

## **UNDERGROUND ENERGY CORPORATION ANNOUNCES Q3 2011 FINANCIAL RESULTS**

November 9, 2011 – Santa Barbara, California – Underground Energy Corporation (“Underground”, “UGE” or “the Company”) (TSX VENTURE SYMBOL: UGE) today announced its financial results for the three and nine month periods ended September 30, 2011. All amounts are in US dollars unless otherwise noted and these results have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### **Recent Highlights**

Highlights for the quarter ended September 30, 2011 include:

- Completion of a \$25.5 million financing and a reverse takeover with Shenul Capital Inc. (“Shenul”), a TSX Venture Exchange listed company (see the announcement of Underground Energy Corporation dated August 17, 2011);
- Loss for the quarter of \$4,477,000 – which was increased by approximately \$3,560,000 in one time expenses associated with the merger with Shenul Capital Inc., of which \$3,117,000 was not cash;
- Entry into a development agreement with Titan Energy Resources and Stonegate Resources giving UGE successive rights to shoot 2D and 3D seismic surveys and drill a test well to earn 11,554 net acres, at a 100% working interest, in a large prospect in White Pine County, Nevada on lands prospective for Chainman and Pilot shale as well as the Guilmette Limestone and Diamond Peak sands;
- Successful deployment of UGE’s proprietary prospect-focused seismic imaging and interpretation techniques at Asphaltea; and began processing the acquired seismic data;
- Entry into oil and gas lease agreements for an additional 759 net acres, for a total of 1,359 net acres, in the San Joaquin Valley in an Area of Mutual Interest (“AMI”), which AMI covers an area of 90 square miles. Underground is partnered with another independent oil company in this AMI and has a 75% working interest and will be the operator in relation to this acreage. Subsequent to September 30, 2011, Underground’s acreage position has increased to 1,464 net acres; and
- Hiring of Mr. Robert (Randy) Ray as Chief Geophysicist to lead Underground’s geophysical interpretation and seismic acquisition efforts over a rapidly growing inventory of prospects; Mr. Ray has more than 35 years of industry experience in the Western US and is an expert in integrated seismic and geological interpretation.

Highlights subsequent to quarter-end include:

- Entry into a purchase and sale agreement to acquire 44,172 gross acres (33,037 net) of oil and gas leases in California, including three producing wells (two oil wells and one gas well, with total production of approximately 60 boepd), a number of drill ready locations, and multiple exploitation and exploration prospects in two trends in the Santa Maria Basin and four trends in the San Joaquin Basin, for total consideration of US\$5.5 million comprising \$4.6 million in cash and \$0.9 million in assumed liabilities.

“During the third quarter we raised capital, aggregated additional land in both California and Nevada, and strengthened our technical team in support of our long-term growth strategy,” said Michael Kobler, President and CEO of Underground. “Subsequent to quarter-end, we added to our portfolio of assets in a meaningful way, reinforcing our core focus on the Santa Maria basin and Monterey shale but also gaining greater exposure to the San Joaquin Basin and other analogous oil-prone shales. Our experienced team is well positioned to drive the scale and pace of development on these additional assets as resources and market conditions dictate.”

## Financial Review

### Selected Financial Highlights

	<u>As at</u> <u>September 30, 2011</u>	<u>As at</u> <u>December 31, 2010</u>
Cash and cash equivalents	23,318,194	427,730
Exploration and evaluation assets	3,269,440	612,506
Total assets	27,642,007	1,103,985
Long term liabilities	-	-
	<u>3 months ended</u> <u>September 30, 2011</u>	<u>3 months ended</u> <u>September 30, 2010</u>
Net loss	(4,476,953)	(321,967)
Net loss per share – basic & diluted	(0.03)	(0.01)

As a development stage company, Underground uses cash for its operating activities and for its investing activities. During the first half of the year shareholders provided financial support by purchasing common stock and warrants amounting to \$6,529,880, net of issuance costs. During the third quarter the Company closed a \$25,499,300 brokered private placement transaction.

On August 17, 2011, the Company completed its previously announced merger transaction (the “**Merger**”) with Shenul pursuant to a merger agreement dated July 4, 2011. Pursuant to the Merger, Shenul, through its wholly-owned subsidiary, Shenul Delaware Inc., acquired all of the issued and outstanding shares of Underground (the “**Underground Shares**”) and the name of Shenul was changed to "Underground Energy Corporation". Under the Merger, former Underground shareholders received 3.46 Shenul common shares for each one (1) Underground Share held (the “**Exchange Ratio**”). Immediately prior to completing the Merger, the Company received a \$25,499,300 cash injection, from its previously announced financing, in return for issuing 25,499,300 common shares and 12,749,650 warrants with an exercise price of \$1.40 per share which expire 24 months following the closing of the Merger which took place on August 17, 2011. Under the terms of the Merger, the shares issued under this financing were exchanged for shares of Shenul at the Exchange Ratio and the warrants issued under this financing are exercisable into shares of the Company at the Exchange Ratio.

Exploration and Evaluation (“E&E”) assets increased by approximately \$2,660,000 during the first nine months of the year. The \$1,215,000 net increase in E&E assets during the quarter was due primarily to geological, geophysical and engineering, permitting and additional lease acquisitions at Asphaltea of \$650,000; lease acquisitions at the Company’s San Joaquin AMI of \$280,000; geological and geophysical work and lease acquisitions at various Nevada projects of \$210,000; and acquiring seismic data for Zaca Extension of \$70,000.

The Company’s intention is to use equity issues and operating cash flow to fund: the acquisition of mineral and surface rights; the use of advanced exploration techniques; and the drilling, completion and tie-in of oil and gas wells.

Below is a summary of our exploration and evaluation (“E&E”) asset additions:

	<b>3 months ended September 30, 2011</b>	<b>9 months ended September 30, 2011</b>	<b>12 months ended December 31, 2010</b>
Acquisition and lease rentals additions	<b>674,647</b>	<b>1,431,475</b>	14,210
Equity investment additions	-	<b>500</b>	27,000
Geology and seismic additions	<b>785,133</b>	<b>1,508,756</b>	192,231
Other additions	<b>5,620</b>	<b>9,930</b>	19,965
Additions to E&E assets	<b>1,465,400</b>	<b>2,950,661</b>	253,406
Divestitures	-	<b>(2,075)</b>	-
Impairments	<b>(250,247)</b>	<b>(291,652)</b>	-
Change to E&E assets	<b>1,215,153</b>	<b>2,656,934</b>	253,406
E&E assets beginning of period	<b>2,054,287</b>	<b>612,506</b>	359,100
Ending E&E assets balance	<b>3,269,440</b>	<b>3,269,440</b>	612,506

### Results of operations

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Exploration and evaluation expense	<b>609,834</b>	199,926	<b>1,094,573</b>	536,856
Administrative expense	<b>3,868,813</b>	122,970	<b>5,306,697</b>	577,579
Gain on sale of property	-	-	<b>(47,925)</b>	-
Net finance expense (income)	<b>(1,694)</b>	(929)	<b>6,418</b>	(1,514)
Net loss	<b>4,476,953</b>	321,967	<b>6,359,763</b>	1,112,921

Net Loss increased by \$4,154,986 compared with the same quarter last year due to \$3,560,000 in one-time merger related expenses plus the growth of the Company and increased operational activities. It developed its oil and gas prospects and increased its land acquisition activities.

Factors contributing to the net loss included an increase in Administrative Expense of \$3,750,000 compared to the same quarter last year caused primarily by the \$2,870,000 cost of acquiring a listing on TSXV; \$440,000 increased professional fees related to the merger with Shenul and becoming a TSXV listed company; \$250,000 increased personnel cost due to the addition of a fulltime CEO, CFO, COO, VP Corporate Development and support staff; \$90,000 increased directors’ compensation; and \$90,000 increased office, insurance and miscellaneous expenses; \$60,000 increased travel and accommodation expenditures related to exploring financing alternatives; and \$60,000 investor relations fees. Those increases were partially offset by a \$130,000 warrant liability mark-to-market adjustment. Exploration and evaluation expense increased by \$410,000 compared with the same quarter last year primarily due to the recording of value impairment on the Chu Chua property of \$250,000, \$107,000 in personnel and \$53,000 in travel and other expenditures to support the personnel and consultants engaged in exploration and evaluation.

To view the Company’s Third Quarter 2011 Unaudited Condensed Interim Financial Statements, related Notes to Unaudited Condensed Interim Financial Statements, and Management’s Discussion and Analysis, please see the Company’s quarterly filings which will be available on [www.sedar.com](http://www.sedar.com).

Further information is available on the Company's website [www.ugenergy.com](http://www.ugenergy.com).

## **Outlook**

For the balance of 2011, Underground expects to continue to advance its ongoing exploration and development program. In California, the Company remains committed to exploring and developing its Monterey prospects with a focus on its Asphaltea prospects. Near term activities include processing and interpreting acquired seismic data to identify well paths, drilling two appraisal wells in order to test the Monterey Shale structures and other potential reservoirs, and expanding its acreage position up and down the trend.

On November 1, 2011 the Company entered into a purchase and sale agreement to acquire 33,036 net acres of oil and gas leases in California for \$4.6 million cash plus \$0.9 million of assumed pipeline obligations. The assets comprise three producing wells and multiple exploitation and exploration prospects, of which four are in the San Joaquin basin and two are in the Santa Maria basin, including the eastern extension of the Zaca oil field which has produced more than 32 million barrels of oil and is an analogous oil field for the Company's Asphaltea prospects. The majority of the acreage is prospective for oil in the Monterey Shale and equivalent source rocks. Closing of the transaction is subject only to the completion of final due diligence by the Company and is expected to occur on or about November 15, 2011.

Following the acquisition of additional oil and gas leases in California subsequent to quarter-end, a near term focus will be the Zaca Field Extension in the Santa Mara Basin. The Company intends to reprocess existing 2D seismic on the Zaca assets in advance of drilling its initial step-out extension well late in the fourth quarter of 2011 or early in the first quarter of 2012. The Company will also look to increase production from the existing well through stimulation work. Additional near term activities stemming from the acquisition include conducting stimulation work on an existing well at the Burrel Redevelopment project and recompleting a producing well at the Challenger Gas Trend AMI.

In Nevada, the Company intends to focus on the evaluation of conventional shale opportunities under existing leases. Planned activities include acquiring 2D seismic lines at Bull Run and Mustang Flats, purchasing and reprocessing seismic over several other prospects under lease, and undertaking permitting for an initial well in 2012.

More broadly, Underground intends to prioritize and begin permitting a portfolio of attractive exploration and exploitation opportunities, and the Company plans to continue to identify and acquire Monterey and under-exploited play concepts in both the Santa Maria and San Joaquin Basins of California. The Company will also consider opportunities in other western states that are complementary to its existing assets and that will permit the Company to leverage its team's specific expertise.

## **About Underground Energy Corporation**

Underground 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 mineral rights on approximately 83,086 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

*Statements in this press release contain forward-looking information within the meaning of applicable securities law. 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 the Company's growth strategy and anticipated activities under the heading "Outlook" above. Readers are cautioned that assumptions used in the preparation of forward-looking information may prove to be incorrect. Although we believe that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, level of activity, performance or achievements. Consequently, there is no representation that the actual results achieved will be the same, in whole or in part, as those set out in the forward-looking information.*

*Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and are 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: general economic conditions in Canada, the United States and globally, the risks associated with the oil and gas industry, commodity prices and exchange rate changes. Industry related risks could 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 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.*

*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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# UNDERGROUND ENERGY CORPORATION

## Condensed Interim Consolidated Balance Sheets

(in US dollars) | (unaudited)

	September 30, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>			
Cash and cash equivalents	\$23,318,194	\$ 427,730	\$ 309,267
Accounts receivable	90,503	4,818	-
Prepaid expenses and deposits	631,224	19,243	9,016
Loans receivable	152,318	-	-
<b>Total current assets</b>	<b>24,192,239</b>	<b>451,791</b>	<b>318,283</b>
Property, plant and equipment	180,328	39,688	50,763
Exploration and evaluation assets	3,269,440	612,506	359,100
<b>Total non-current assets</b>	<b>3,449,768</b>	<b>652,194</b>	<b>409,863</b>
<b>Total assets</b>	<b>\$27,642,007</b>	<b>\$ 1,103,985</b>	<b>\$ 728,146</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 370,054	\$ 561,214	\$ 85,118
Warrant liability	352,000	-	-
<b>Total current liabilities</b>	<b>722,054</b>	<b>561,214</b>	<b>85,118</b>
<b>Equity</b>			
Share capital	37,553,302	5,028,198	3,403,315
Share-based payment reserve	648,319	433,625	241,205
Deficit	(11,281,668)	(4,919,052)	(3,001,492)
<b>Total equity</b>	<b>26,919,953</b>	<b>542,771</b>	<b>643,028</b>
Commitments and contingencies			
Subsequent events			
<b>Total equity and liabilities</b>	<b>\$27,642,007</b>	<b>\$ 1,103,985</b>	<b>\$ 728,146</b>

# UNDERGROUND ENERGY CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Loss

(in US dollars) | (unaudited)

	Three Months		Nine Months	
	Ended September 30		Ended September 30	
	2011	2010	2011	2010
<b>Income and Expenses</b>				
Exploration and evaluation	\$ 609,834	\$ 199,926	\$1,094,573	\$ 536,856
Administrative	3,868,813	122,970	5,306,697	577,579
Gain on sale of property	-	-	(47,925)	-
	4,478,647	322,896	6,353,345	1,114,435
Finance income	(9,907)	(929)	(13,896)	(1,514)
Finance expense	8,213	-	20,314	-
<b>Net finance expense (income)</b>	<b>(1,694)</b>	<b>(929)</b>	<b>6,418</b>	<b>(1,514)</b>
<b>Loss and comprehensive loss for the period</b>	<b>\$4,476,953</b>	<b>\$ 321,967</b>	<b>\$6,359,763</b>	<b>\$1,112,921</b>
<b>Loss per share:</b>				
Basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.06)	\$ (0.02)

# UNDERGROUND ENERGY CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity  
(in US dollars) | (unaudited)

	Number of ordinary shares	Share capital	Share- based payment reserve	Deficit	Total equity
<b>Balance at December 31, 2010</b>	56,334,336	\$ 5,028,198	\$ 433,625	\$(4,919,052)	\$ 542,771
Issue of ordinary shares	134,440,376	32,177,450	-	-	32,177,450
Share issuance costs, net of tax of \$nil	-	(2,283,446)	-	-	(2,283,446)
Options exercised	1,211,000	17,500	-	-	17,500
Shenul Capital Inc. shares outstanding brought forward upon merger	9,900,000	-	-	-	-
Net assets of Shenul Capital Inc. acquired upon merger	-	2,613,600	42,667	-	2,656,267
Share-based payments	-	-	172,027	-	172,027
Dividends paid	-	-	-	(2,853)	(2,853)
Loss for the period	-	-	-	(6,359,763)	(6,359,763)
<b>Balance at September 30, 2011</b>	201,885,712	\$ 37,553,302	\$ 648,319	\$(11,281,668)	\$26,919,953

	Number of ordinary shares	Share capital	Share- based payment reserve	Deficit	Total equity
<b>Balance at January 1, 2010</b>	45,075,496	\$ 3,403,315	\$ 241,205	\$(3,001,492)	\$ 643,028
Issue of ordinary shares	9,771,040	1,412,000	-	-	1,412,000
Share-based payments	-	-	170,853	-	170,853
Loss for the period	-	-	-	(1,112,921)	(1,112,921)
<b>Balance at September 30, 2010</b>	54,846,536	\$ 4,815,315	\$ 412,058	\$(4,114,413)	\$ 1,112,960

# UNDERGROUND ENERGY CORPORATION

## Condensed Interim Consolidated Statements of Cash Flows

(in US dollars) | (unaudited)

	Three Months		Nine Months	
	Ended September 30		Ended September 30	
	2011	2010	2011	2010
<b>Cash flows from operating activities:</b>				
Loss for the period	\$ (4,476,953)	\$ (321,967)	\$ (6,359,763)	\$ (1,112,921)
Adjustments for:				
Depletion, depreciation and amortization	19,904	5,349	48,916	15,840
Impairment losses on exploration and evaluation assets	250,247	–	291,652	–
Gain on sale of exploration and evaluation assets	–	–	(47,925)	–
Net finance expenses (income)	(1,694)	(929)	6,418	(1,514)
Share-based compensation	63,102	5,242	214,694	170,853
Warrant liability, mark-to-market adjustment	(128,000)	–	(128,000)	–
Change in non-cash working capital	2,344,377	23,410	2,052,456	19,436
<b>Net cash used in operating activities</b>	<b>(1,929,017)</b>	<b>(288,895)</b>	<b>(3,921,552)</b>	<b>(908,306)</b>
<b>Cash flows from investing activities:</b>				
Property, plant and equipment expenditures	(57,879)	(1,104)	(189,556)	(4,662)
Proceeds from sale of exploration and evaluation assets	–	–	50,000	–
Additions to exploration and evaluation assets	(1,465,400)	(38,518)	(2,950,661)	(106,219)
Investment in Careaga Sand and Asphalt Company	–	–	(2,853)	–
<b>Net cash used in investing activities</b>	<b>(1,523,279)</b>	<b>(39,622)</b>	<b>(3,093,070)</b>	<b>(110,881)</b>
<b>Cash flows from financing activities:</b>				
Proceeds from issue of share capital	25,499,300	735,000	32,177,450	1,412,000
Share issuance costs	(2,135,175)	–	(2,283,446)	–
Increase in subscriptions receivable	–	(335,000)	–	(335,000)
Interest received (paid)	1,694	929	(6,418)	1,514
Proceeds upon exercise of options	17,500	–	17,500	–
<b>Net cash from financing activities</b>	<b>23,383,319</b>	<b>400,929</b>	<b>29,905,086</b>	<b>1,078,514</b>
<b>Change in cash and cash equivalents</b>	<b>19,931,023</b>	<b>72,412</b>	<b>22,890,464</b>	<b>59,327</b>
Cash and cash equivalents beginning of period	3,387,171	296,182	427,730	309,267
<b>Cash and cash equivalents end of period</b>	<b>\$23,318,194</b>	<b>\$ 368,594</b>	<b>\$23,318,194</b>	<b>\$ 368,594</b>