

Underground Energy Corp.

Unlocking Shale Oil Opportunities in California & Nevada
TSX-V:UGE



Corporate Presentation
November 2011









Investment Highlights



- **Focused on the Monterey and other oil-prone shale formations in California and Nevada currently comprising 83,140 net acres (40,350 in California and 42,840 in Nevada)**
- **Focus on de-risking core Asphaltea asset with 2 billion bbls OOIP and more than 100 MMbbls of prospective recoverable resources¹**
 - Acquired seismic coverage over more than 90% of Asphaltea prospects with completion of processing and interpretation of seismic expected in Q4 2011
 - Preparations under way to drill initial appraisal well in Q1 2012
- **Continuing to assemble quality land position**
 - Recent acquisition from Panther Energy Company increases California acreage from 7,314 net acres to 40,350 (27,380 Monterey – a 4x increase)
 - 2 AMIs covering 140 square miles in the Santa Maria and San Joaquin basins (initial 1,464 net acres)
 - Growing and evaluating Nevada land position (recently added 11,000 net acres)
- **California-based team with proven track record of creating significant shareholder value**
 - Founders of OSUM Oil Sands Corp. (\$1.2 billion private oil sands company based in Calgary, AB)
 - Operations team with proven track record of finding and growing reserves & production in California
- **Attractively valued compared to other shale and resource-focused E&P companies**
 - Enterprise value prior to acquisition of \$0.27 per boe of prospective resource



The Team – Built for California Oil

Management		Independent Board Members
<p>Michael Kobler – Chairman, President & CEO 30 years oil & large infrastructure projects globally and in California; founder and former CEO of OSUM Oil Sands</p> 	<p>Bruce Berwager – Chief Operating Officer 32 years international oil & gas experience; Chevron, Unocal, Conoco, Warren former COO and Director of Venoco; 20+ years shale experience in CA, TX, PA</p> 	<p>Randy Aldridge - Director 30 years international oil experience; President of Koch Pipelines & Koch Petroleum Canada; Koch Oil Co., True Energy</p>
<p>Peter Ballachey – CFO & Corporate Secretary 34 years experience; 16 years senior financial roles in Canada and USA</p> 	<p>Simon Clarke – VP Corporate Development Founder OSUM Oil Sands; 20+ years capital markets experience</p>	<p>Harland Johnson - Director 40 years technical and management upstream experience; ExxonMobil and affiliates</p>
<p>Dana Brock – VP Engineering 30 years California energy and infrastructure experience; Unocal, OSUM Oil Sands</p> 	<p>David Hoyt – VP Exploration & Development 35 years in exploration and development geology and geophysics; 25 years in California with ARCO, TXO, Warren, Foothill</p> 	<p>Andrew Squires - Director 23 years heavy oil experience; Petro-Canada, Dome, Amoco, Paramount; Current Senior VP OSUM Oil Sands</p>
<p>Randy Ray – Chief Geophysicist More than 35 years in western US; expert in integrated seismic and geological interpretation</p>	<p>Kim Wolfe – Regulatory Mgr. & Compliance CA and Santa Barbara permitting and regulatory; 10 years oil & gas experience at Venoco, Greka, SCS</p> 	<p>Douglas Urch - Director 30+ years international experience; CFO Bankers Petroleum and previously CFO of Rally Energy</p>

 California-based

Capital Structure Snapshot



UGE

Listed on the TSX Venture Exchange

\$0.225

October 27, 2011 Closing Share Price

201.9 million

Basic Shares Issued and Outstanding

\$45.4 million

Market Capitalization (on Basic Shares)

329.6 million

Fully Diluted Shares Outstanding

\$23.0 million

Cash Balance at October 21, 2011

15.5%

Insider Ownership

\$38.0 million

Working Capital at October 21, 2011

25.9%

Institutional Ownership

\$22.4 million

Enterprise Value (on Basic Shares)

58.6%

Retail Ownership

\$37.0 million

Potential Proceeds from Dilutive Securities

Growth Strategy



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Shareholder Value

Enhance

- Grow primarily through the drill bit
- Aggressively drill prospects to ramp-up production
- Apply advanced drilling, completion and recovery technologies to maximize recovery

Build

- Convert prospects to drill-ready projects
- De-risk portfolio through:
 - G&G technical assessments
 - Advanced 2D/3D seismic techniques
 - Appraisal drilling and formation evaluation
- Aggregate additional quality prospective acreage

Platform

- Proven management team
- Strong, committed investor base
- Quality asset portfolio under lease with a mix of lower risk assets and high impact resource opportunities

UGE Today Time

Recent Achievements



July 2011

Closed \$25.5 million brokered private placement

July 2011

Completed extended seismic shoot at Asphaltea (further de-risks key prospects)

August 2011

Entered into AMI in San Joaquin Basin covering 90 square miles (initial 1,464 net acres already leased)

August 2011

Entered into Development Agreement with Titan Energy in relation to Mustang Flats, Nevada (ability to earn total of 11,554 net acres at 100% WI)

August 2011

Strengthened technical team by hiring Randy Ray as Chief Geophysicist

August 2011

Completed RTO transaction and commenced trading on TSX-V

November 2011

Acquired 33,037 net acres in California from Panther Energy Company

Ongoing

Started preparations for initial drilling at Zaca and Asphaltea – Q1/2012

California Focused with Nevada Upside



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- Currently 83,140 net acres under lease in California and Nevada
- 27,380 net acres prospective for oil from Monterey and equivalent shales in Santa Maria and San Joaquin Basins
 - Two producing wells and multiple drill ready sites
 - Multiple exploitation and exploration prospects, including field extensions
- 12,970 net acres of conventional prospects in the San Joaquin Basin
 - One producing gas well
 - Additional exploration potential
- 42,840 net acres in Chainman and other emerging shale plays in 7 prospect areas in Nevada

Underground leases

US Shale Oil Comparison



	Play	Formation Depth (ft)	Gross Thickness (ft)	Matrix Porosity (%)	Matrix Permeability (md)	Total Organic Content (%)
High Profile US Oil-Prone Shale Plays	Bakken	7,000-11,000	20-150	3-12	0.005-0.2	2-18
	Eagle Ford	8,000-14,000	75-300	3-15	<0.0001-0.003	4.7
	Niobrara	2,000-8,000	>150	4-8	na	5
California Resource Shale Plays	Monterey (SMV)	3,500-10,000	500-3,500	5-30	0.0001-2	4-5
	Monterey(SJV) Antelope/McClure/ McDonald/Fruitvale Puente/U237 (LAB) Mohnian/Modelo	5,000-13,000	500-5,000	15-30	0.0001-2	0.1-4
	Tumey	3,000-19,000	200-700	5-10	0.001	0.9-3.2
	Kreyenhagen	3,000-19,000	400-2,400	5-10	<0.0001-1	4-12
	Moreno (Gas)	4,000-14,000	100-11,000	na	na	0.5-4
Nevada Emerging Shale Plays	Chainman/Pilot	> 8,200	400-2,400	5-10	Fracture Enhanced	1.5-11.7
	Paleozoic	>8,200-15,000	2,000-3,000	Fracture Enhanced	Fracture Enhanced	4.4-25

Key Attributes of Commercial Resource Plays

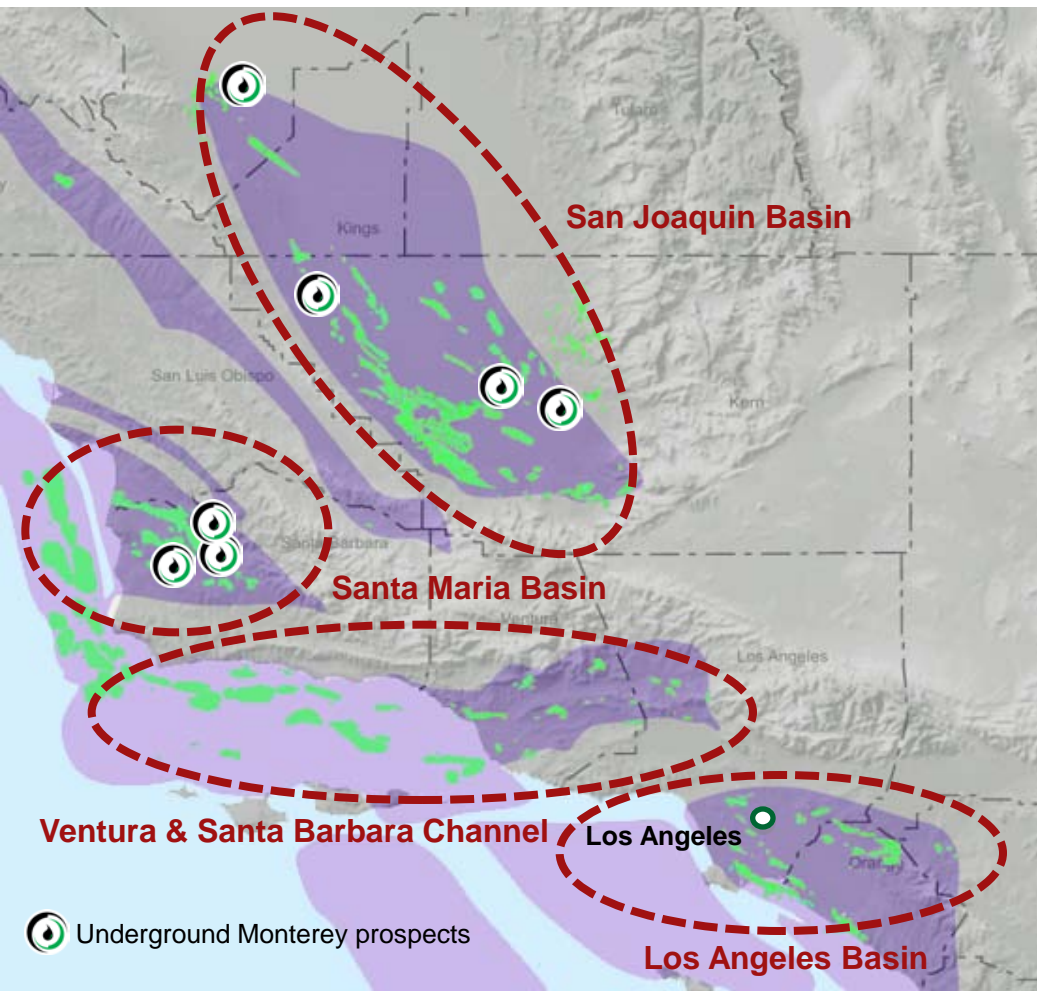
- TOC in excess of 1%
- T-MAX of 450°F
- Enhanced Permeability from Interbedded Sand/Carbonates or Natural Fractures

Monterey Shale Formation



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Significant Monterey Shale Basins



World Class Source Rock

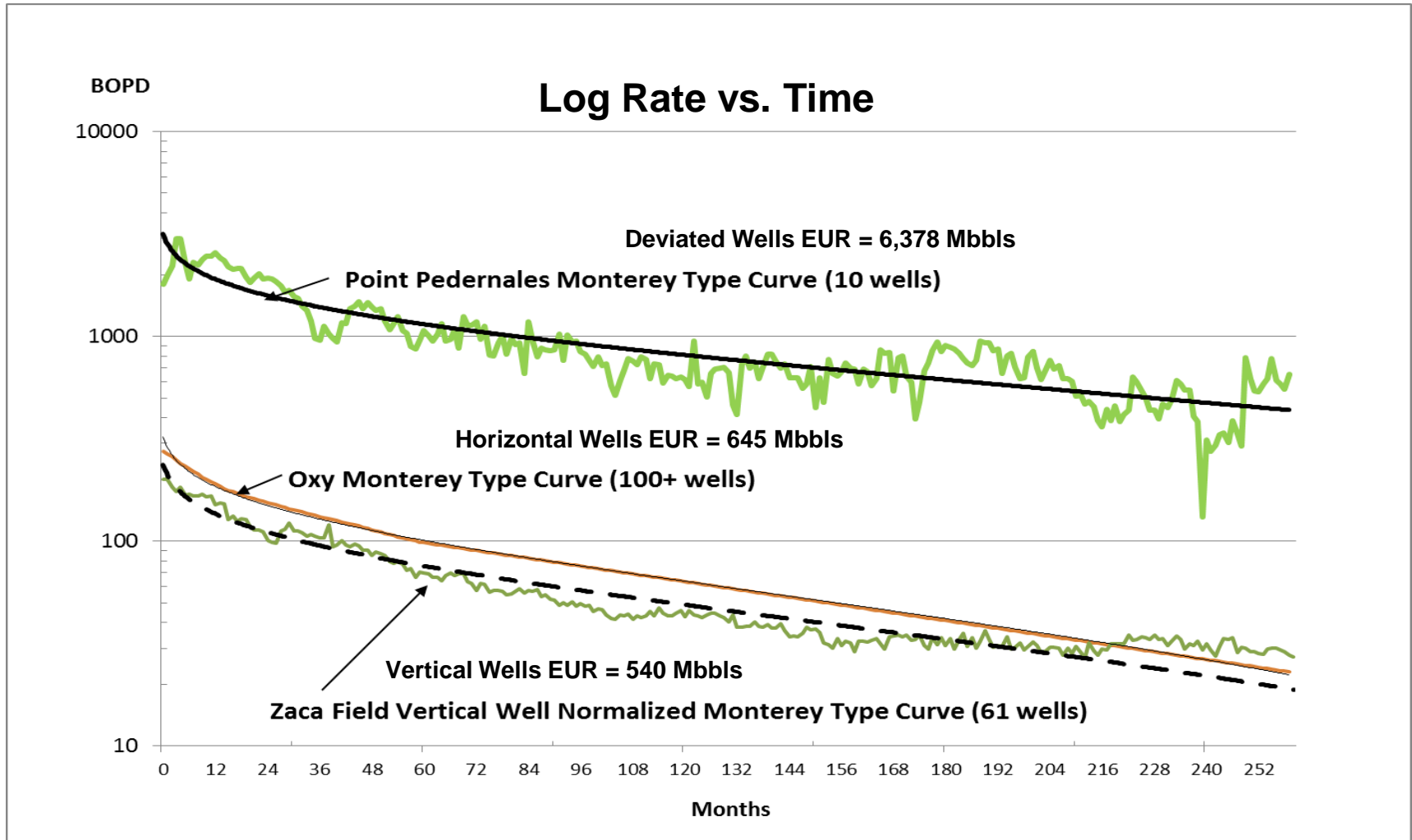
- Over 290 billion barrels of oil generated¹

World Class Reservoir Rock

- Has produced over 2.5 billion barrels¹
- Early onshore drilling on surface features
- 70's to 90's offshore exploration with seismic
- 2000's onshore exploration with seismic and development with horizontal wells

Monterey is the source and reservoir rock for most of the major oil fields discovered in California

Monterey Shale Type Curves



Key Monterey Players



- Largest Monterey land holder in State (LA, Ventura and San Joaquin basins)
- 10-15 exploratory wells per year planned through 2015 to test shale prospects
- 200,000 acres and 520 drilling targets de-risked for oil-prone shale development
- \$1.5 billion capex budget for California (150 – 175 wells in 2011 outside Elk Hills)
- Producing 45,000+ bopd from Monterey and equivalent shales



- Actively drilling in San Joaquin, Santa Maria and Salinas basins – 214,000 net acres
- Joint 500 mile seismic shoot in San Joaquin with Oxy – first half complete
- Announced two 2011 Monterey discoveries
 - Sevier (90 MMboe)
 - Salinas Valley (44 MMboe)
- 2012 plan 50-75, largely vertical, Monterey wells
- Recent take private offer at \$12.50 per share (\$1.4 billion enterprise value)

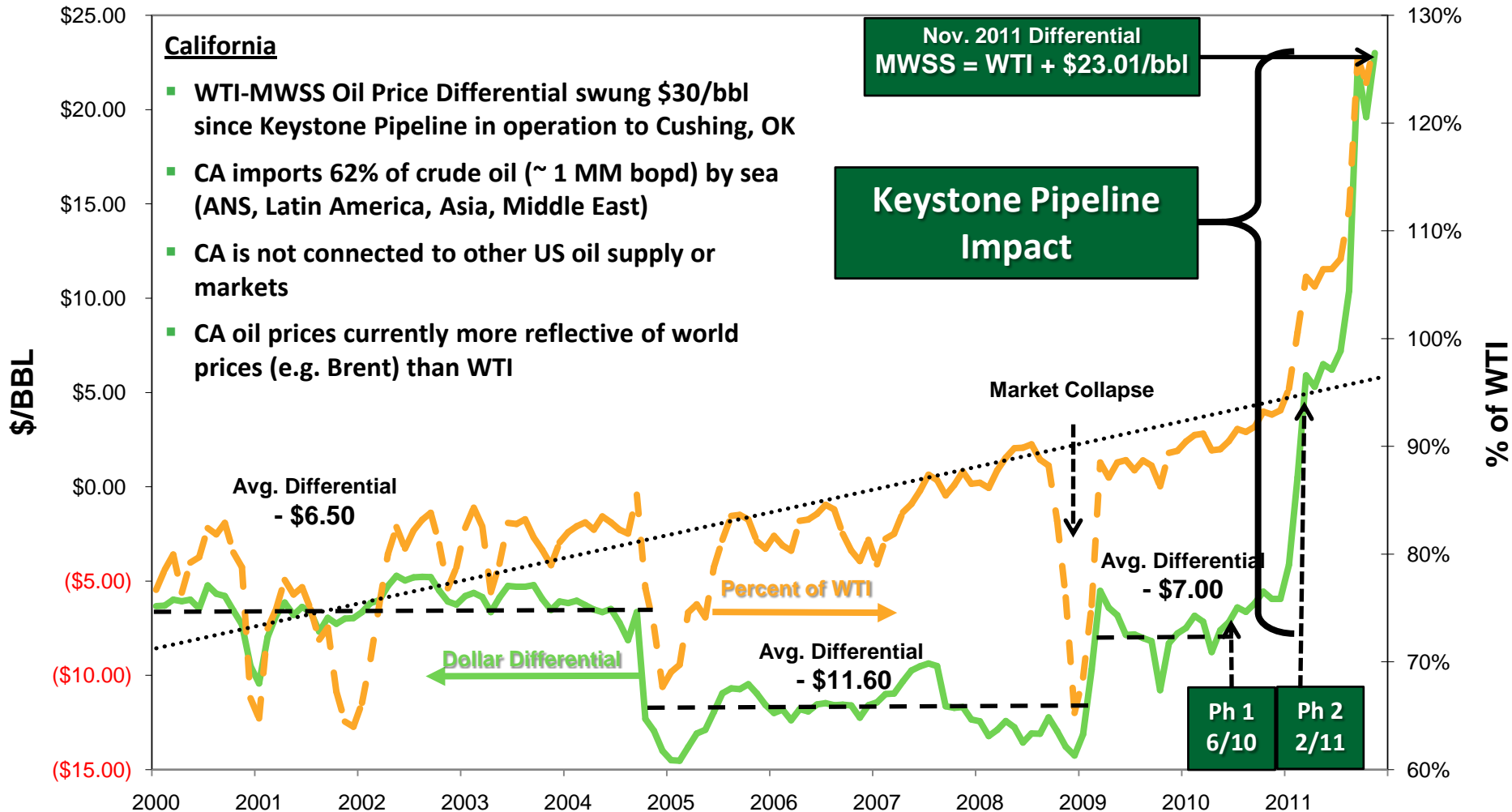
New players



California Heavy Oil (MWSS) vs. WTI



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Initial Monterey Prospect – Asphaltea



2 Monterey Prospects
4 Prospective Zones
180 Well Development Plan
\$2.2 billion Unrisked NPV²

- 2.3 billion bbls OOIP¹
- 109 mmbbl prospective resources (91% oil)¹
- Conventional naturally fractured play
- Analog producing fields close by
- 30 miles of seismic acquired in Q2 and currently processing
- Development wells
 - \$2.4MM deviated
 - \$3.2MM horizontal
- First well planned for Q1/2012

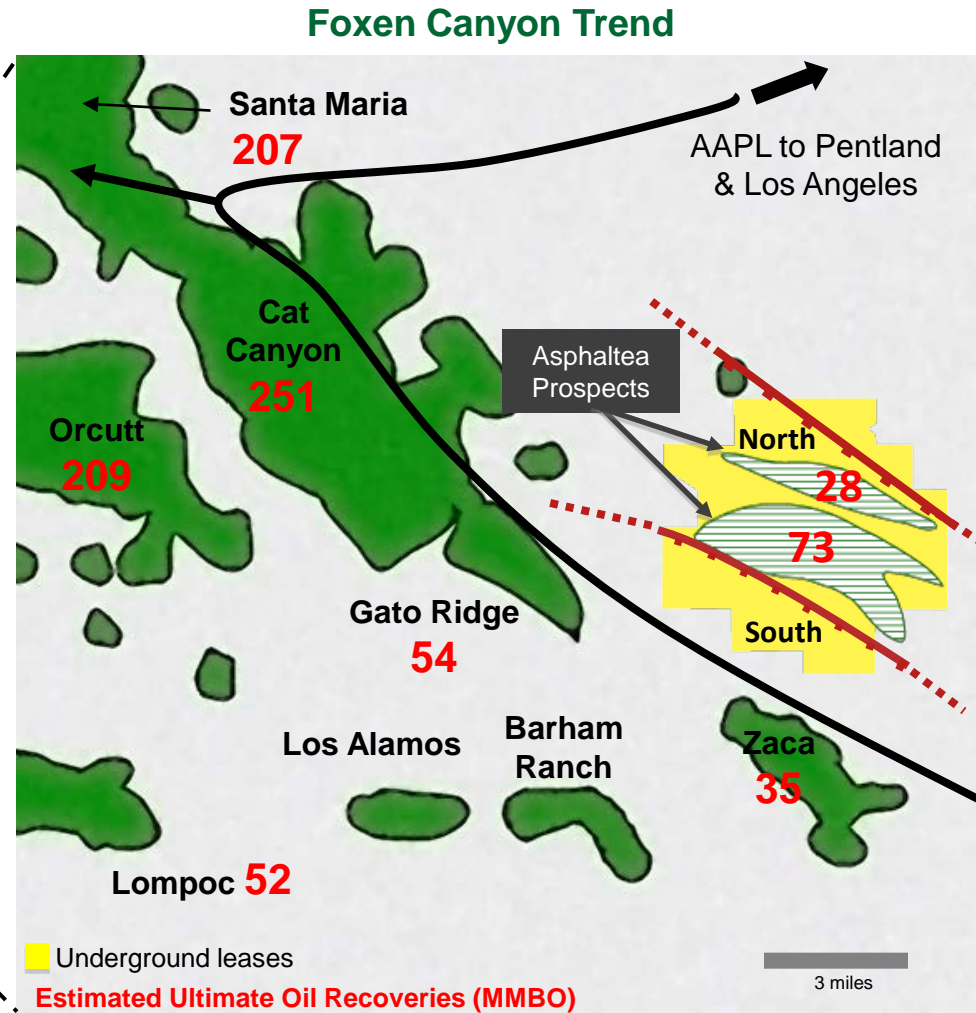
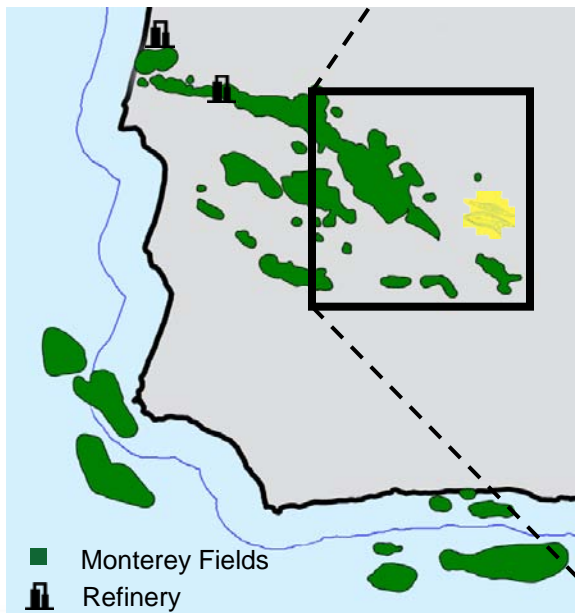
Initial 26 Wells Permitted

1. Source: GLJ Petroleum Consultants, effective date June 1, 2011

2. Internal estimate based upon GLJ's total prospective resources and using Oct. 21, 2011 NYMEX Futures strip prices (see deck in Appendix)

Asphaltea Location

- 3 leases covering 5,850 acres (100% WI)
- 2 initial prospects – highly fractured, conventional (anticline) structures
- 3D seismic in processing
- Close to infrastructure and existing Monterey production





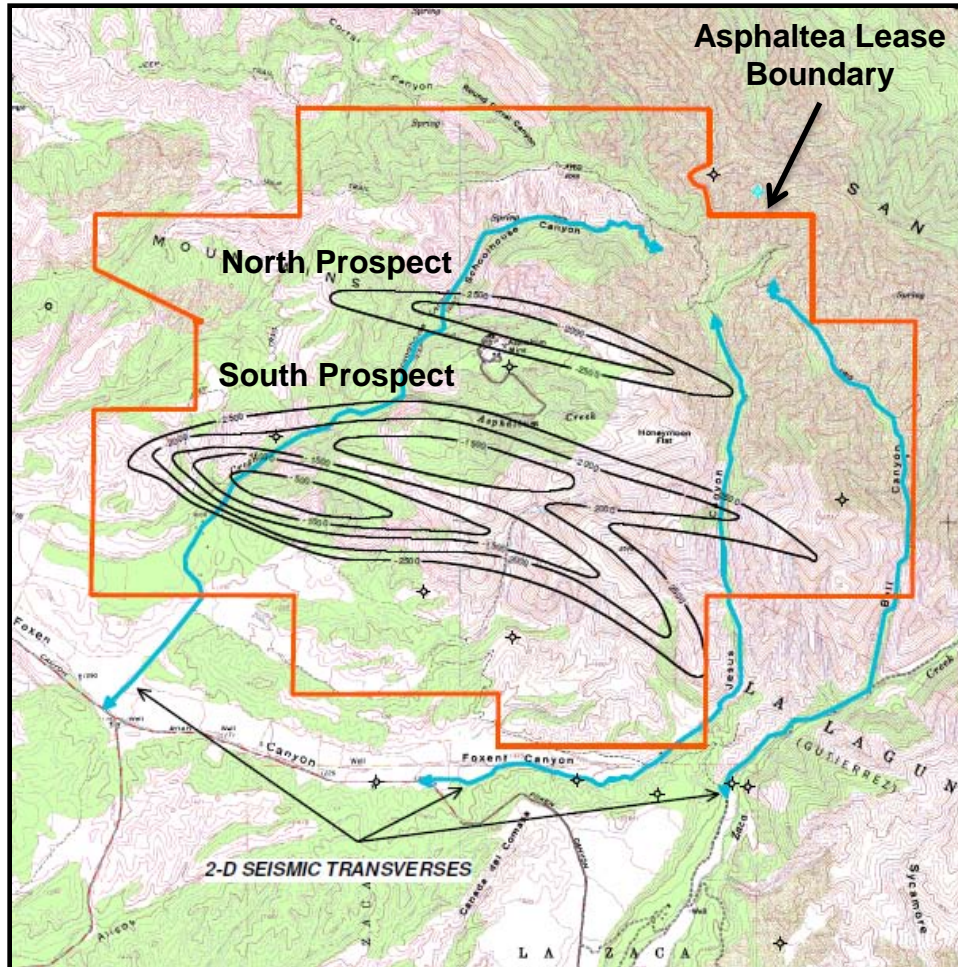
Analog Monterey Fields to Asphaltea¹

Field	First Drilled	Miles from Asphaltea	Cumulative Production (MMbbls)	Field EUR (MMbbls)	Area of Reservoir (acres)	Average Thickness (open feet)	Wells Drilled To Date	Average Oil Gravity (° API)
Casmalia	1905	25	44	47	1,946	558	250	10
West Cat Canyon	1938	7	93	93	2,415	800	275	15
Gato Ridge	1915	5	53	54	630	300	107	12
Lompoc	1903	15	49	52	2,551	367	172	20
Orcutt	1901	12	184	209	5,761	662	386	23
Zaca	1942	5	32	35	943	1,101	45	8
Average		12	80	87	2,723	631	na	8 to 23
Asphaltea North ²	1946	na	na	28	572	867	1	16
Asphaltea South ²	1952	na	na	73	1,790	867	1	15

- Significant leverage to improvements in recovery factory
 - Average recovery factor of 10%-15% of OOIP from analogy fields compared to 4.8% for Asphaltea²

1. Source: Spivak, Manning, et al. 1985
 2. Source: GLJ Petroleum Consultants, effective date June 1, 2011

Asphaltea Seismic Acquisition

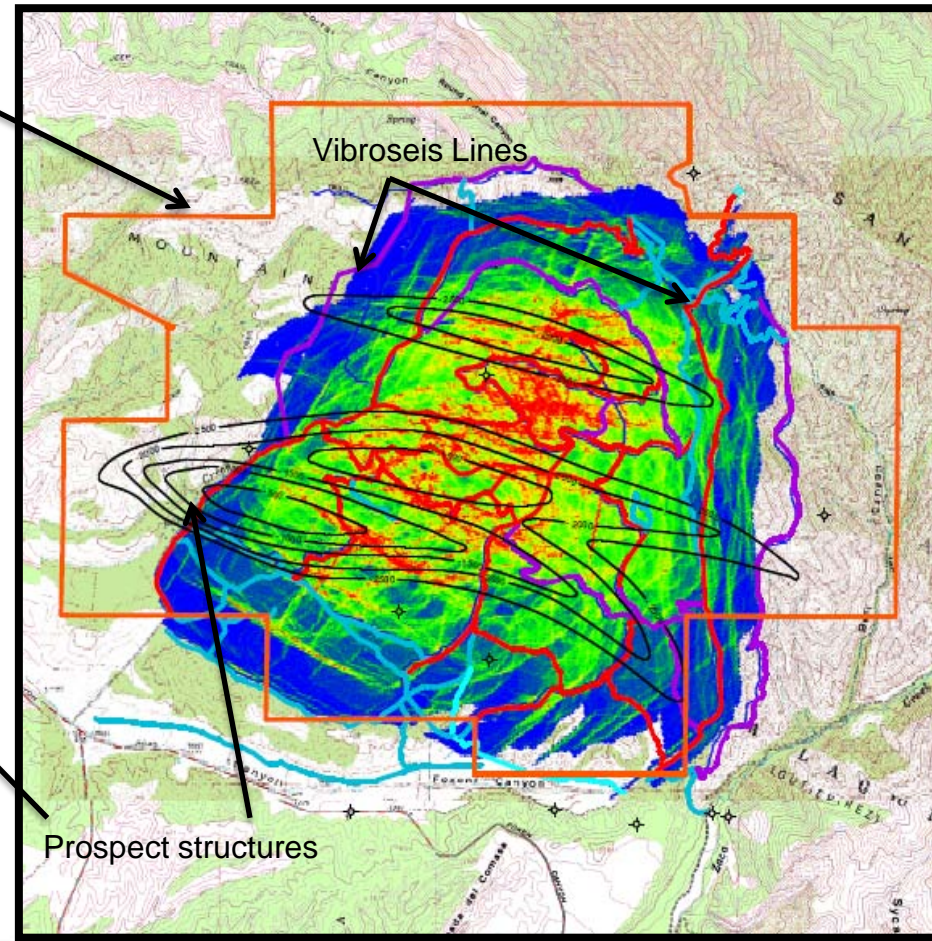
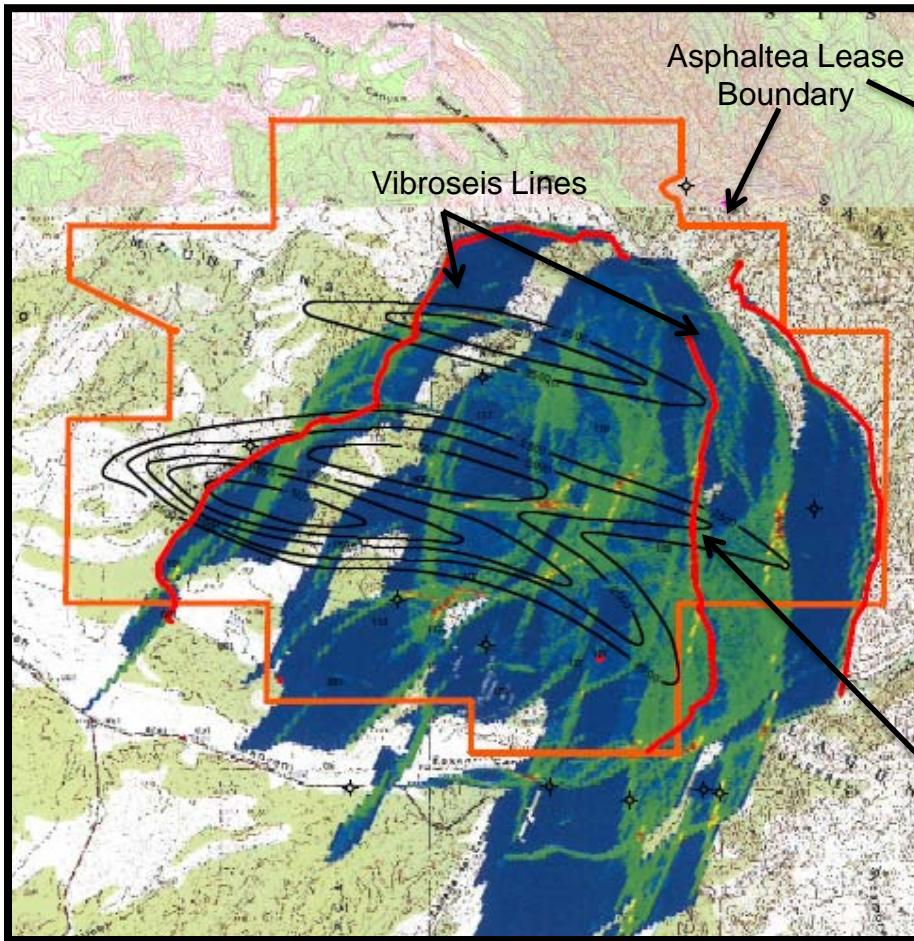


- Initial acquisition of 2D seismic data
- 2D data quality was excellent and shoot was expanded / extended as result
- 30 miles of data over 6 square miles
- Latest innovative seismic techniques used
- Increased data provides comprehensive seismic coverage over targets below 4,000 feet
- Previous oil shows below 4,000 feet
- Significant capital and permitting time savings compared to conventional 3D shoot
- Processing / interpretation by late November

Asphaltea 2D and 3D Seismic Coverage

2D Swath Seismic Coverage

3D Seismic Coverage

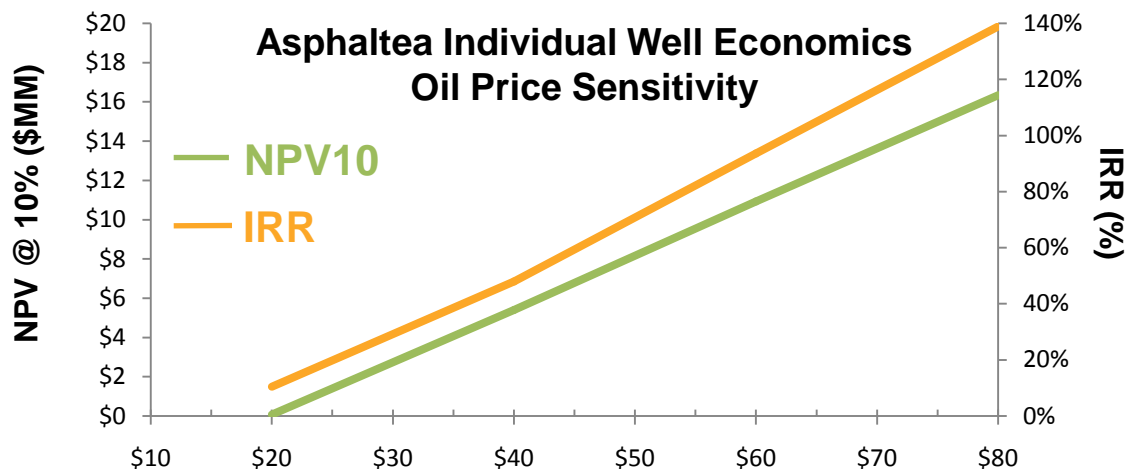
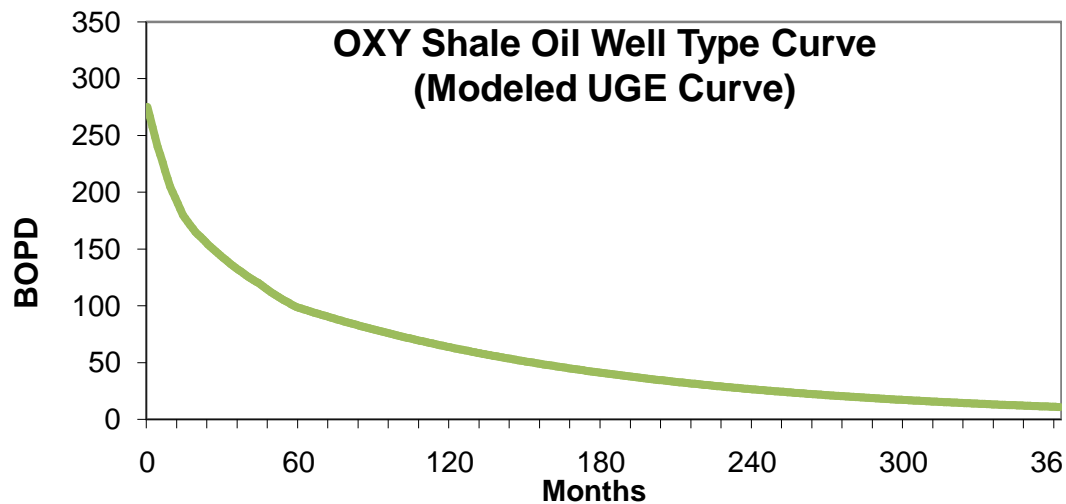


Asphaltea Economics



Parameter	Typical Well
Well Depth (MD feet)	8,000-10,000
Dry Hole Cost (\$M)	\$1,900-\$2,300
Completion Cost (\$M)	\$900-\$1,200
Total Well Cost (\$M)	\$2,800-\$3,500
UGE Interest (WI / NRI)	100% / 81.25%
Initial Prod Rate (BOPD)	250-300
Cum. Production (MBOE)	645
NPV @ 10% BT (\$M) ¹	\$23,166
IRR (%) ¹	171%
Payback (years) ¹	0.6

Sensitivity at 25% Higher Capex and \$80/bbl	
NPV @ 10% BT (\$M)	\$15,554
IRR (%)	107%
Payback (years)	0.9



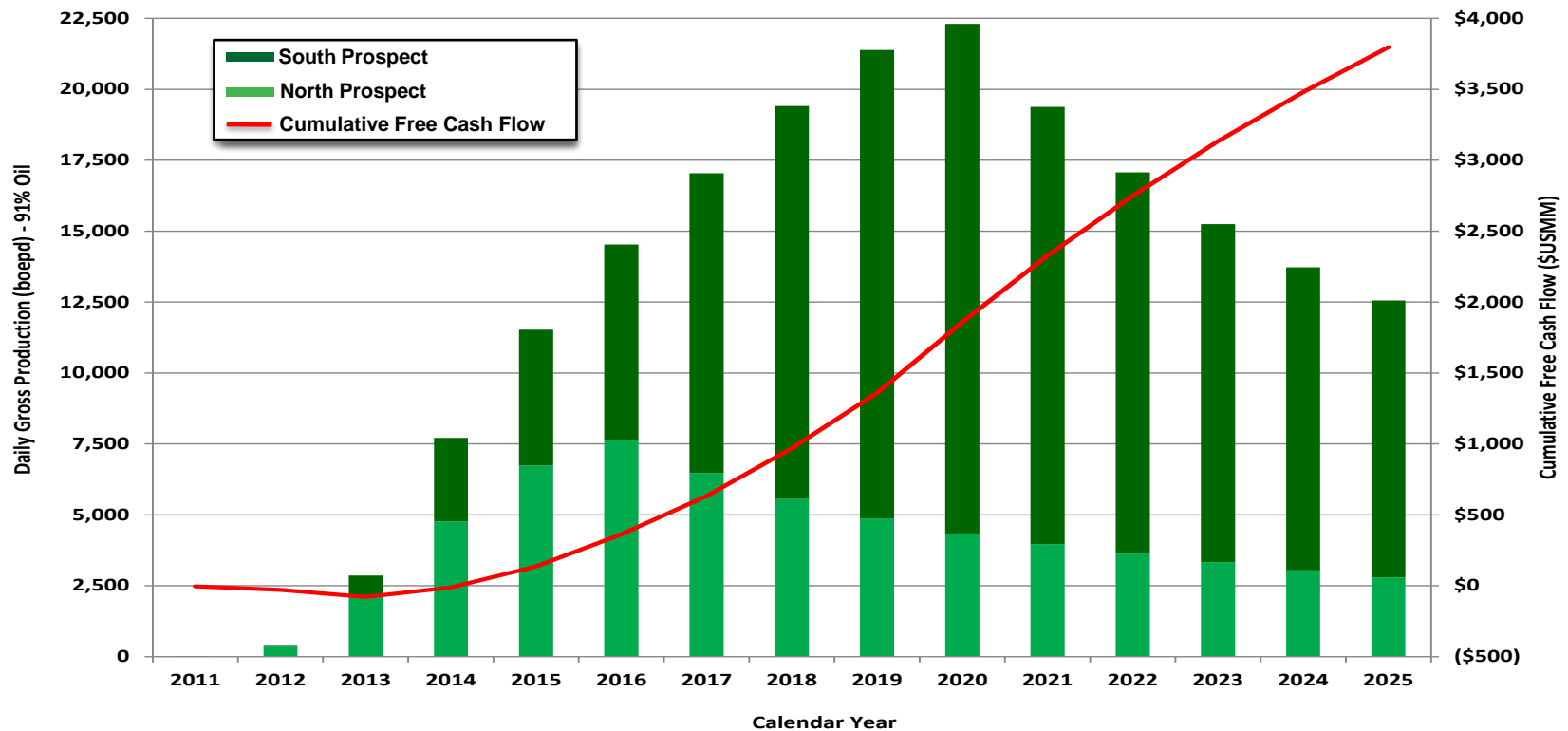
1. Economics are internal estimates based on Oct. 21, 2011 NYMEX Futures strip prices (see deck in the Appendix)



Asphaltea Development Profile^{1,2}

- Unrisked peak production of 22,300 boepd in 2020 with attractive well economics and conservative horizontal/deviated development well type curves
- Overall unrisked project before tax NPV 10% of \$2.2 billion

Asphaltea Prospect Unrisked Development Profile to 2025



1. Recoverable resource volumes are from GLJ Petroleum Consultants, effective date June 1, 2011
2. Economics are internal estimates based on Oct. 21, 2011 NYMEX Futures strip prices (see deck in the Appendix)

Acquisition from Panther Energy



2 play trends in Santa Maria Basin
4 play trends in San Joaquin Basin
3 producing wells
Multiple drill-ready locations
Multiple exploration prospects

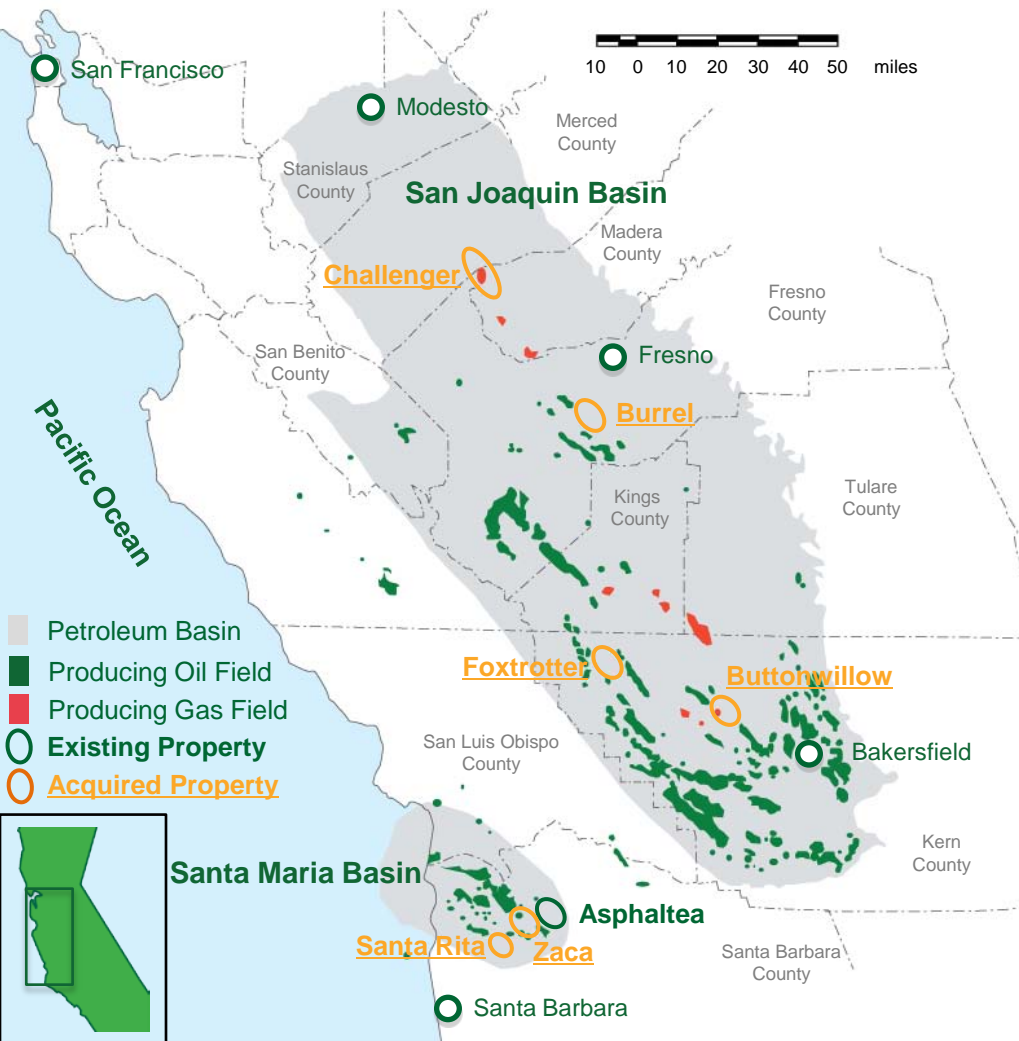
- Adds 33,037 net undeveloped acres
- Multiple prospects in each play trend
- Extended opportunities in Monterey and analogous shale plays
 - Adds 20,067 net Monterey acres
 - Additional prospects in Kreyenhagen, Tumey, Moreno, and McClure shales
- Close to existing properties & infrastructure
- Consolidates position in Santa Maria Basin
- Solid entry into San Joaquin Basin

Adds 60 boepd of current production and 1P and 2P reserves

Panther Acquisition Overview



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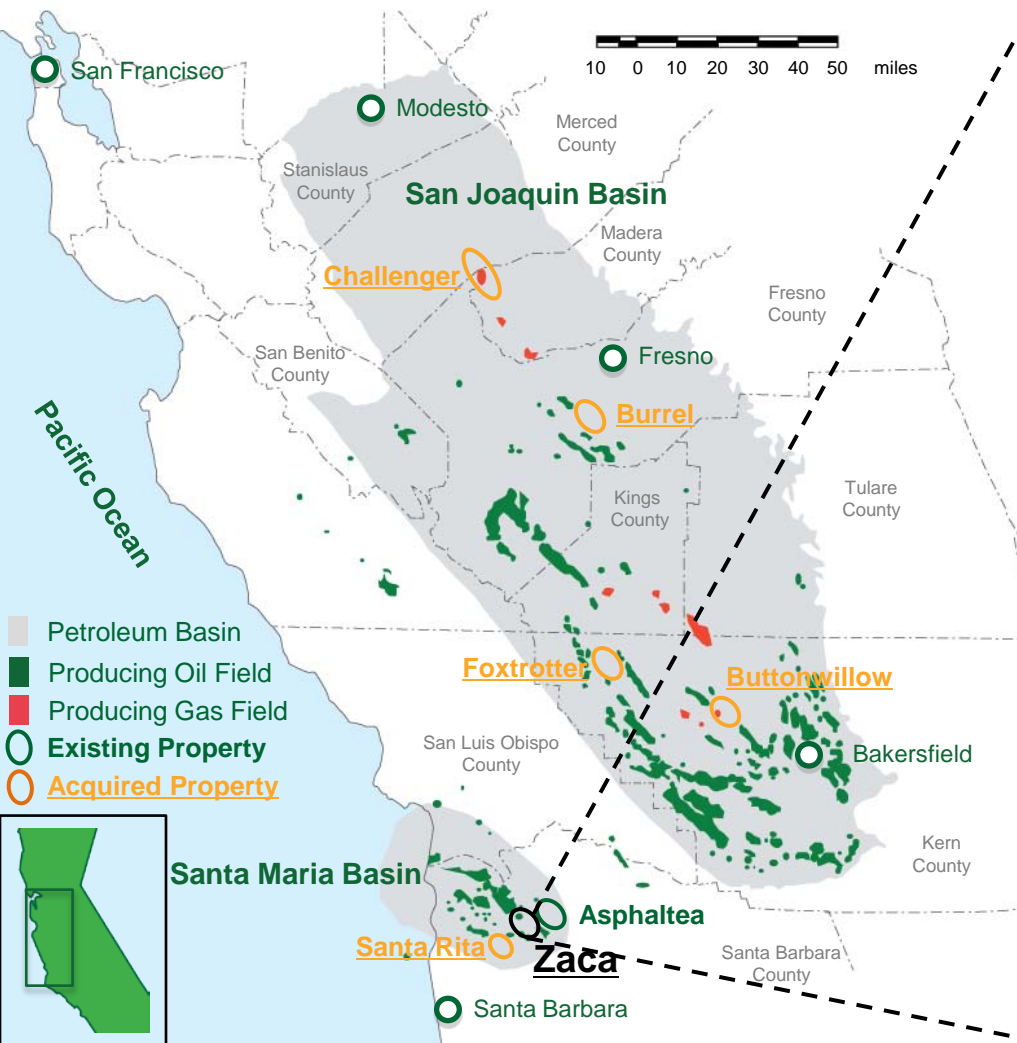


- \$4.6MM cash + \$0.9MM assumed liabilities
- Expected to close by mid-November 2011
- UGE has strong relationship with partners
- 60 BOEPD of current production
- Acquiring 1P & 2P reserves and prospective resources
- GLJ engaged to confirm Management's assessment of reserves and prospective resources

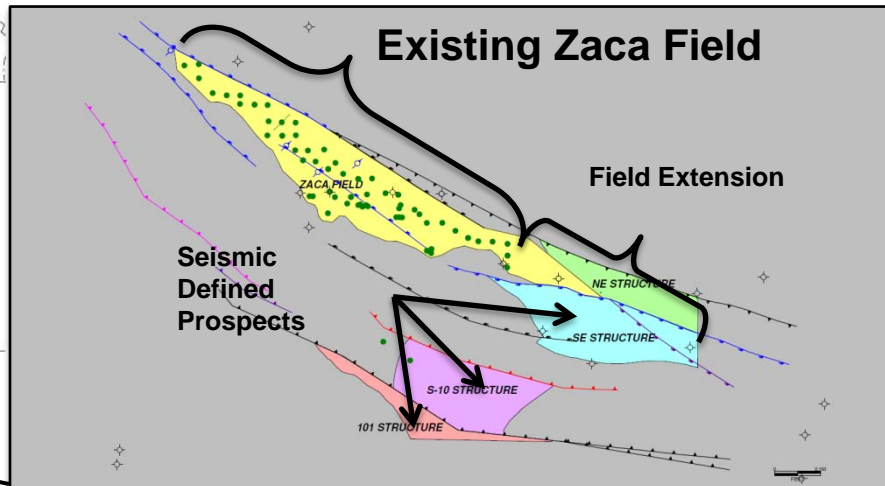
Zaca Extension and Prospects



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- Santa Barbara County, California
- 80% WI (Operator)
- 7,750 gross acres (6,200 net acres)
- Monterey targets (analog to Asphaltrea)
- Zaca field (32 MMbbls recovered to date)
- Average vertical well IP's 205 BOPD, 540 Mbbls oil
- **6.1 MMbbls 2P Reserves¹**
- **23.1 MMbbls Recoverable Resources¹,**
- Includes:
 - 1 producing test well (15-20 bopd)
 - Existing 2D seismic coverage
 - 20-30 drilling locations
- Near term plan:
 - Reprocess existing 2D seismic
 - Drill step-out extension wells in Q4 2011



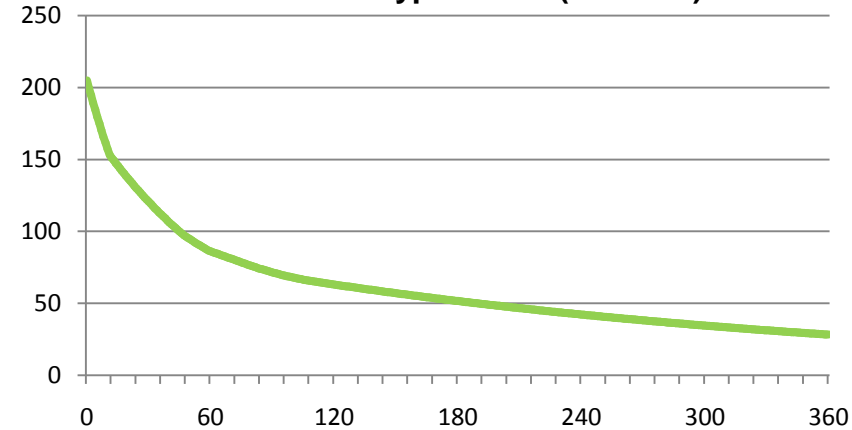
1. Management Estimates which also include review by internal qualified reservoir engineer

Zaca Well Economics

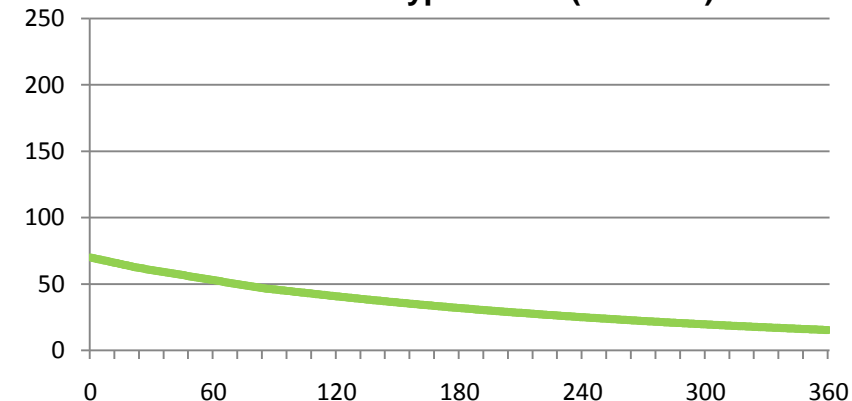


Typical Well	All Wells Type Curve	Recent Wells Type Curve
Well Depth (MD feet)	3,500-6,000	3,500-6,000
Dry Hole Well Costs (\$M)	\$800-\$1,200	\$800-\$1,200
Completion Cost (\$M)	\$200-\$400	\$200-\$400
Total Well Cost (\$M)	\$1,000-\$1,600	\$1,000-\$1,600
UGE Interest (WI / NRI)	80% / 61.8%	80% / 61.8%
Initial Prod Rate (BOPD)	205	70
Cum. Production (MBO)	540	365
NPV @10% BT (\$M) ¹	\$ 8,719	\$ 5,254
IRR (%)	162%	78%
Payback (years)	0.6	1.3

Zaca Field – All Historic Wells
Normalized Type Curve (61 wells)



Zaca Field – Infill Wells Drilled 1971 to Present
Normalized Type Curve (18 wells)

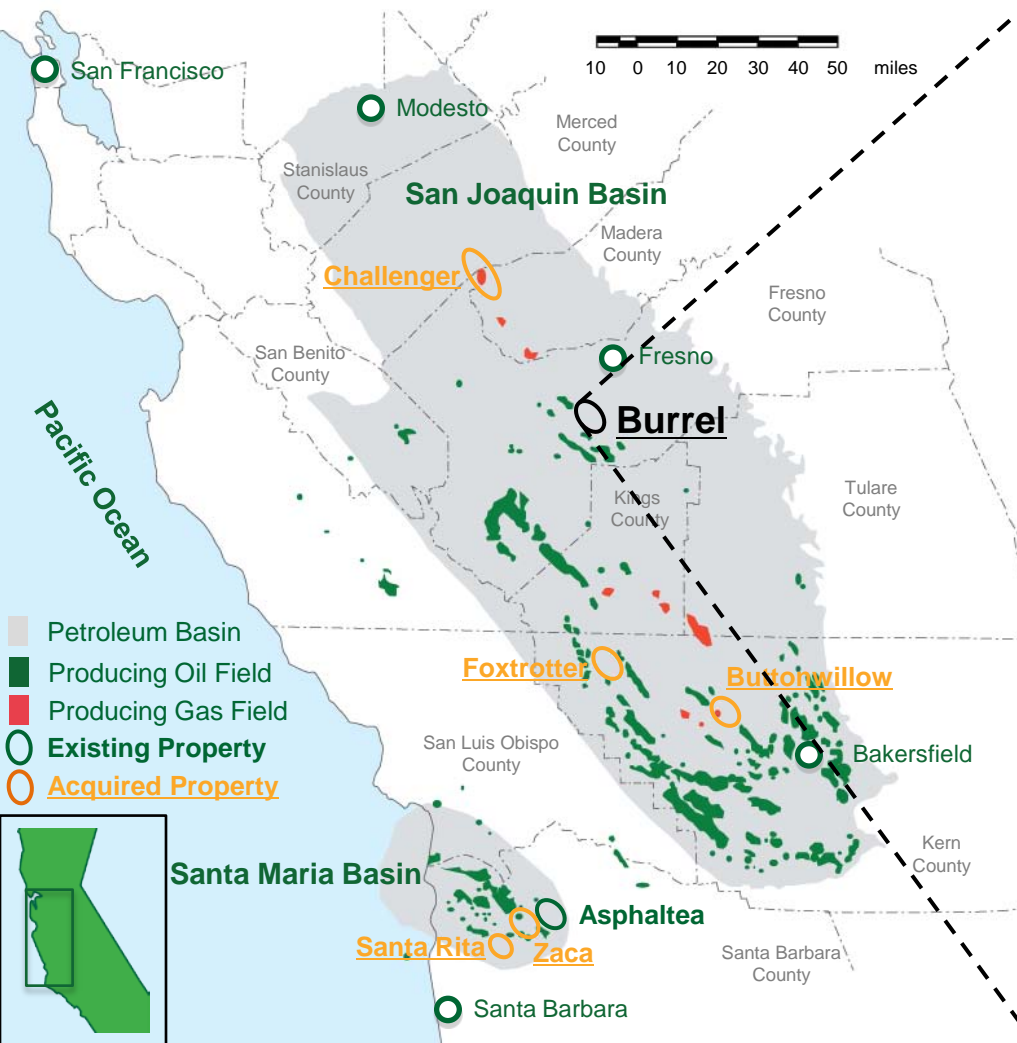


1. Economics are internal estimates using NYMEX Futures Strip Prices as of Oct. 21, 2011 with deduct of \$14.74 for diluent, gravity, location

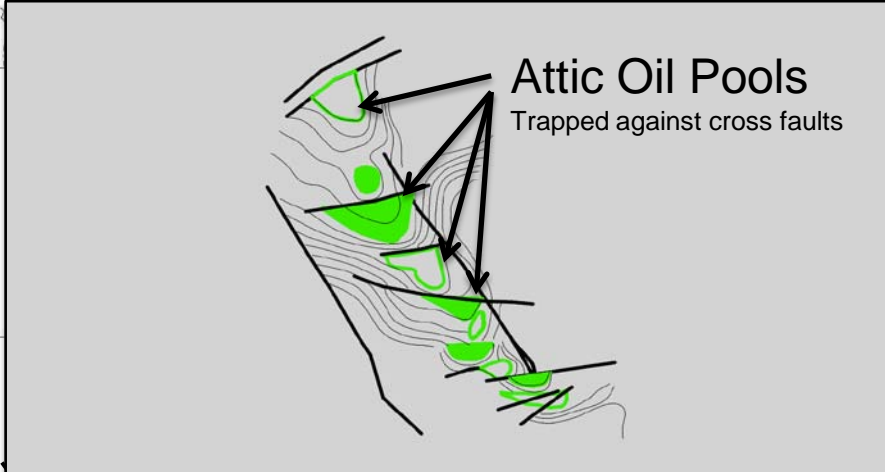
Burrel Redevelopment Prospect



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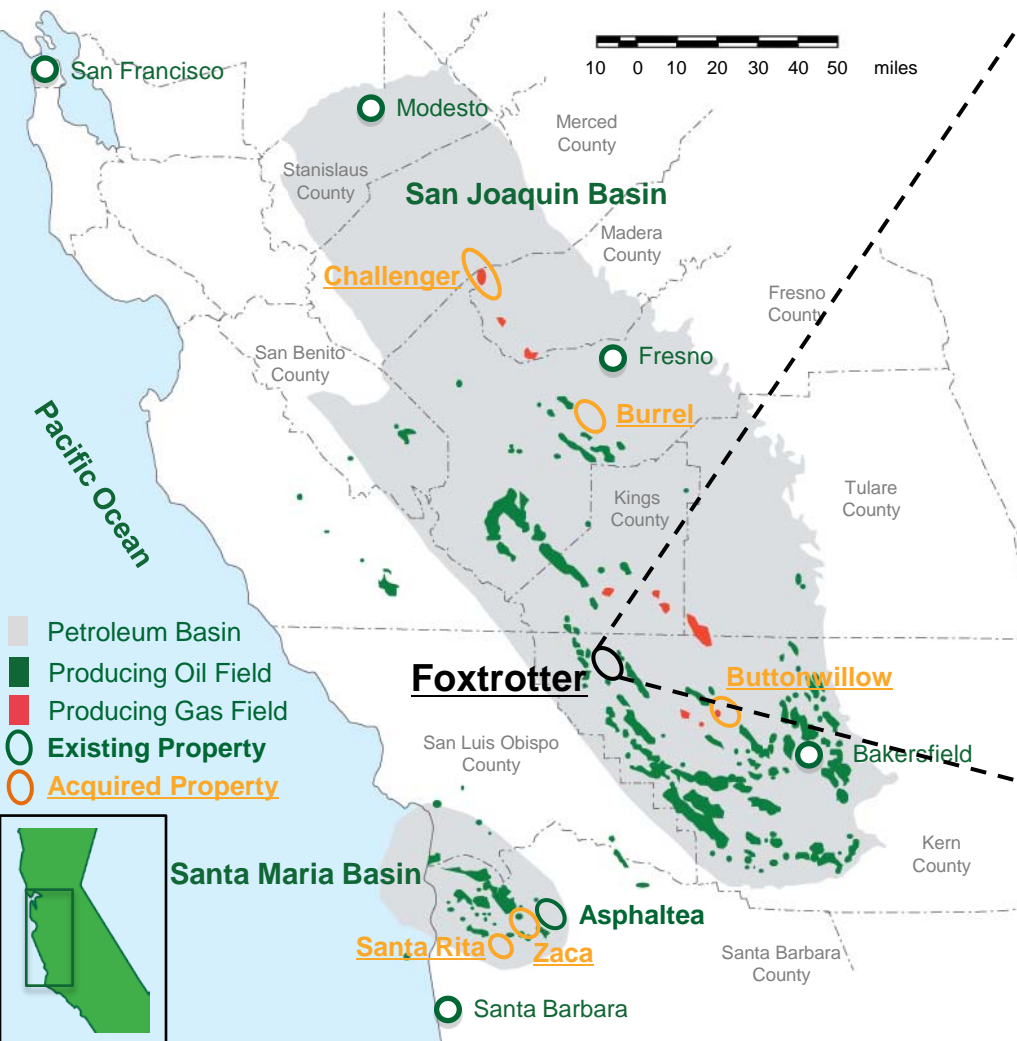
- Fresno County, California
- 80% WI
- 10,245 gross acres (8,196 net acres)
- Zilch & Vaqueros sand, Monterey & Kreyenhagen shale oil targets
- Analog fields: Helm (46 MMboe), Raisin City (47 MMboe), Riverdale (27 MMboe)
- Includes:
 - 1 producing well (30 bopd)
 - 1 SWD well
 - Existing 2D seismic coverage
 - 3D seismic work commitment
- Near term plan:
 - Recomplete existing well



Foxtrotter Trend



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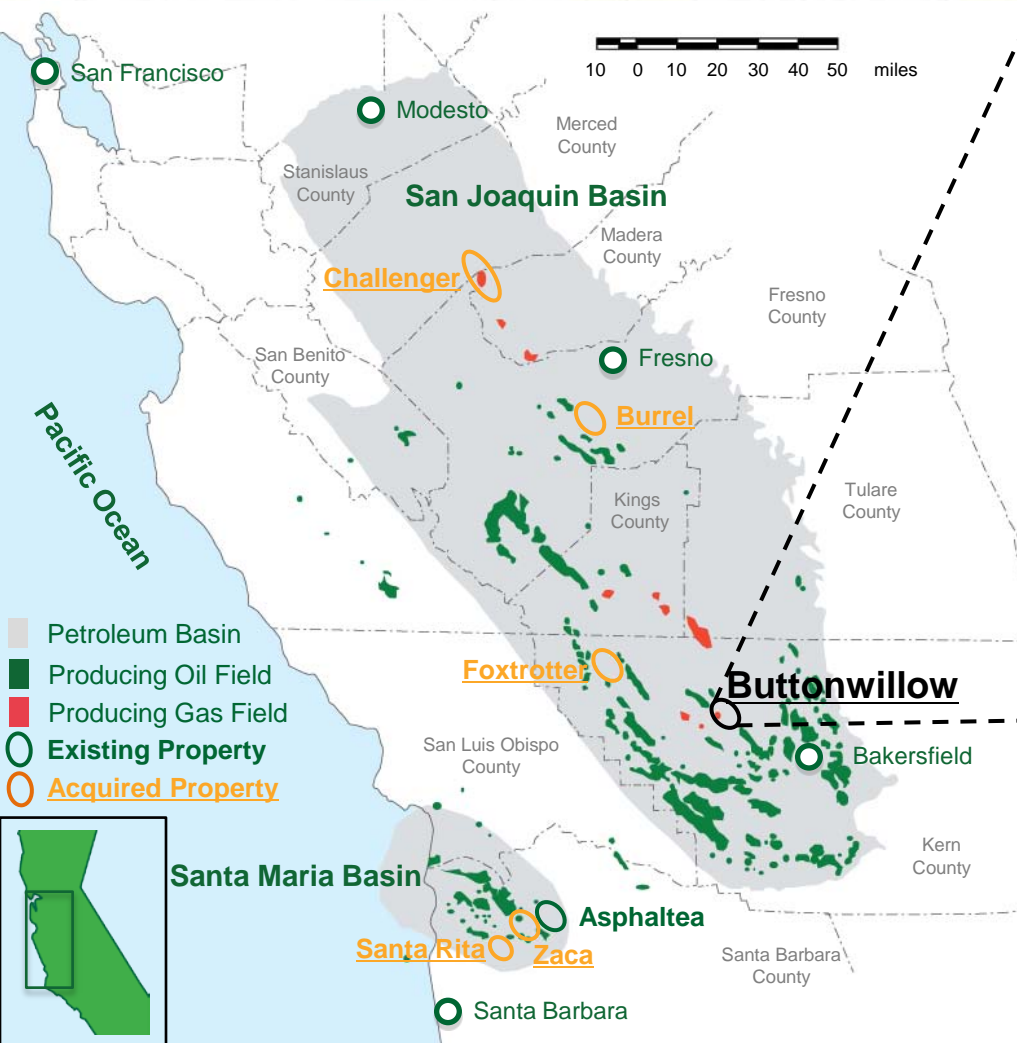


- Kern County, California
- 65% WI (Operator)
- 4,934 gross acres (3,396 net acres)
- Shallow Monterey (Diatomite) and Tumey shale oil targets
- Analog fields: McKittrick (350 MMboe), Cymric (543 MMboe)
- Includes:
 - 1 shallow well (untested) in Monterey
 - 3D seismic data
- Near term plan:
 - Interpret 3D seismic to target wells

Buttonwillow Deep Prospect



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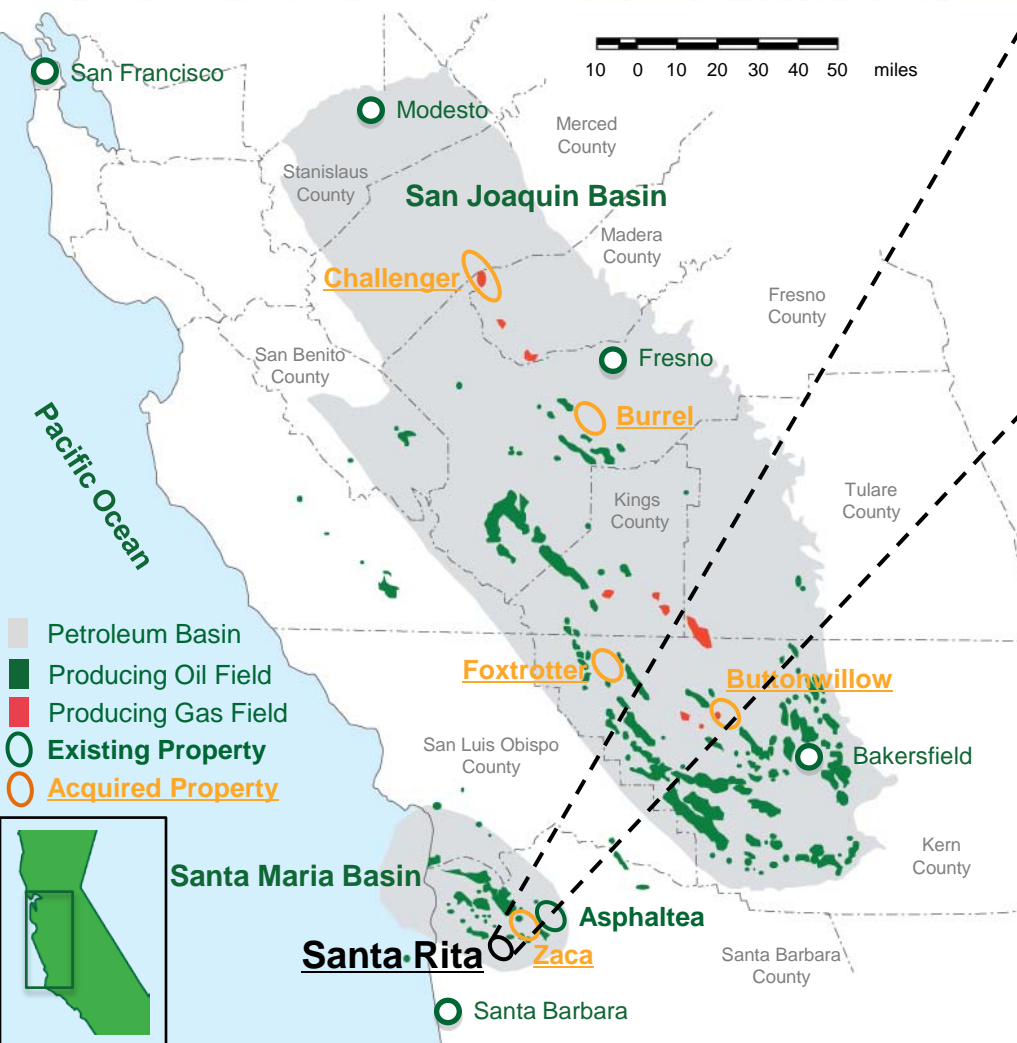


- Kern County, California
- 80% WI (Operator)
- 1,625 gross acres (1,300 net acres)
- Monterey/McClure shale, 44X and Randolph sand oil targets
- Analog fields: North Shafter (10 MMboe), Rose (4.8 MMboe)
- In middle of Oxy/VQ 3D seismic survey
- Offset well planned by Venoco (VQ)
- Near term plan:
 - Monitor adjacent VQ deep test

Santa Rita Prospect



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- Santa Barbara County, California
- 80% WI (Operator)
- 1,218 gross acres (974 net acres)
- Monterey shale & Point Sal sand oil targets
- On trend with Lompoc Field (52 MMbbls)

Nevada Overview



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42,840 net acres
7 sites prospective for shale oil
“Early Mover” advantage

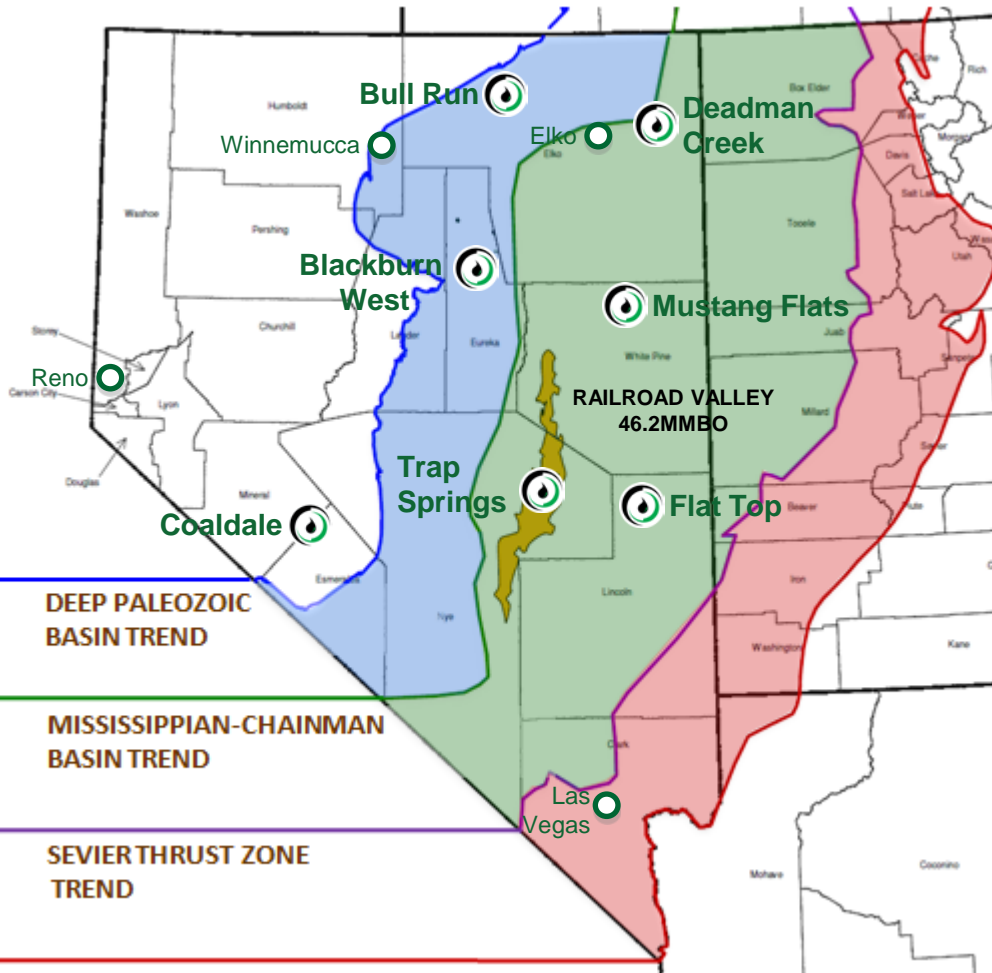
- “Early mover” advantage by building a strong land position ahead of the curve
- Complex geology, but existing discoveries have had very high production rates
- Emerging shale oil potential
 - Bakken-like properties
- Key competitors will help prove up plays - Cabot (COG), EOG (EOG), SM Energy (SM), Callon (CPE), PetroHunt

Low cost entry into multiple emerging resource plays

Nevada Developments



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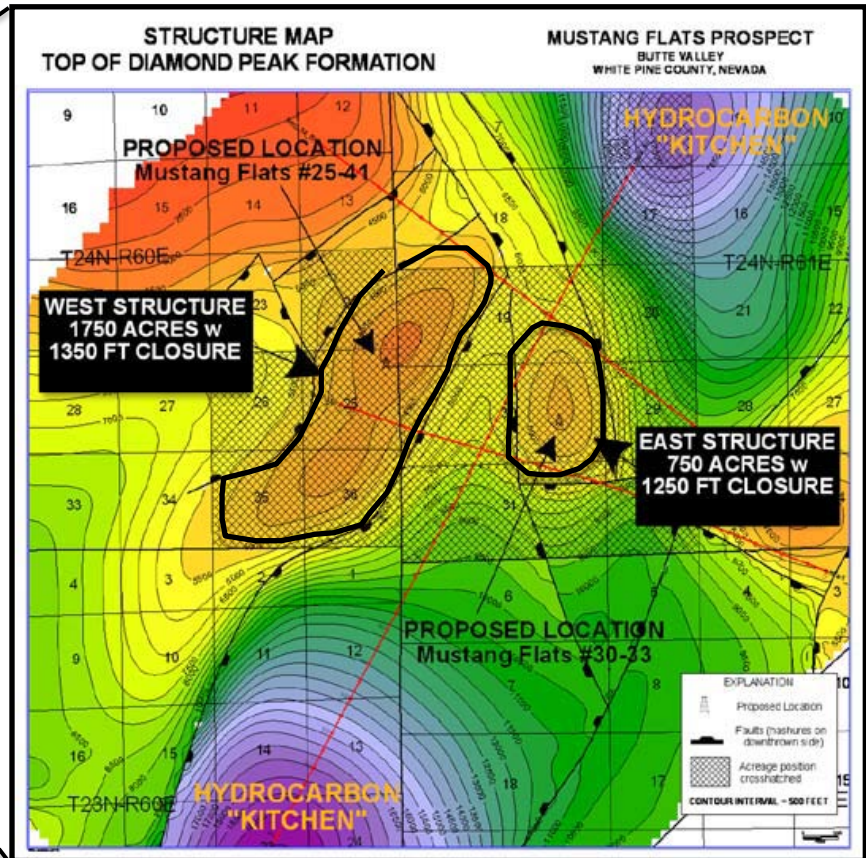
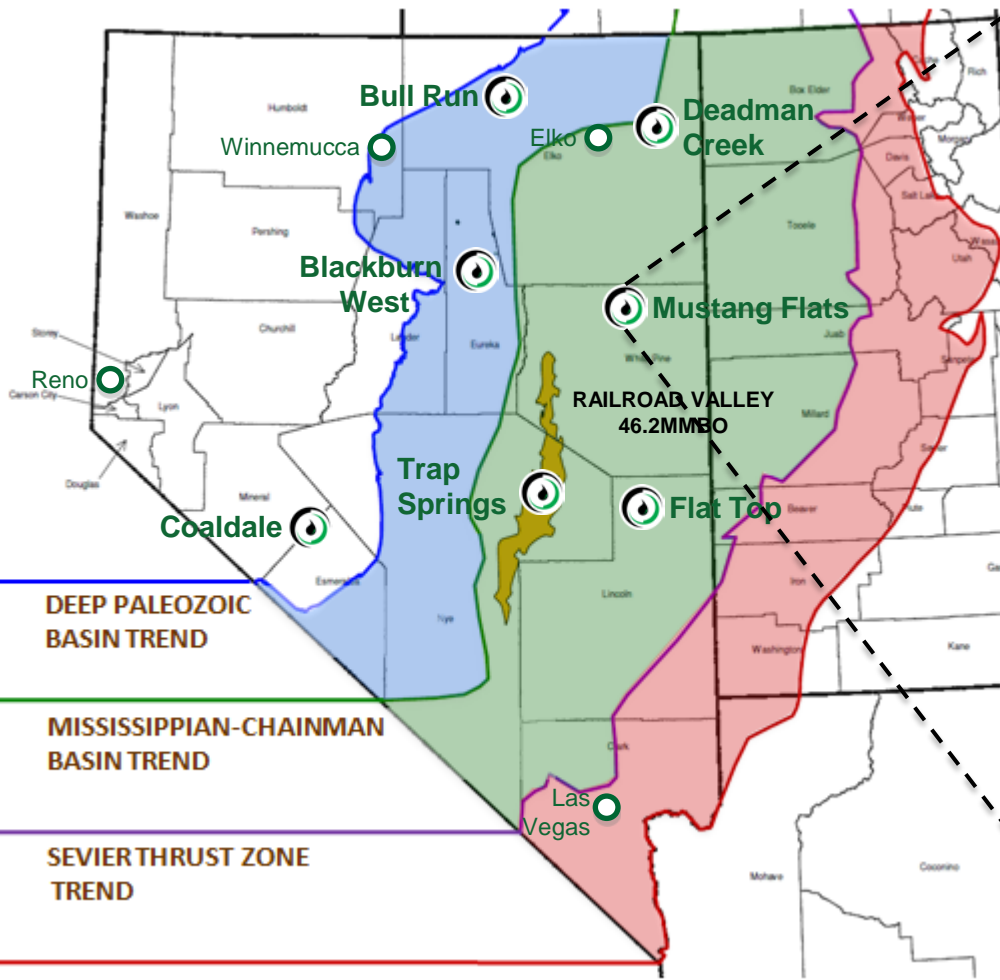


- **Mustang Flats** – Entered into a development agreement
 - Eureka Co., NV
 - 100% Working Interest
 - 11,554 net acres
 - 3D seismic option
 - Drill test well to earn all rights
 - Diamond Peak Sands, Guilmette Lime, Chainman and Pilot Shales are prospective
- **Blackburn & Deadman Creek** – 2D and 3D seismic purchased, interpretation begun
- **Coaldale** – Offset exploratory well drilling
- **Bull Run** – Surface geological mapping underway

Mustang Flats Prospect



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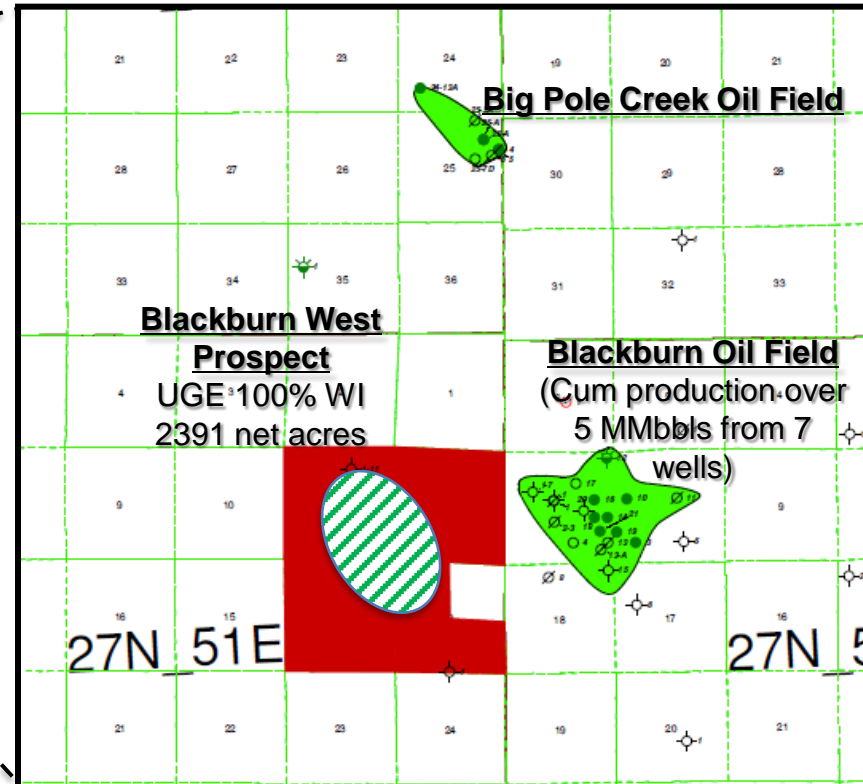
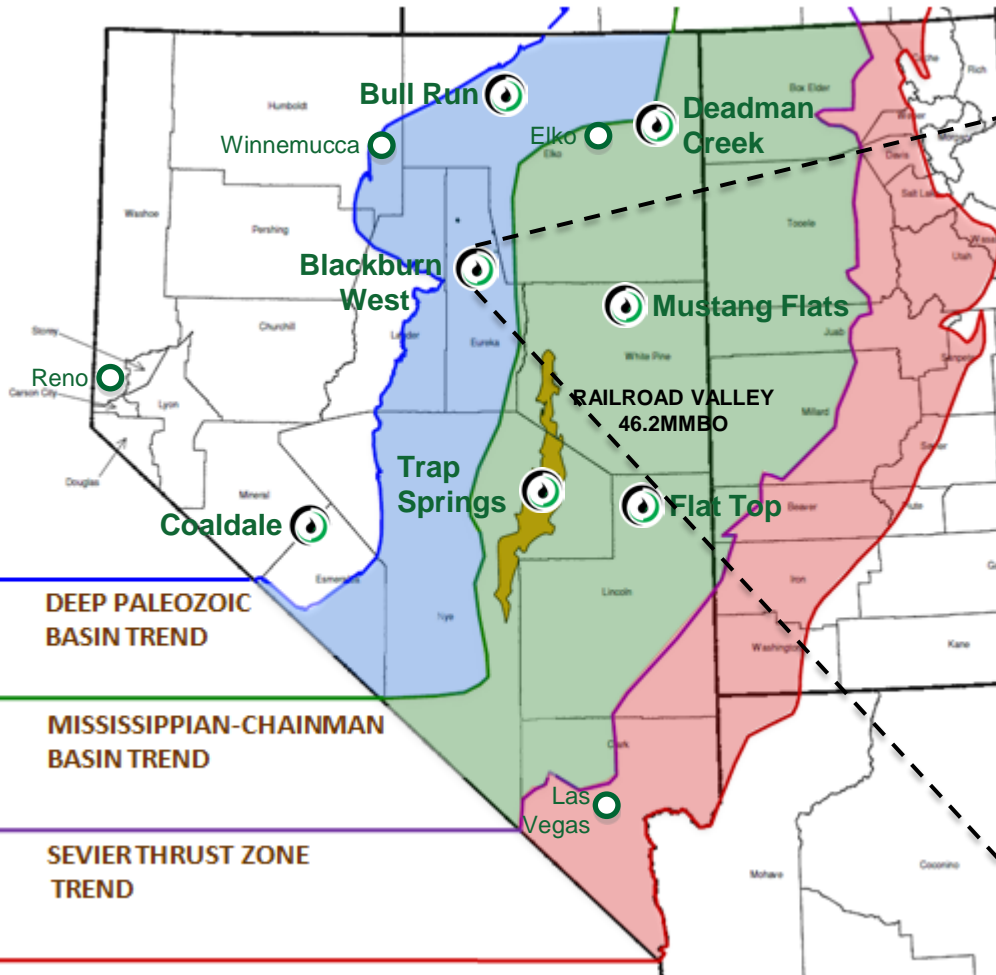



3D Seismic planned for 2012

Blackburn West Prospect



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 Underground leases

Exploration and Development Plan



	Activity	2Q11	3Q11	4Q11	1Q12	2Q12	Net Cost (\$MM)
Asphaltea	50 kilometres of seismic						sunk
	Drill & Test 2 Wells						\$5.4
	Design Permanent Facilities						\$0.5
Zaca	Acquire 3D Seismic						\$1.3
	Drill 4 Step-out Wells						\$5.8
	Design Permanent Facilities						\$0.5
Challenger/ Burrel	Recomplete Wil E Coyote #1-33						\$0.1
	Recomplete Gabriel #1-35 (Burrel)						\$0.1
Other	Close Panther Acquisition						\$4.6
	Purchase Beaver AMI 3D Seismic						\$0.6
	New Oil & Gas Leasing						\$1.1

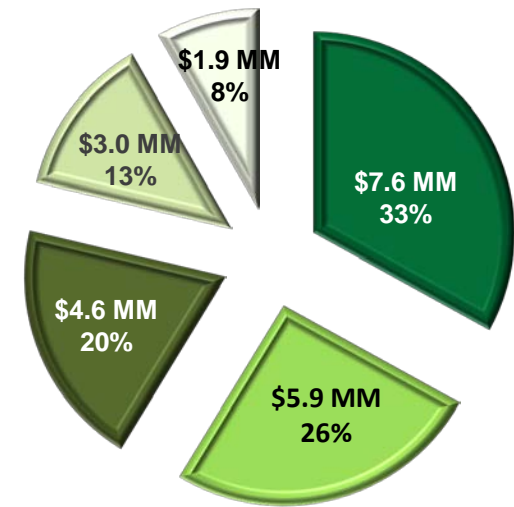
Seismic
 Drilling
 Other

\$ 20 MM



Uses of Capital Through Mid-2012

Uses of Capital	(US\$MM)
California	
Panther Acquisition	\$4.6
Drill 2 appraisal wells at Asphaltea	\$5.4
Drill 4 development wells at Zaca Extension	\$5.8
Well Recompletion Projects (Burrel, Challenger)	\$0.2
Seismic (Zaca, Beaver AMI)	\$1.9
Design & build facilities	\$1.0
Leasing in AMI's	\$1.0
Total California	\$19.9
Nevada	
Leasing	\$0.1
Other	
G&A and Working Capital	\$3.0
Total Uses of Capital to mid-2012	\$23.0
Current Cash Balance	\$23.0



- Zaca Field Extension
- Asphaltea
- Panther Acquisition
- G&A
- Other (Nevada, AMI's)

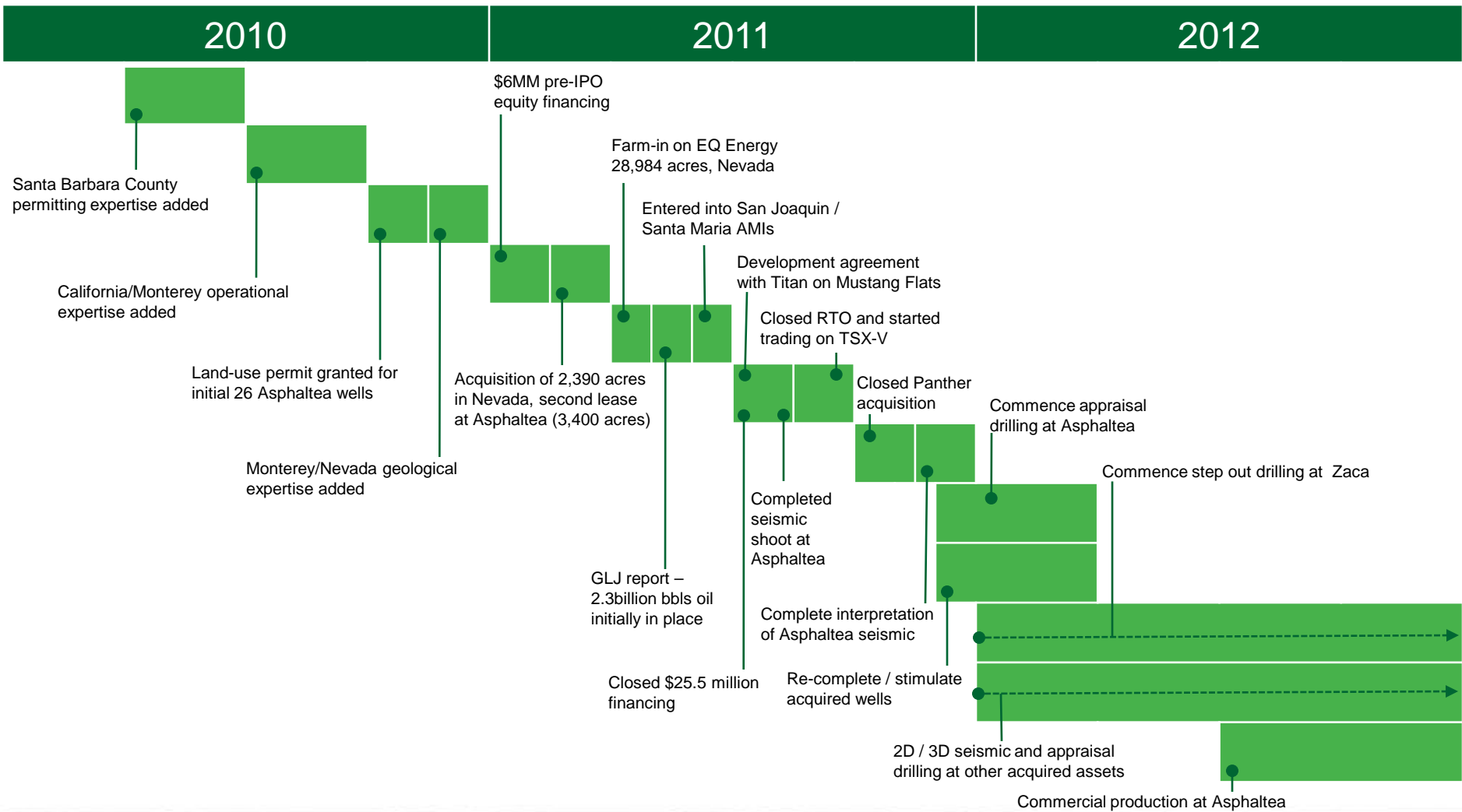
Capital Structure / Valuation Metrics



Underground Current Capital Structure	
(Amounts in millions, except per share amounts)	
October 27, 2011 Closing Share Price	\$0.225
Basic Shares Outstanding	201.9
In-the-Money Performance Options	0.0
In-the-Money Options	6.6
In-the-Money Warrants	65.9
F.D. Shares Outstanding ¹	<u>274.4</u>
F.D. Market Capitalization	\$61.7
Cash Balance at October 21, 2011	(23.0)
Panther Acquisition Cost	5.5
Proceeds from In-the-Money Dilutives	(15.0)
F.D. Enterprise Value	<u>\$29.2</u>
Note:	
1. Does not include the following dilutive securities as they are currently out-of-the-money:	
- 1.7MM performance options that vest in four tranches	
- 52.5MM warrants with a weighted average exercise price of \$0.41	
- 0.9MM options with a weighted average exercise price of \$0.29	

Summary of July Financing	
Offering Price pre-RTO	\$1.00
Offering Price post-RTO	\$0.29
Warrant Coverage	0.5x
Warrant Strike pre-RTO	\$1.40
Warrant Strike post-RTO	\$0.40
Warrant Term	2 years
Total Financing Size	\$25.5 m
Institutional Take-up	59.3%
President's List	33.6%
Retail	7.1%
Financing Close	5 th July
RTO Close	17 th Aug

Company Timeline



Contact Information



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Cautionary and Forward Looking Statements Advisory



Statements in this presentation 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 presentation includes, without limitation, statements with respect to: (i) the closing and closing date of the Company's proposed acquisition of oil and gas leases in California; (ii) the Company's planned seismic operations to be conducted on such oil and gas leases; and (iii) 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 presentation 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.

Notes to Disclosure



UndergroundEnergy

1. Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of the prospective resources will be discovered and, if discovered, there is no certainty that it will be commercially viable to produce any portion of those resources. Prospective resources are undiscovered resources that indicate exploration opportunities and development potential in the event a commercial discovery is made and should not be construed as reserves or contingent (discovered) resources. Prospective resources in this presentation are reported on an unrisksed, company interest basis.
2. The reserve and resource estimates in respect of the prospective resources for the Zaca Field for Underground were prepared on October 27, 2011 with an effective date of November 1, 2011 and prepared in accordance with COGE Handbook and National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities ("NI 51-101") by a member of management of Underground who is a "qualified reserves evaluator" as defined under NI 51-101.
3. The "best estimate" is considered to be the best estimate of the quantity that will actually be recovered. In terms of prospective resources, it is equally likely that the actual quantities recovered will be greater or less than the best estimate. In terms of discovered reserves, the "best estimate" is the combination of the proved plus probable reserves. If probabilistic methods are used, there should be at least a 50 percent probability that the quantity actually recovered will equal or exceed the best estimate.
4. The significant positive factors that are relevant to the management's estimate of the reserves and prospective resources include production in close proximity to the assets and oil and gas shows in wells drilled in close proximity to the assets. A significant negative factor that is relevant to management's estimate of prospective resources is that seismic attribute mapping in the areas can be indicative but not certain in identifying resources.
5. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.
6. The estimates of reserves and resources for individual properties may not reflect the same confidence level as estimates of reserves and resources for all properties, due to the effects of aggregation.
7. Historical production data for both Zaca and Lompoc is based upon a report titled "California Monterey Reservoir Study Project", prepared by Spivak, Mannon, Brigham, Surdam, Coombs, and Sageev and dated September 11, 1985 and the records of the California Division of Oil and Gas and Geothermal Resources obtained by the Company on August 24, 2011.

Appendix



Management Team



Mike Kobler, Chairman, CEO and President

- 30 years international project management and engineering experience;
- Founder of successful OSUM Oil Sands Corp., Calgary
- Founder and President, UCM Civil Engineering Consulting Firm focused on large infrastructure construction projects in California

Bruce Berwager, COO - Masters Petroleum Eng, P.Eng

- 32 years international oil and gas exploration, development, operations management and engineering roles with Chevron, Unocal, Conoco, Venoco and others
- 20+ years experience with Shale in California (Monterey), Texas (Barnett & Wolfcamp), Pennsylvania (Marcellus)
- Former Director and COO of Venoco, SVP and GM for California Ops-Warren Resources

Peter Ballachey, CFO and Corporate Secretary - CA

- Over 34 years experience including 16 years senior financial CFO roles in Canada and USA
- Former CFO of OSUM Oil Sands Corp., Calgary

Simon Clarke, VP Corporate Development and Director, LLB

- Founder, Board Observer and Advisor to OSUM Oil Sands Corp
- Managing Director Invico Energy II Fund, Director of Argus Metals Corp., Director of Underground Energy, Inc.

David Hoyt, VP Exploration & Development – CPG, RPG

- 35 years exploration and development geology and geophysics project management and interpretation experience with ARCO, TXO, Warren, Foothill and as an independent consultant
- Extensive academic and Industry experience in California, Nevada, Alaska

Randy Ray, Chief Geophysicist – BS, MS

- Professional Geologist, Texas and Wyoming
- More than 35 years experience in Western US
- Expert in integrated seismic and geological interpretation

Kim Wolfe, Regulatory Manager and Compliance Officer – Paralegal, NP

- California and Santa Barbara permitting and regulatory expert
- 10 yrs oil and gas experience with Venoco, Greka, Tracer in land, legal and compliance roles

Independent Directors



Randy Aldridge – Independent Director

- 30 years international oil experience: Chairman- Koch Pipelines, President- Koch Petroleum Canada, President-Koch Oil Co., Chairman-True Energy Corp.
- Board Member, Energy Holdings international Inc. and Husky/BP Toledo Refinery LLC

Harland Johnson – Independent Director

- 40 years technical and management experience in the upstream petroleum industry for Exxon Corporation and its affiliates
- Formerly Presidente, Divisão de Exploração e Produção, Esso Brasileira de Petróleo Limitada; and President, Exxon Trinidad Limited
- BSc (Honors) Chemistry, U of Alberta. PhD Metallurgy, U of Alberta

Andrew Squires – Independent Director

- Sr. Vice-President, OSUM Oil Sands Corp.
- 23 years experience in heavy oil and oil sands at Petro-Canada, Dome, Amoco, Paramount

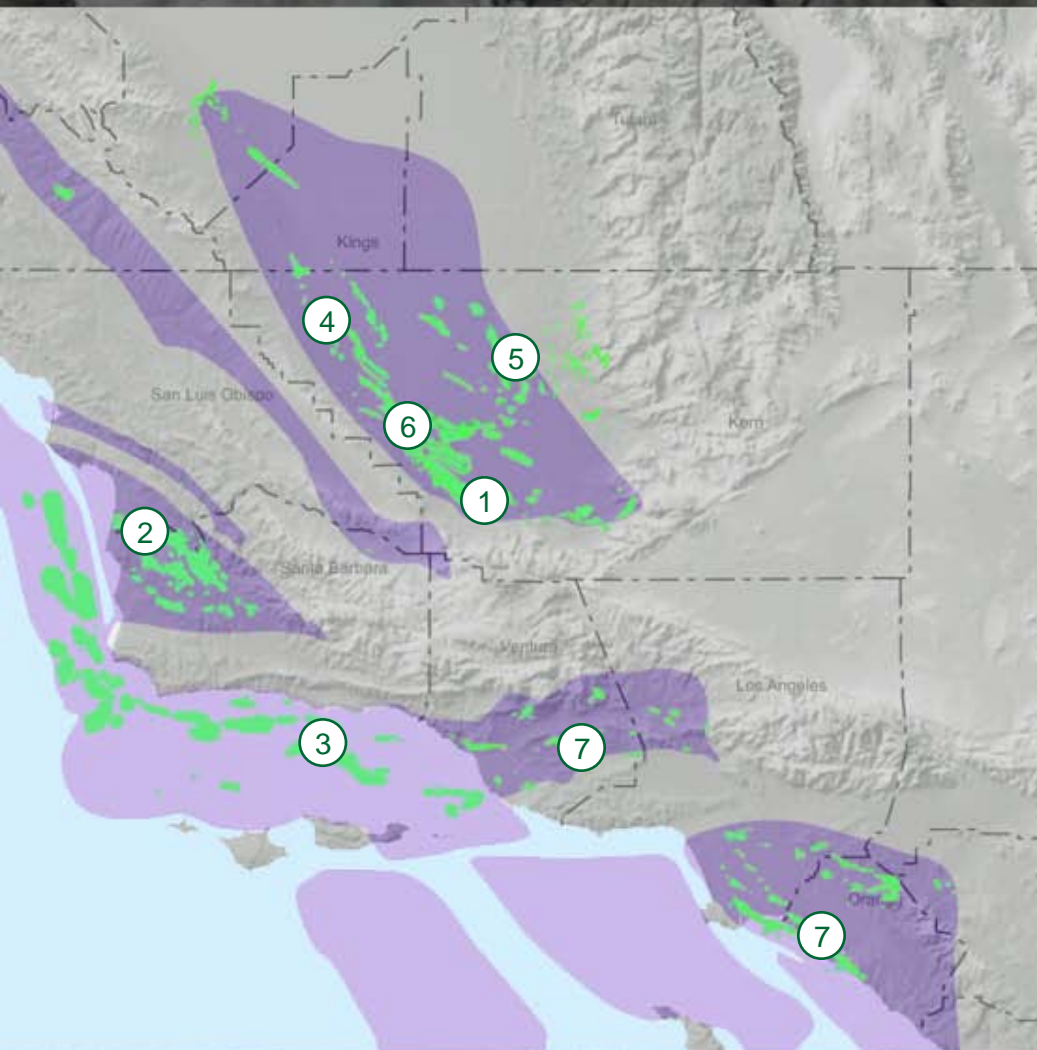
Douglas Urch – Independent Director

- EVP, Finance and CFO Bankers Petroleum Ltd.
- Director and Audit Committee Chairman at Petrodorado Energy
- More than 30 years oil & gas experience at RallyEnergy, Mohave Exploration, Sunshine Oilsands, Barrington Petroleum, TriGas Exploration and Ryerson Oil & Gas

Sam Charanek – Advisor to the Board

- 15 years of capital markets and finance experience with a focus on international oil and gas strategies
- Co-founder of Pan Orient Energy, Canacol Energy, Excelsior Energy (now Athabasca), PetroDorado Energy and Mena Hydrocarbons
- Advised Zodiac Exploration, Gallic Energy and ArPetrol Energy and Sunshine Oilsands

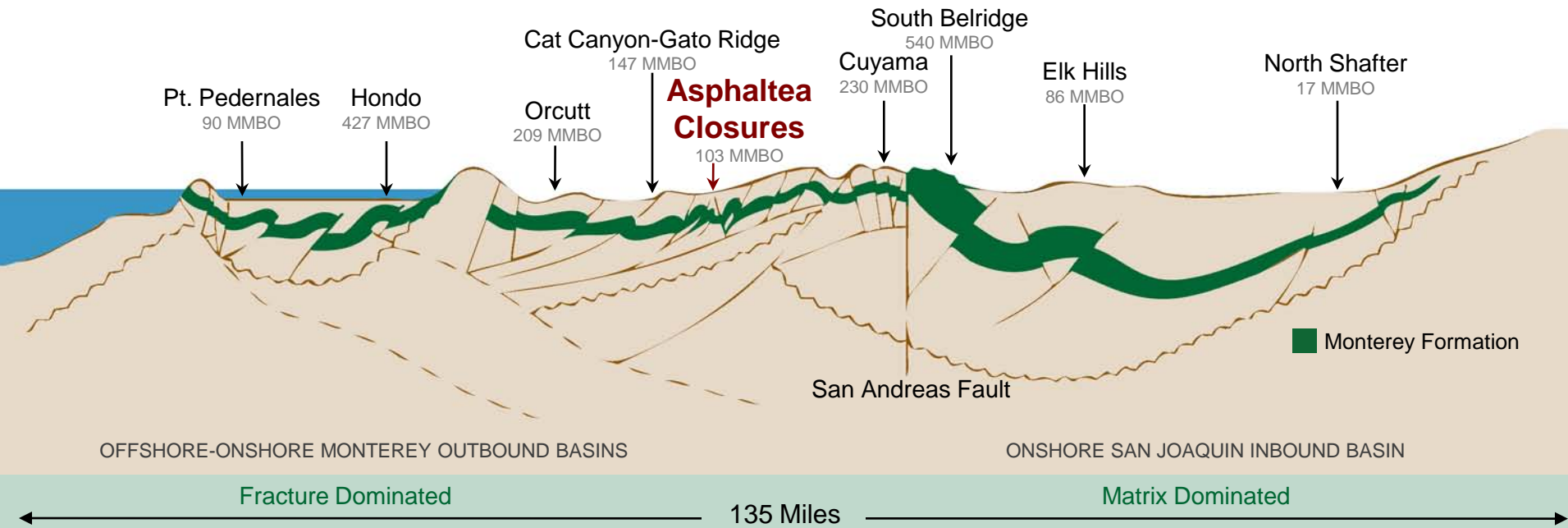
History of Monterey Shale



- ① 1895: 1st Monterey production in state at Midway Sunset field
- ② 1901: Union discovers Monterey Fractured play at Orcutt Field, several more Monterey fields developed in Santa Maria Basin from 1901 - 1942
- ③ 1970's-1990's: Majors discover large Offshore Monterey Fractured fields-Hondo, Pt. Arguello, Pt. Pedernales, Sacate, Pescado, S. Ellwood fields
- ④ 1980's: Shell/Chevron/Mobil develop Monterey Diatomite with vertical frac'd wells at Belridge and Lost Hills fields
- ⑤ 1990's: EOG develops diagenetic fractured Monterey at Rose and N. Shafter fields
- ⑥ 1998: Oxy begins development of Monterey matrix at Elk Hills field
- ⑦ 2005-11: Oxy explores and develops Monterey equivalent formations in Ventura and Los Angeles Basins

Monterey Play Types

UE's Initial 2 Monterey Prospects are Naturally Fractured, Conventional Structures



- Fracture Dominated
 - Outward basins – Structural traps – Hondo, Pt. Pedernales, Orcutt, Cat Canyon, Asphaltea – cleaner shales
 - Inward basins – Diagenetic traps – Rose, North Shafter
- Matrix Dominated: Mostly Diatomite – Belridge, Lost Hills, Elk Hills, Cymric, McKittrick
- Dual Porosity: Matrix, micro-fractures and fractures – S. Ellwood, Midway-Sunset

Asphaltea Resource Estimates¹



As of June 1, 2011 @ Standard Conditions	North Prospect			South Prospect		
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Undiscovered Petroleum Initially In Place – Oil (MMstb)	319	632	1,050	606	1,653	2,991
Prospective Resources – Oil (MMstb)	10.9	28.1	62.2	21.1	73.2	170.2
Prospective Resources – Gas (Bcf)	2.0	15.1	56.0	3.8	32.9	122.6
Prospective Resources – Oil Equivalents (MMboe)	11.2	30.6	71.5	21.7	78.7	190.6

GLJ's Best Estimates

Total Undiscovered Oil In-Place: 2,285 MMstb

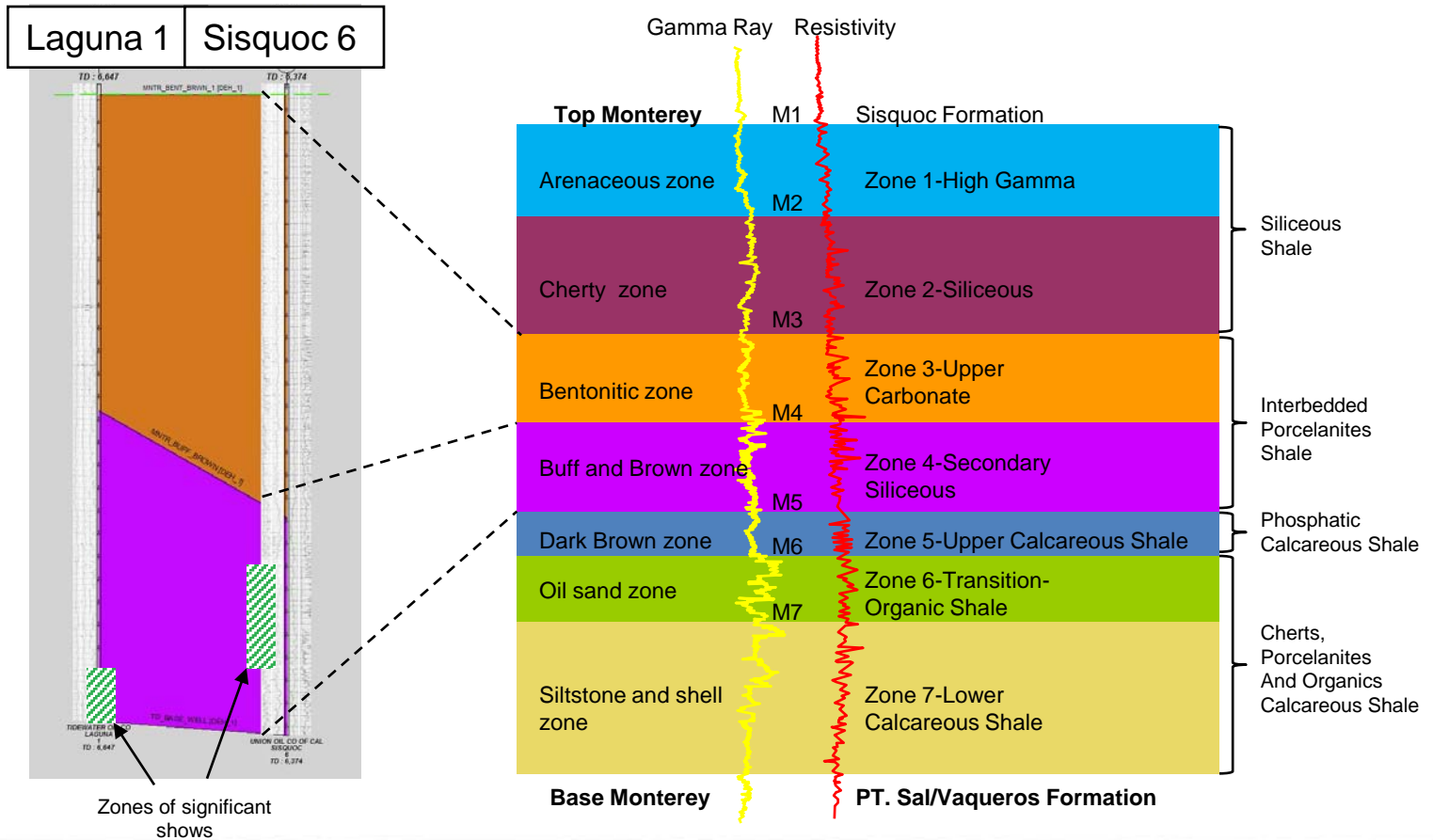
Total Prospective Resources: 101.3 MMstb oil, 48 Bcf gas = 109.3 MMboe

Implied Recovery Factor: 4.8%

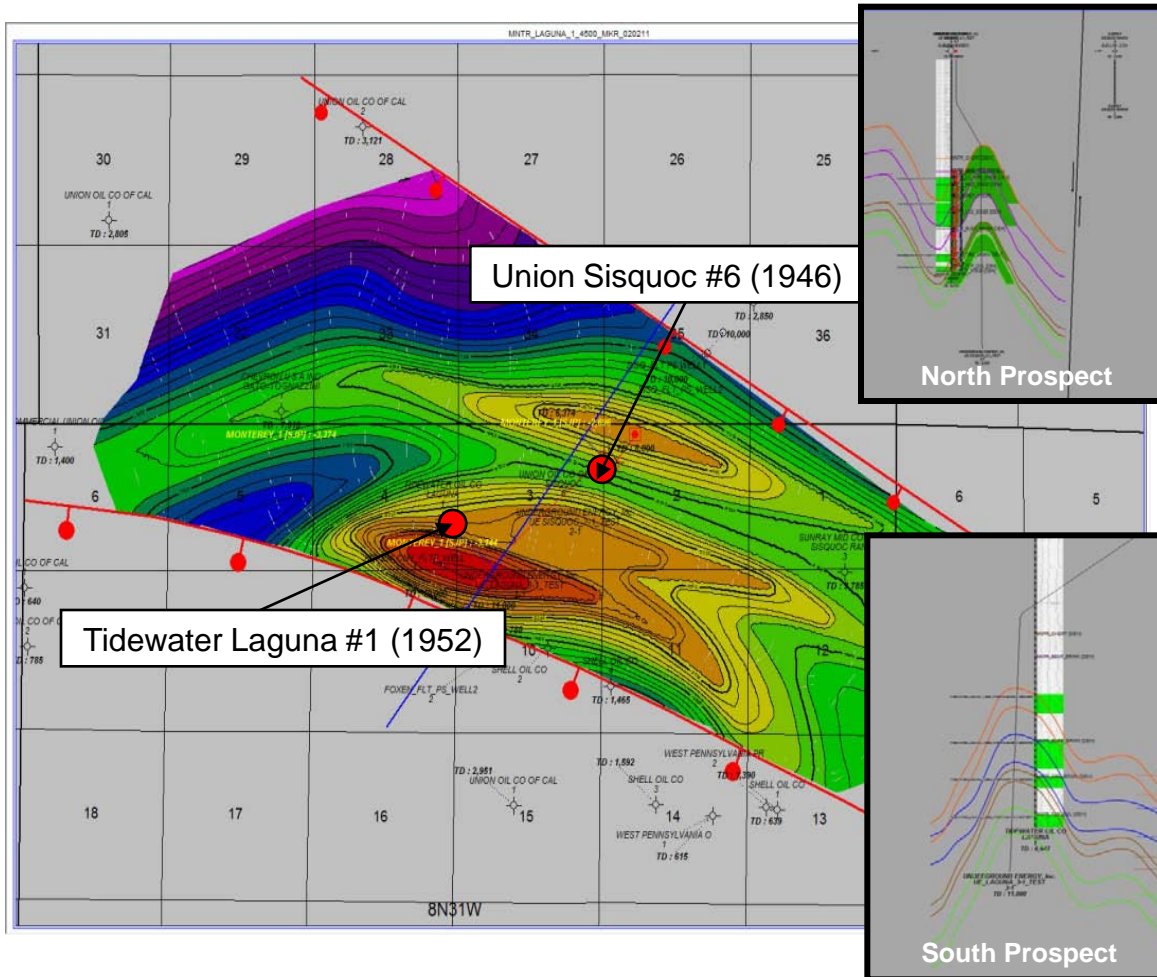
1. Source: GLJ Petroleum Consultants, effective date June 1, 2011

Asphaltea Stratigraphic Column

- Biostratigraphy, lithology and petrophysics indicate that the wells did not reach the most productive zones of the Monterey – abundant oil shows in the Buff and Brown but poorly tested



Asphaltea Technical Overview



Key Geological Risk Factors

- **Hydrocarbon Source**
 - Monterey source rock
- **Quality Reservoir**
 - Naturally fractured
- **Top Seal on Reservoir**
 - Analog field study
- **Trap**
 - Surface geology and wells

Sisquoc #6 and Laguna #1 were both drilled off structure but had good Monterey oil shows

Asphaltea Unrisked Economics^{1,2}



	North Prospect	South Prospect	Total Asphaltea
Total CAPEX (US\$MM)	\$202	\$563	\$765
Total Wells	52	131	183
Gross EUR Oil (MMbbls)	28.1	73.5	101.6
Gross EUR Gas (Bcf)	15.1	32.9	48
Cum. Cash Flow (US\$MM)	\$2,055	\$5,156	\$7,211
PV10% BT (US\$MM)	\$769	\$1,422	\$2,191
IRR BT (%)	100	65	91
F&D (\$/net BOE)	\$8.12	\$8.77	\$8.59
ROI	11.2x	10.3x	10.5x
P_s (discovery)¹	24%	16%	18%
Risked Resources (MMBoe)	7.3	12.9	20.2
EMV (\$MM)	\$183	\$226	\$409

As of November 1, 2011

1. Recoverable resource volumes and Probability of Success are from GLJ Petroleum Consultants, effective date June 1, 2011
 2. Economics are internal estimates based on NYMEX Futures Strip Prices of Oct 21, 2011 corrected for current local differential

Local Prices based on NYMEX Futures Strip



NYMEX Futures Strip Prices as of October 21, 2011

Year	Crude Oil Prices				Natural Gas Prices		
	WTI @ Cushing Oklahoma	Current Differential MWSS (1) vs WTI	Current Differential SMV (2) vs MWSS	SMV Crude Oil Forecast	NYMEX Henry Hub	Local Gas Price Differential % of HH Nymex	Local Gas Price
	\$US/bbl	\$US/bbl	\$US/bbl	\$US/bbl	\$US/mmbtu		\$US/mmbtu
Dec. 2011	\$87.40	+\$21.90	\$(5.90)	\$ 103.40	4.50	105%	\$ 4.73
2012	\$88.00	+\$21.90	\$(5.90)	\$ 104.00	4.90	105%	\$ 5.15
2013	\$88.65	+\$21.90	\$(5.90)	\$ 104.65	5.29	105%	\$ 5.55
2014	\$88.84	+\$21.90	\$(5.90)	\$ 104.84	5.65	105%	\$ 5.93
2015	\$89.17	+\$21.90	\$(5.90)	\$ 105.17	6.00	105%	\$ 6.30
2016	\$89.67	+\$21.90	\$(5.90)	\$ 105.67	6.34	105%	\$ 6.66
2017	\$90.31	+\$21.90	\$(5.90)	\$ 106.31	6.50	105%	\$ 6.83
2018	\$91.11	+\$21.90	\$(5.90)	\$ 107.11	6.50	105%	\$ 6.83
2019	\$91.94	+\$21.90	\$(5.90)	\$ 107.94	6.50	105%	\$ 6.83
2020+	+1.0%/yr	+\$21.90	\$(5.90)	\$ 108.86	+2%/yr	105%	\$ 6.83

1. MWSS is an abbreviation for Midway Sunset, the benchmark for California heavy oil at 13° API
2. SMV is an abbreviation for Santa Maria Valley crude oil at 15° API