

UNITED REEF LIMITED

QUARTERLY REPORT
FOR THE NINE MONTHS ENDED AUGUST 31, 2004

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UNITED REEF LIMITED
Report To Shareholders

Dear Shareholders:

The three-month period ended August 31st, 2004 was eventful for the Company on several fronts as reflected in the accompanying financial statements for the nine-month period ended August 31, 2004. We would again draw your attention to the subsequent event notes to the financial statements, as there were several important matters of business, which were completed after August 31st.

You will note from the enclosed financial statements that the Company's financial health has improved considerably with the closing of the \$700,000 private placement on June 23rd. We are also pleased to report that on September 29th the Company closed a further private placement of \$200,000 on the same terms as the June private placement.

These financings have allowed the Company to advance its due diligence of a proposed investment in an oil & gas project located in the Central African Republic ("CAR"). On September 15th the Company announced that it had finalized an agreement with RSM Production Corporation ("RSM"), which gives the Company the right to earn up to a 25% interest in RSM's oil & gas exploration licence area in the CAR. RSM obtained its rights pursuant to a Petroleum Exploration and Exploitation contract with the State of CAR, which became effective in November 2000. The agreement governs the exploration and development of a 55,504 km² licence area, located in northeastern CAR.

Subsequent to obtaining their rights, RSM acquired and reprocessed approximately 3,600 1/kms of seismic that was shot over the licence area during the early 1980's. RSM also acquired the well logs for an exploration well drilled by Esso in 1986 within the licence area; the well logs revealed that there were numerous oil shows in the well. The Company has engaged independent consultants to review RSM's data relating to the licence area and to prepare a technical report on the project.

During August the Company granted an option to International CHS Resource Corporation ("CHS") whereby CHS may acquire a 50% working interest in the Company's wholly-owned Nickel Offsets property located 40 kms northwest of Sudbury. CHS made a \$25,000 non-refundable payment to the Company on signing. CHS has engaged an investment dealer to assist them in raising funds to finance their first years' exploration expenditure commitment of \$350,000 on the Nickel offsets property (which includes 3,000 metres of diamond drilling) and allow CHS to exercise the option. Full details of the option granted to CHS were included in the Company's press release on August 3, 2004. The Company commissioned an updated technical report on the Nickel Offsets property, which was received in mid-September. The report was written in compliance with the standards of National Instrument 43-101 and a copy of the report has been posted on both the www.cnq.ca and www.sedar.com websites.

We would also like to extend a welcome to Mr. Robert W. Jackson and Mr. Richard J. Lachcik who joined the Company's board of directors in early July.

On behalf of the Board of Directors, we thank the shareholders for their continuing support of the Company.

"Signed"

Michael D. Coulter
President

October 15, 2004

UNITED REEF LIMITED**Balance Sheet**

(Expressed in Canadian dollars)

	August 31, 2004	November 30, 2003
	(unaudited)	(audited)
ASSETS		
Current		
Cash	\$ 620,543	\$ 165,983
Prepaid expenses and sundry receivables	11,928	6,221
	<u>632,471</u>	<u>172,204</u>
Investment in AXMIN Inc.	10,833	20,833
Investment in exploration properties (Note 3)	235,834	125,589
	<u>\$ 879,138</u>	<u>\$ 318,626</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 17,689	\$ 14,987
Due to a related party (Note 4)	11,049	80,166
	<u>28,738</u>	<u>95,153</u>
SHAREHOLDERS' EQUITY		
Capital Stock (Notes 5 and 6)		
Authorized: Unlimited common shares without par value		
Issued: 50,702,453 (August 31, 2003 - 43,122,453)	18,206,396	17,513,583
Shares to be issued (Note 6(c))	60,000	-
Deficit	(17,415,996)	(17,290,110)
	<u>850,400</u>	<u>223,473</u>
	<u>\$ 879,138</u>	<u>\$ 318,626</u>

See accompanying notes to the financial statements.

UNITED REEF LIMITED
Statement of Operations and Deficit
(Expressed in Canadian dollars)
(unaudited)

	For the three months ended August 31,		For the nine months ended August 31,	
	2004	2003	2004	2003
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses				
Administration	\$ 46,083	\$ 22,625	\$ 124,276	\$ 68,571
Insurance	492	245	4,473	4,414
Shareholder information and filing fees	7,471	8,504	17,864	25,608
Transfer Agent	2,741	1,588	7,828	8,243
Legal	2,100	10,008	24,490	26,100
Advertising	2,286	-	12,515	3,620
Loss before the following	(61,173)	(42,970)	(191,446)	(136,556)
Write off of exploration and research expenditures	-	-	-	(7,570)
Gain on sale of AXMIN shares	-	7,752	65,560	107,911
Gain on settlement of debt	-	-	-	18,342
Net loss for the period	(61,173)	(35,218)	(125,886)	(17,873)
DEFICIT, beginning of the period	(17,354,823)	(17,360,464)	(17,290,110)	(17,377,809)
DEFICIT, end of the period	\$ (17,415,996)	\$ (17,395,682)	\$ (17,415,996)	\$ (17,395,682)
Loss per share for the period	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

See accompanying notes to the financial statements.

UNITED REEF LIMITED**Statement of Cash Flow**

(Expressed in Canadian dollars)

(unaudited)

	For the three months ended August 31,		For the nine months ended August 31,	
	2004	2003	2004	2003
Operating activities				
Net loss for the period	\$ (61,173)	\$ (35,218)	\$ (125,886)	\$ (17,873)
Write off exploration and research expenditures	-	-	-	7,570
Gain on sale of AXMIN shares	-	(7,752)	(65,560)	(107,911)
Gain on settlement of debt	-	-	-	(18,342)
	<u>(61,173)</u>	<u>(42,970)</u>	<u>(191,446)</u>	<u>(136,556)</u>
Non-cash items:				
Prepaid and sundry receivables	125	(2,536)	(5,706)	(2,111)
Accounts payable and accrued liabilities	(33,925)	11,048	2,701	17,495
	<u>(94,973)</u>	<u>(34,458)</u>	<u>(194,451)</u>	<u>(121,172)</u>
Investing activities				
Proceeds on sale of AXMIN shares	-	10,453	75,560	164,976
Expenditures on resource properties, net	7,927	(40,685)	(52,736)	(78,266)
Expenditures on oil & gas project	(38,963)	-	(57,509)	-
	<u>(31,036)</u>	<u>(30,232)</u>	<u>(34,685)</u>	<u>86,710</u>
Financing activities				
Issuance of common shares	642,813	60,000	692,813	60,000
Increase in shares to be issued	60,000	-	60,000	-
Decrease in loan payable to a related party	-	-	-	(25,040)
Increase (decrease) in amounts due to a related party	(40,826)	2,214	(69,117)	(10,314)
	<u>661,987</u>	<u>62,214</u>	<u>683,696</u>	<u>24,646</u>
Change in cash	535,978	(2,476)	454,560	(9,815)
CASH, beginning of period	84,566	14,708	165,983	22,048
CASH, end of period	\$ 620,543	\$ 12,232	\$ 620,543	\$ 12,232

See accompanying notes to the financial statements.

UNITED REEF LIMITED
Notes to the Financial Statements
(Expressed in Canadian dollars)

For the nine-month periods ended August 31, 2004 and 2003 (unaudited)

1. *Nature of Operations*

United Reef Limited (the "Company") is a Canadian natural resource exploration company, which is presently evaluating a past producing nickel-copper property in the Sudbury area, Ontario. The Company is also evaluating a potential investment in an oil & gas project in the Central African Republic. See Investment in Exploration Properties - Note 3 and Subsequent Events – Note 6(b).

2. *Accounting Policies*

These interim financial statements should be read in conjunction with the Company's year-end audited financial statements. The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principals and follow the same accounting principals and methods of application as disclosed in Note 2 of the Company's audited financial statements for the year ended November 30, 2003.

3. *Investment in Exploration Properties*

Property Description	Foot Note	Opening Balance at November 30, 2003	Expenditures	Closing Balance at August 31, 2004
		\$	\$	\$
Nickel Offsets, Sudbury area, Ontario	(a)	125,586	52,736	178,322
Oil & Gas Project, Central African Republic	(b)	-	57,509	57,509
Other		3	-	3
		<u>125,589</u>	<u>110,245</u>	<u>235,834</u>

- (a) The Company holds a 100% interest in 12 patented and 5 unpatented mining claims located in Foy Township Sudbury Mining Division, Ontario. The following table sets out the expenditures made on the property since November 30, 2002.

	Balance at November 30, 2002	Expenditures	Balance at November 30, 2003	Expenditures	Balance at August 31, 2004
Acquisition	20,001	-	20,001	-	20,001
Recoveries	(25,000)	-	(25,000)	(25,000)	(50,000)
Assaying	-	279	279	-	279
Consulting	13,485	10,760	24,245	9,298	33,543
Geology	13,796	59,381	73,177	29,148	102,325
Geophysical surveys	-	15,855	15,855	37,196	53,051
Staking costs	-	3,434	3,434	-	3,434

	Balance at November 30, 2002	Expenditures	Balance at November 30, 2003	Expenditures	Balance at August 31, 2004
Miscellaneous	4,888	8,705	13,594	2,095	15,689
	<u>\$27,172</u>	<u>\$98,414</u>	<u>\$125,586</u>	<u>\$52,736</u>	<u>\$178,322</u>

On August 3, 2004 the Company announced that it entered into an option agreement with International CHS Resource Corporation (“CHS”) whereby CHS may acquire a 50% working interest in the Nickel Offsets property. To earn their interest CHS has agreed to expend a total of \$2.8 million in staged exploration expenditures on the property over the next 4 years. In addition, during the option earn-in period, CHS will make aggregate cash payments of \$107,000 and issue 400,000 CHS common shares to the Company. The Company will remain the operator of the project and manage recommended exploration programs, to be funded by CHS, until such time as CHS has earned their 50% interest in the project. Once CHS has earned their interest they will become the operator of the project.

To secure the option until October 31, 2004, CHS made a \$25,000 non-refundable cash payment to the Company. In order for CHS to exercise the option and commence earning their interest in the Nickel Offsets project, CHS must do the following prior to October 31, 2004: make a further payment of \$7,000 to the Company to reimburse it for certain project related expenses; issue 100,000 common shares to the Company; and, demonstrate to the Company’s satisfaction that they have raised adequate funds to finance their first year’s exploration expenditure commitment of \$350,000 for the program recommended by the Company. CHS’s right to exercise the option is subject to regulatory approval. CHS has advised the Company that they have entered into discussions with an investment dealer for the purpose of making an offering of CHS securities to raise sufficient working capital to meet the obligations described above.

The President of the Company, Michael Coulter, has been a director of CHS since February, 1992. Mr. Coulter has advised the Company that he does not presently own nor does he hold the right to acquire any shares of CHS.

- (b) Represents expenditures for due diligence of a proposed investment in an oil & gas project in the Central African Republic (See Subsequent Events – Note 6(b)). The oil & gas project is located in northeastern Central African Republic, bounded by the Chad border to the north and is presently held by a private U.S. corporation. The licence area covers approximately 55,000 sq km (13.7 million acres) for oil & gas exploration rights.

4. *Due to a Related Party*

During the period, the Company incurred expenses in the amount of \$93,713 for rent, accounting, secretarial and administrative services and management fees provided by M.D. Coulter & Associates Inc. (“MDC”). MDC is a private company owned by the President and Secretary of the Company. The Company was indebted to MDC for \$11,049 at August 31, 2004.

5. *Capital Stock*

- (a) On June 23, 2004 the Company closed a private placement (the “Offering”) of units (the “Units”). Each Unit consisted of one common share and one-half of one common share purchase warrant (the “Warrants”). Each whole Warrant entitles the holder to purchase an additional common share at a price of \$0.15 for a period of eighteen months from the date of closing. A total of 7,080,000 Units at a price of \$0.10 per Unit were subscribed for, for gross proceeds of \$708,000.

The proceeds of the Offering are being used to fund the Company’s due diligence costs associated with its investment in a Central African Republic oil & gas project (See Investment in Exploration Properties - Note 3(b) and Subsequent Events – Note 6(b)) and for general working capital purposes.

The Company was assisted in marketing the Offering by Credifinance Securities Limited on a non-exclusive basis. In consideration for their services, the Company agreed to compensate Credifinance by the payment of an 8% cash commission and to issue to Credifinance broker's warrants (the "Broker Warrants") equal to 10% of the total number of Units sold in the Offering by Credifinance to its clients. Each Broker Warrant entitles the holder to purchase one Unit at a price of \$0.10 for a period of 18 months from closing. A total of 505,000 Broker's Warrants were issued and a commission of \$40,400 was paid to Credifinance on closing.

Subsequent to closing of the Offering, the Company had a total of 50,702,453 common shares issued and outstanding. See Subsequent Events – Note 6(c). All of the common shares, warrants and broker warrants issued pursuant to the Offering are subject to trading restrictions until October 25, 2004.

- (b) On July 12, 2004 the Company granted the following stock options to two recently appointed directors of the Company. The stock options were granted pursuant to the terms of the Company's 2003 Stock Option Plan (the "Plan"). A total of 4,000,000 common shares of the Company are reserved for grant under the Plan. See Subsequent Events – Note 6(d).

Messrs. Lachcik and Jackson were each granted 400,000 options at an exercise price of \$0.15 which expire on July 12, 2007.

One-quarter of the above stock options shall vest on each of the date of grant, and the 6-month, 12-month and 18-month anniversaries of the date of grant. Each stock option gives the option holder the right to purchase one common share of the Company.

- (c) See Subsequent Event – Note 6(a).

6. *Subsequent Events*

- (a) Effective September 7, 2004, 1,630,124 common share purchase warrants issued by the Company on March 6, 2003 expired, unexercised.
- (b) On September 15, 2004 the Company announced that it had finalized an agreement with Michael Coulter, the President of the Company, and RSM Production Corporation ("RSM") a private Denver-based oil & gas exploration and production company relating to certain oil & gas exploration rights in the Central African Republic. The agreement is effective from August 31, 2004, and assigns to the Company for nominal consideration all of Mr. Coulter's rights, title, estate and interest in and to an agreement dated January 24, 2003 between RSM and Mr. Coulter (the "RSM Agreement").

The RSM Agreement gives the Company the right to earn up to a 25% interest in RSM's oil & gas exploration license area in the Central African Republic. RSM obtained its rights pursuant to a petroleum exploration and exploitation contract with the state of Central African Republic, which became effective in November of 2000. The agreement governs the exploration and development of a 55,504 km² license area, located in northeastern Central African Republic.

The Company may earn its interest in RSM's license area by funding 50% of the cost to acquire up to 2,500 line kilometres of new seismic data over areas of the license not previously covered and by funding 50% of the cost to drill the first eight exploration wells on the licence. See Investment in Exploration Properties – Note 3(b).

- (c) On September 29, 2004 the Company closed additional subscriptions of \$200,000 to its private placement Units offering, which closed on June 23, 2004, from individual and institutional investors. Gross proceeds in the amount of \$200,000 (\$60,000 of this amount was received prior to August 31, 2004) were received and resulted in the issuance of 2,000,000 Units. Each Unit consists of one common share and one-half of one common share purchase warrant (the "Warrants"). Each whole Warrant entitles the holder to purchase one additional common share at a price of \$0.15 until March 28, 2006. The Company will use the proceeds for general working capital purposes.

The Company was assisted in placing \$150,000 of the private placement by Credifinance Securities Limited. In consideration for their services, the Company paid Credifinance a commission in the amount of \$12,000 and issued to them 150,000 broker's warrants (the "Broker Warrants"). Each Broker Warrant entitles the holder to purchase one Unit at a price of \$0.10 until March 28, 2006.

Subsequent to the completion of this transaction, the Company has 52,702,453 common shares issued and outstanding. All of the common shares, warrants and Broker Warrants issued pursuant to this transaction are subject to trading restrictions until January 31, 2005.

- (d) At the Annual and Special Meeting of Shareholders of the Company held on September 30, 2004, shareholders approved a resolution authorizing an amendment to the Company's 2003 Stock Option Plan (the "Plan") to increase the maximum number of shares issuable pursuant to options granted under the Plan from 4,000,000 to 5,000,000.
- (e) As of October 15, 2004, following are securities of the Company which are outstanding, that may be converted, exercised or exchanged for voting or equity securities of the Company.

300,000	Warrants exercisable at \$0.15 until December 12, 2004
3,540,000	Warrants exercisable at \$0.15 until December 23, 2005
505,000	Broker's Warrants at \$0.10 until December 23, 2005 exercisable into 505,000 common shares and 252,500 Warrants at \$0.15 until December 23, 2005
2,400,000	Options exercisable at \$0.15 until December 3, 2006
800,000	Options exercisable at \$0.15 until July 12, 2007
1,000,000	Warrants exercisable at \$0.15 until March 28, 2006
150,000	Broker's Warrants at \$0.10 until March 28, 2006 exercisable into 150,000 common shares and 75,000 Warrants at \$0.15 until March 28, 2006

Each of the warrants (other than the Broker's Warrants) and the options entitle the holder to purchase one common share of the Company on the terms indicated above.