

Report of the Directors and
Financial Statements
for the Period
24 April 2006 to 31 December 2006
for



Contents of the Financial Statements
for the Period 24 April 2006 to 31 December 2006

	Page
Company Information	1
Report of the Directors	2
Report of the Independent Auditors	5
Income Statement	7
Statement of Recognised Income and Expense	8
Balance Sheet	9
Cash Flow Statement	10
Notes to the Cash Flow Statement	11
Notes to the Financial Statements	12



United Energy Group Plc

Company Information
for the Period 24 April 2006 to 31 December 2006

DIRECTORS: Dr H Friedrich
J R Strachan
H Huuskonen

SECRETARY: C J Betts

REGISTERED OFFICE: 45 Doughty Street
London
WC1N 2LR

REGISTERED NUMBER: 5792859

AUDITORS: Sampson West & Christo
Registered Auditor
Chartered Accountants
45 Doughty Street
London
WC1N 2LR

Report of the Directors
for the Period 24 April 2006 to 31 December 2006

The directors present their report with the financial statements of the company for the period 24 April 2006 to 31 December 2006.

INCORPORATION

The company was incorporated on 24 April 2006.

PRINCIPAL ACTIVITY

The principal activity of the company in the period under review was that of a holding and investment company with the objective of acquiring investments to hold and operate oil leases, production facilities and related assets in the USA.

REVIEW OF BUSINESS

The results for the period and financial position of the company are as shown in the annexed financial statements.

DIVIDENDS

No dividends will be distributed for the period ended 31 December 2006.

EVENTS SINCE THE END OF THE PERIOD

Information relating to events since the end of the period is given in the notes to the financial statements.

DIRECTORS

The directors who have held office during the period from 24 April 2006 to the date of this report are as follows:

Dr H Friedrich - appointed 18 May 2006

J R Strachan - appointed 18 May 2006

H Huuskonen - appointed 18 May 2006 - resigned 22 January 2007

UKPLC Client Director Ltd - appointed 24 April 2006 - resigned 18 May 2006

UKPLC Client Secretary Ltd - appointed 24 April 2006 - resigned 18 May 2006

Report of the Directors
for the Period 24 April 2006 to 31 December 2006

SIGNIFICANT RISK FACTORS

The directors have considered the principal risk factors which may affect the company and set out below a non-exhaustive list of those factors which they have identified as being the most significant.

- * The company is primarily an investor and operator of oil and gas assets, whether in production or not. As such, the value of these assets can be volatile and is dependent on the underlying price of oil and gas in international markets.
- * The success of the company's investment strategy will depend on the performance and continued services of a small number of key individuals. There can be no assurance that the services of these individuals can be retained, or that they could be replaced.
- * The directors may not be able to identify suitable asset acquisition or investment opportunities, or be able to acquire such assets or to acquire those investments at a suitable price.
- * The company's primary assets are likely to be valued in US Dollars and any development expenditure will be made in that currency. The company will, however, incur management overhead and report in Sterling or Euros. The company is therefore exposed to foreign exchange market fluctuations.
- * It is possible that the company will wish to raise further funds in the future for working capital purposes and/or in combination with acquisitions. There is no guarantee that future market conditions will allow for such a fundraising or that new investors will be prepared to subscribe for ordinary shares in the company. Shareholdings may be materially diluted by any further issue of Ordinary Shares by the company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.



United Energy Group Plc

Report of the Directors
for the Period 24 April 2006 to 31 December 2006

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Sampson West & Christo, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:

C J Betts - Secretary

15 June 2007

Report of the Independent Auditors to the Shareholders of United Energy Group Plc

We have audited the financial statements of United Energy Group Plc for the period ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Report of the Independent Auditors to the Shareholders of
United Energy Group Plc**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2006 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Sampson West & Christo
Registered Auditor
Chartered Accountants
45 Doughty Street
London
WC1N 2LR

Date: 15 June 2007

Note:

The maintenance and integrity of the United Energy Group Plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Income Statement
for the Period 24 April 2006 to 31 December 2006

	Notes	£
CONTINUING OPERATIONS		
Revenue		-
Administrative expenses		<u>(735,886)</u>
OPERATING LOSS		<u>(735,886)</u>
LOSS BEFORE TAX	3	(735,886)
Tax	4	<u>-</u>
LOSS FOR THE PERIOD		<u><u>(735,886)</u></u>

United Energy Group Plc

Statement of Recognised Income and Expense
for the Period 24 April 2006 to 31 December 2006

	£
LOSS FOR THE FINANCIAL PERIOD	<u>(735,886)</u>
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD	<u><u>(735,886)</u></u>

Balance Sheet
31 December 2006

	Notes	£
ASSETS		
NON-CURRENT ASSETS		
Investments	5	<u>1,018</u>
CURRENT ASSETS		
Trade and other receivables	6	1,025,486
Cash and cash equivalents	7	<u>2,576</u>
		<u>1,028,062</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	8	79,916
Financial liabilities - borrowings		
Advance subscription note instruments	9	<u>1,560,048</u>
		<u>1,639,964</u>
NET CURRENT LIABILITIES		<u>(611,902)</u>
NET LIABILITIES		<u><u>(610,884)</u></u>
SHAREHOLDERS' EQUITY		
Called up share capital	10	125,002
Retained earnings	11	<u>(735,886)</u>
TOTAL EQUITY		<u><u>(610,884)</u></u>

The financial statements were approved by the Board of Directors on 15 June 2007 and were signed on its behalf by:

J R Strachan - Director

Cash Flow Statement
for the Period 24 April 2006 to 31 December 2006

	Notes	£
Cash flows from operating activities		
Cash generated from operations	1	_____(1,681,456)
Net cash from operating activities		_____(1,681,456)
 Cash flows from investing activities		
Purchase of fixed asset investments		_____(1,018)
Net cash from investing activities		_____(1,018)
 Cash flows from financing activities		
Advance subscription note instruments		1,560,048
Share issue		____125,002
Net cash from financing activities		____1,685,050

Increase in cash and cash equivalents		2,576
Cash and cash equivalents at beginning of period	2	_____-
Cash and cash equivalents at end of period	2	_____ <u>2,576</u>

United Energy Group Plc

Notes to the Cash Flow Statement
for the Period 24 April 2006 to 31 December 2006

1. **RECONCILIATION OF LOSS BEFORE TAX TO CASH GENERATED FROM OPERATIONS**

	£
Loss before tax	(735,886)
Increase in trade and other receivables	(1,025,486)
Increase in trade and other payables	<u>79,916</u>
Cash generated from operations	<u>(1,681,456)</u>

2. **CASH AND CASH EQUIVALENTS**

The amounts disclosed on the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts:

Period ended 31 December 2006

	31.12.06	24.4.06
	£	£
Cash and cash equivalents	<u>2,576</u>	<u>-</u>

Notes to the Financial Statements
for the Period 24 April 2006 to 31 December 2006

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Exemption from preparing consolidated financial statements

The financial statements contain information about United Energy Group Plc as an individual company and do not contain consolidated financial information as the parent of a group on the grounds that subsidiary companies did not trade during the period and that the financial consequences of preparing consolidated financial statements would not be significant.

Financial instruments

The company has issued non interest bearing Advance Subscription Note Instruments ("the Notes") which will convert automatically into fully paid Ordinary shares of the company with effect from the close of business on the day of admission of the entire issued share capital of the company to a recognised investment exchange. The conversion of the Notes will be at the mid market price of the company's Ordinary Shares at the close of business on the day of admission or 60p per share, whichever is higher. Accordingly the Notes are recorded in the financial statements as financial liabilities at amortised cost.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Deferred tax

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2. EMPLOYEES AND DIRECTORS

There were no staff costs for the period ended 31 December 2006.

The average monthly number of employees during the period was as follows:

Administration	4
	<u> </u>
Directors' emoluments	£ -
	<u> </u>

3. LOSS BEFORE TAX

The loss before tax is stated after charging:

Auditors' remuneration	£ 25,000
Foreign exchange differences	7,686
	<u> </u>

Notes to the Financial Statements - continued
for the Period 24 April 2006 to 31 December 2006

4. **TAX**

Analysis of the tax charge

No liability to UK corporation tax arose on ordinary activities for the period.

Factors affecting the tax charge

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The difference is explained below:

Loss on ordinary activities before tax	£ <u>(735,886)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(220,766)
Effects of:	
Losses carried forward	143,255
Expenses and capital costs disallowed for taxation purposes	<u>77,511</u>
Total tax	<u><u>-</u></u>

At 31 December 2006, the company had UK tax losses of approximately £477,000 carried forward which will be utilised against future profits. However these losses are only recoverable against future profits, the timing of which is uncertain and as a result no deferred tax asset is being recognised in relation to those losses.

5. **INVESTMENTS**

	Shares in group undertakings £
COST	
Additions	<u>1,018</u>
At 31 December 2006	<u>1,018</u>
NET BOOK VALUE	
At 31 December 2006	<u><u>1,018</u></u>

The company's investments at the balance sheet date in the share capital of companies include the following:

Unitex Resources, Inc

Country of incorporation: USA

Nature of business: Oil and gas production

Class of shares:	%	
Common Stock	holding	
	100.00	
Aggregate capital and reserves		£ <u><u>508</u></u>

United Energy Group Plc

Notes to the Financial Statements - continued
for the Period 24 April 2006 to 31 December 2006

5. **INVESTMENTS - continued**

Brave Heart Resources, Inc

Country of incorporation: USA

Nature of business: Oil and gas production

	%	
Class of shares:	holding	
Common Stock	100.00	
Aggregate capital and reserves		£ <u>508</u>

United Energy Oil & Gas Limited

Country of incorporation: England & Wales

Nature of business: Oil and gas production

	%	
Class of shares:	holding	
Ordinary	100.00	
Aggregate capital and reserves		£ <u>1</u>

United Energy Technologies Limited

Country of incorporation: England & Wales

Nature of business: Oil and gas production

	%	
Class of shares:	holding	
Ordinary	100.00	
Aggregate capital and reserves		£ <u>1</u>

At the balance sheet date none of the subsidiary companies had traded. The subsidiary accounts have therefore not been consolidated with the financial statements of the company as, in the opinion of the directors, the financial consequences would not be significant.

6. **TRADE AND OTHER RECEIVABLES**

	£
Current:	
Payments in advance to suppliers	120,001
Amounts paid on account of investments	556,046
Solicitor client account	<u>349,439</u>
	<u>1,025,486</u>

Payments on account comprise payments made to third parties in the USA as initial consideration for the acquisition of prospective investments, oil leases and related tangible fixed assets intended for future operations. It is proposed that such investments and assets will be passed at cost to operating subsidiaries on completion of the acquisitions and prior to commencement of oil extraction and related activities. At the balance sheet date no agreements or acquisitions had been finalised.

United Energy Group Plc

Notes to the Financial Statements - continued
for the Period 24 April 2006 to 31 December 2006

7. CASH AND CASH EQUIVALENTS

	£
Cash in hand	<u>2,576</u>

8. TRADE AND OTHER PAYABLES

	£
Current:	
Expenses control	2,628
Accrued expenses	<u>77,288</u>
	<u>79,916</u>

9. FINANCIAL LIABILITIES - BORROWINGS

	£
Current:	
Advance subscription notes	<u>1,560,048</u>
Terms and debt repayment schedule	
	1 year or less
	£
Advance subscription notes	<u>1,560,048</u>

The company has issued non interest bearing Advance Subscription Note Instruments ("the Notes") which will convert automatically into fully paid Ordinary shares of the company with effect from the close of business on the day of admission of the entire issued share capital of the company to a recognised investment exchange.

Conversion of the Notes will be at the mid market price of the company's Ordinary Shares at the close of business on the day of admission or 60p per share, whichever is higher. The Notes are recorded in the financial statements as financial liabilities at amortised cost.

10. CALLED UP SHARE CAPITAL

Authorised:			
Number:	Class:	Nominal value:	£
1,000,000,000	Ordinary	0.1p	<u>1,000,000</u>
Allotted, issued and fully paid:			
Number:	Class:	Nominal value:	£
125,002,000	Ordinary	0.1p	<u>125,002</u>

125,000,000 Ordinary shares of 0.1p each were allotted and fully paid for cash at par during the period following incorporation.

Notes to the Financial Statements - continued
for the Period 24 April 2006 to 31 December 2006

11. RESERVES

	Retained earnings £
Deficit for the period	<u>(735,886)</u>
At 31 December 2006	<u><u>(735,886)</u></u>

12. POST BALANCE SHEET EVENTS

Since the balance sheet date agreement has been reached for the acquisition of Flat Rock Energy Corporation of Oklahoma. The assets of Flat Rock consist principally of four oil or gas producing properties which, in part, have been independently and professionally reviewed. Reports indicate recoverable reserves of 21,224,655 barrels of oil valued on a 10% discounted base representing a present value of US\$245,473,517. Additional assets acquired as part of the agreement include rigs, tanks, pumps and associated equipment.

In Texas the company has acquired rights attached to 1,650 acres of land with oil and gas reserves. Independent professional reports indicate recoverable reserves of 2,201,944 barrels of oil plus 123,309 Mfc of gas valued on a 10% discounted base representing a present value of US\$29,388,560. An evaluation process on the site has been commenced.

Additional leases have been acquired in Cold Springs, Cherry, Bissonett and Katie Sanders, all of which have proven reserves and are currently being evaluated.

On 11 June 2007 the company acquired 3,367,767 shares in United Energy Inc., a non connected corporation incorporated in Delaware, USA, representing 19% of the equity of the acquired corporation. The consideration for the acquisition was satisfied through the allotment of 16,838,835 Ordinary Shares of 0.1p in the company at par.

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Loss for the financial period	(735,886)
Ordinary share capital issued	<u>125,002</u>
Net reduction of shareholders' funds	(610,884)
Opening shareholders' funds	<u>-</u>
Closing shareholders' funds	<u><u>(610,884)</u></u>
Equity interests	<u><u>(610,884)</u></u>