$11,146,279)	(\$12,589,011)
Oil and Gas Properties	\$32,261,592	\$36,599,536

Petro-Reef's working capital deficit at September 30, 2009 was \$11,146,279 compared to a deficit of \$12,589,011 at December 31, 2008. Included in the working capital deficit was \$10,667,867 in outstanding bank lines of credit which is included in current liabilities. As at September 30, 2009, Petro-Reef's bank credit facility was structured as a \$13,000,000 revolving operating demand loan and a \$3,000,000 non-revolving acquisition / development demand loan. As at September 30, 2009, Petro-Reef Resources Ltd. was in compliance with its bank covenants. Included in the working capital deficit was \$386,045 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 \$10,760,234, which would have represented a \$1,828,778 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. Subsequent to quarter end, Petro-Reef announced that its senior credit facility availability was increased to \$14,500,000.

During the quarter, Petro-Reef 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 September 30, 2009 were \$32,261,592 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 nine month period ended September 30, 2009 Petro-Reef incurred \$1,581,136 in net capital expenditures.

Cash Flow From Operations

For the three month period ended September 30, 2009, Petro-Reef generated cash flows from operations of \$832,555 (\$0.02 per basic / diluted share), a decrease of 65.5% compared to \$2,411,635 (\$0.07 per basic / diluted share) for the three month period ended September 30, 2008. Cash flow from operations decreased as a result of lower production and 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 September 30</i>	2009	<i>2008</i>
Net Income For The Period	(\$1,097,772)	\$453,787
Future Income Tax Provision	(\$247,328)	\$147,194
Unrealized Loss on Financial Instruments	(\$20,884)	-
Accretion Expense	\$26,112	\$33,752
Stock-Based Compensation	\$42,005	\$116,407
Depletion And Amortization	\$2,130,422	\$1,660,495
Cash Flow From Operations	\$832,555	\$2,411,635

For the nine month period ended September 30, 2009, Petro-Reef generated cash flows from operations of \$2,453,348 (\$0.06 per basic / diluted share), a decrease of 70.9% compared to \$8,438,253 (\$0.25 per basic share) for the nine month period ended September 30, 2008. Cash flow from operations decreased as a result of lower production and lower commodity prices realized during the period.

<i>Nine Months ended September 30</i>	2009	<i>2008</i>
Net Income For The Period	(\$3,479,438)	\$1,740,397
Future Income Tax Provision	(\$973,220)	\$667,934
Unrealized Loss on Financial Instruments	\$386,045	-
Accretion Expense	\$75,688	\$47,989
Stock-Based Compensation	\$152,009	\$524,015
Depletion And Amortization	\$6,292,264	\$5,457,918
Cash Flow From Operations	\$2,453,348	\$8,438,253

Capital Resources

The Corporation's share capital is as follows:

	September 30, 2009		<i>December 31, 2008</i>	
	No. of Shares	Amount	<i>No. of Shares</i>	<i>Amount</i>
Common Shares	39,156,241	\$18,631,843	<i>34,161,541</i>	<i>\$18,130,397</i>

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

During the quarter, Petro-Reef issued 5,033,700 shares by way of a flow-through equity issuance for gross proceeds of \$1,510,100. Purchasers of the flow-through share were also provided a common share warrant, exercisable into common shares of Petro-Reef until August 6, 2010 at a price of \$0.40 per share. A reduction

in share capital of \$785,473 was recorded as a result of the warrants to the purchasers of the flow-through common shares. As a result of the flow-through share offering, Petro-Reef has an obligation to incur \$1,510,110 of eligible exploration expenditures on or before December 31, 2010. As of September 30, 2009, Petro-Reef had incurred approximately \$40,000 in eligible expenditures towards this obligation.

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 September 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. The normal course issuer bid expired on October 13, 2009 and was not renewed by the Corporation.

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTLOOK

During the quarter, Petro-Reef raised approximately \$1,510,000 in equity by way of the issuance of flow-through shares. With this equity capital, Petro-Reef proceeded to drill three high impact exploration wells on lands 100% controlled by Petro-Reef. Petro-Reef achieved significant drilling success with the drilling and is expecting to significantly increase production in subsequent quarters. As a result of the drilling success realized subsequent to the quarter, Petro-Reef has identified several follow-up locations it intends to drill in the coming months.

While commodity prices have increased from their recent lows, there still remains the possibility for significant weakness in prices on a go forward basis. Petro-Reef still has a floor on 65% of its natural gas production at a price of \$4.00 / GJ. Currently, prices are above this floor price, but the insurance this floor provides is such that Petro-Reef can proceed with development drilling as we are assured of a base cash flow regardless of where commodity prices may go.

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.

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	\$21,060
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
	Q3	Q2	Q1	Q4
Total Revenue	\$1,932,320	\$1,694,862	\$2,646,289	\$3,347,635
Cash flow	\$832,555	\$619,432	\$1,001,361	\$1,040,310
Net Income (Loss)	(\$1,097,772)	(\$1,491,526)	(\$890,140)	(\$776,824)
Net Income (Loss) Per Share	(\$0.02)	(\$0.04)	(\$0.03)	(\$0.02)
Capital Expenditures	\$540,705	\$430,314	\$954,742	\$4,386,938
Total Assets	\$34,240,237	\$35,365,058	\$37,322,551	\$38,971,225
Shareholders Equity	\$18,946,915	\$18,695,015	\$20,137,718	\$20,977,053
Avg. Daily Production (boe/d)	845	847	872	878

	2008			2007
	Q3	Q2	Q1	Q4
Revenue	\$4,501,683	\$6,294,649	\$4,730,694	\$1,957,256
Cash flow	\$2,411,635	\$3,394,919	\$2,631,699	\$779,831
Net Income (Loss)	\$453,787	\$884,916	\$401,694	(\$665,008)
Net Income (Loss) Per share	\$0.01	\$0.02	\$0.01	(\$0.02)
Capital Expenditures	\$3,391,583	\$1,811,045	\$13,110,324	\$3,126,358
Total Assets	\$36,719,035	\$34,682,220	\$35,324,313	\$28,603,828
Shareholders Equity	\$21,805,557	\$20,594,571	\$19,369,032	\$19,483,847
Avg. Daily Production (boe/d)	871	1,098	1,000	771

**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

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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Auditors

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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