

## **UNDERGROUND ENERGY PROVIDES OPERATIONAL UPDATE**

December 7, 2011 – Santa Barbara, California – Underground Energy Corp. (“Underground”, “UGE” or the “Company”) (TSX VENTURE: UGE) today provided an operational update as it continues the process of integrating the six properties covering 39,778 gross acres (29,854 net) that were acquired on November 23, 2011.

“Following the completion of our recent acquisition, we are working to rapidly integrate the acquired assets into our portfolio and promptly advance the nearest-term development opportunities, particularly at the Zaca field,” said Michael Kobler, President and CEO of Underground. “Our focus for the balance of the year will be on completing the necessary logistics required to ensure that we can begin drilling at both Zaca and Asphaltea as early in 2012 as possible.”

### **Zaca Field Extension**

At the recently acquired Zaca Field Extension in the Santa Maria Basin where Underground is now the operator and has an 80% working interest in 7,750 acres (6,200 net), the Company has completed reprocessing existing 2D seismic and has planned the well path for its initial “step out” development well. The Company intends to commence drilling this well early in 2012 and, on that basis, is in the process of scheduling an appropriately sized rig.

The Company has also commenced acquisition of a 2D seismic swath survey over an area of more than 30 miles to obtain infill coverage between existing older seismic lines. The new seismic survey is expected to conclude in two weeks with processing and interpretation expected to be completed by the end of January 2012. The Company will also stimulate the existing well at Zaca which currently produces 15-20 bopd; this process is expected to increase current production from this well.

The Zaca field has produced more than 32 million barrels of oil from the Monterey formation to the West of UGE’s lease. The existing 2D seismic indicates that the field extends up dip to the Northeast of the developed portion of the field and that multiple adjacent untested Monterey prospects exist on Underground’s lease. UGE has identified an additional 20 to 30 drilling locations on the Zaca Field Extension and several more in the adjacent exploratory prospects.

### **Asphaltea**

The seismic swath survey shot at the Company’s Asphaltea property in the Santa Maria Basin in July 2011 has now been largely processed. Based on the information received to date, the Company has identified an initial drilling location and has elected to conduct a small, follow-on seismic shoot which it believes will provide it with additional precision in positioning the bottom-hole location of the initial well. Processing and interpretation of all seismic data from Asphaltea is expected to be complete by the end of January 2012 with drilling expected to commence thereafter.

### **Other Operational Activities**

As part of its recent acquisition, the Company acquired significant 2D and 3D seismic over a number of the properties and the Company is in the process of loading this data into its geophysical models for interpretation and evaluation of potential drilling targets across its portfolio. Over the next several months, the Company will also receive 3D seismic relating to its Buttonwillow Deep Prospect in the San Joaquin Basin

from the large 3D shoot being jointly undertaken by Occidental and Venoco; it will also monitor a planned Venoco well which offsets its Buttonwillow property.

At the Burrell Redevelopment Prospect in the San Joaquin Basin, work was recently undertaken to shut off sand production by packing the well with resin-coated sand. This recompletion work appears to have stabilized the current production of the well at approximately 35 bopd. In addition, Underground is planning to re-complete the producing well at its Challenger Gas Trend property by perforating a shallower sand formation that showed good gas saturation when the well was initially drilled. Underground believes that it can significantly and efficiently increase production from this well from its current 60 mcf/d.

GLJ Petroleum Consultants, the Company's independent qualified reserves evaluator, has initiated work on the Company's year-end 2011 NI 51-101 compliant reserves assessment of the properties acquired by the Company and it is anticipated that this report will be completed by the end of January 2012.

### **About Underground Energy Corporation**

Underground Energy is focused on identifying, acquiring rights to, exploring for, developing and producing oil reserves from shale formations in North America using the latest exploration and recovery techniques and technologies. Underground focuses on identifying and acquiring sizable land positions and prospects in historically prolific but under-explored shale formations as well as in emerging shale plays that, in both instances, hold large volumes of prospective resources. Underground currently holds hydrocarbon rights on approximately 80,303 net acres of highly prospective lands in California and Nevada with an initial focus on the Monterey shale in California. Underground is listed on the TSX Venture Exchange under the ticker symbol "UGE". For more information on Underground, including a copy of the Company's latest corporate presentation, please visit [www.ugenergy.com](http://www.ugenergy.com). Underground's regulatory filings are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

### **Cautionary Statements**

*Historical production data for Zaca is based upon the records of the California Division of Oil and Gas and Geothermal Resources obtained by the Company on August 24, 2011.*

*Statements in this press release contain forward-looking information and forward-looking statements within the meaning of applicable securities laws (collectively, "forward-looking information"). Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. In particular, forward-looking information in this press release includes, without limitation, statements with respect to: (i) the Company's planned seismic operations to be conducted on such oil and gas leases; and (ii) the prospectivity of such oil and gas leases for oil and gas and the anticipated drilling, completion and production results therefrom. Readers are cautioned that assumptions used in the preparation of forward-looking information may prove to be incorrect.*

*Although we believe that the expectations and assumptions reflected in the forward-looking information are reasonable, there can be no assurance that such expectations or assumptions will prove to be correct. In particular, assumptions have been made that: (i) Underground will be able to obtain equipment and regulatory approvals in a timely manner to carry out exploration and development activities; (ii) Underground will have sufficient financial resources with which to conduct its planned capital expenditures; and (iii) the current tax and regulatory regime will remain substantially unchanged. Certain or all of the forgoing assumptions may prove to be untrue.*

*Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and is subject to a variety of risks and uncertainties and other factors (many of which are beyond the control of Underground) that could cause actual events or results to differ materially from those anticipated in the forward-looking information. Some of the risks and other factors could cause results to differ materially from those expressed in the forward-looking information include, but are not limited to: operational risks in exploration, development and production; delays or changes in plans; competition for and/or inability to retain drilling rigs and other services; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, skilled personnel and supplies; risks associated to the uncertainty of reserve and resource estimates;*

***governmental regulation of the oil and gas industry, including environmental regulation; geological, technical, drilling and processing problems and other difficulties in producing reserves; the uncertainty of estimates and projections of production, costs and expenses; unanticipated operating events or performance which can reduce production or cause production to be shut in or delayed; incorrect assessments of the value of acquisitions; the need to obtain required approvals from regulatory authorities; stock market volatility; volatility in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; access to capital; and other factors. Readers are cautioned that this list of risk factors should not be construed as exhaustive.***

***The forward-looking information contained in this news release is expressly qualified by this cautionary statement. Underground does not undertake any obligation to update or revise any forward-looking statements to conform such information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.***

***BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl has been used and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.***

***Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.***

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