



## CONSOLIDATED FINANCIAL STATEMENTS

For the quarter ended September 30<sup>th</sup>, 2006

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

# UNIVERSAL ENERGY CORPORATION

Consolidated Balance Sheets  
(prepared by management without audit)  
As at September 30 and June 30, 2006

	September 30, 2006	June 30, 2006
<b>Assets</b>		
Current assets		
Cash	\$ 14,254	\$ 5,425
Receivables	9,009	6,995
Prepaid expenses	7,901	9,684
	31,164	22,104
Oil and gas properties and deferred costs (Note 3)	502,479	495,482
Receivable from related parties (Note 4)	17,872	17,872
Deferred share issue costs (Note 6)	40,481	40,481
	\$ 591,996	\$ 575,939
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 134,399	\$ 167,210
Loan payable (Note 5)	168,015	168,015
	302,414	335,225
Shareholders' equity		
Commitment to issue shares	85,946	-
Share capital (Note 6)	5,784,982	5,784,982
Contributed surplus (Note 6)	126,477	126,477
Deficit	(5,707,823)	(5,670,745)
	289,582	240,714
	\$ 591,996	\$ 575,939

Nature and continuance of operations (Note 1)  
Subsequent events (Note 11)

Approved on behalf of the Board:

"Brad Kitchen" Director

P. Bradley Kitchen

"John Davies" Director

John Davies

The accompanying notes are an integral part of these consolidated financial statements.

# UNIVERSAL ENERGY CORPORATION

Consolidated Statements of Operations and Deficit  
(prepared by management without audit)  
Three months ended September 30

	2006	2005
Expenses		
Filing, transfer agent and reporting fees	\$ 2,817	\$ 1,149
Management and administration	26,787	17,500
Occupancy cost	1,313	3,000
Office and miscellaneous	(1,134)	330
Professional fees	2,556	100
Travel and promotion	4,739	4,500
Loss for quarter	(37,078)	(26,579)
Deficit, beginning of period	(5,670,745)	(5,043,715)
Deficit, end of period	\$ (5,707,823)	\$ (5,070,294)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	21,340,503	14,086,393

The accompanying notes are an integral part of these consolidated financial statements.

# UNIVERSAL ENERGY CORPORATION

Consolidated Statements of Cash Flows  
(prepared by management without audit)  
Three months ended September 30

	2006	2005
Cash flows from operating activities:		
Loss for the period	\$ (37,078)	\$ (26,579)
Changes in non-cash working capital items:		
Decrease (increase) - receivables	(2,014)	(503)
Increase - prepaid expenses	1,783	-
Increase - accounts payable and accrued liabilities	(32,811)	(13,918)
Net cash used in operating activities	(70,120)	(41,000)
Cash flows from financing activities		
Repayments to related parties	-	(13,321)
Shares to be issued for cash	85,946	185,680
Net cash provided by financing activities	85,946	172,359
Cash flows from investing activities		
Acquisition of oil properties and deferred costs	(6,997)	(100,754)
Net cash used in investing activities	(6,997)	(100,754)
Change in cash for the quarter	8,829	30,605
Cash (bank indebtedness), beginning of period	5,425	(31,311)
Cash (bank indebtedness), end of period	\$ 14,254	\$ (706)
Cash paid during the period for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

## Supplemental disclosure with respect to cash flows (Note 8)

The accompanying notes are an integral part of these consolidated financial statements.

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

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## 1. Nature of and continuance of operations:

Universal Energy Corporation (the "Company") was incorporated under the British Columbia Company Act on June 12, 1979 and is listed on the TSX Venture Exchange ("TSX-V"). On November 21, 2005 the Company changed its name from U.S. Platinum Inc. The Company's principal business activities include acquiring and developing oil and gas properties in central United States and Canada. To date the Company has not generated significant revenues from its operations and is considered to be in the exploration stage.

The attached consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the settlement of liabilities in the normal course of business. The appropriateness of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and/or generate continued financial support in the form of share issuances. These financial statements are prepared in accordance with accounting principles generally accepted in Canada.

The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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	September 30, 2006	June 30, 2006
Working capital (deficiency)	\$ (271,250)	\$ (313,121)
Deficit	(5,707,823)	(5,670,745)

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## 2. Significant accounting policies:

### Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Universal Energy USA Ltd. ("Universal USA"), a company incorporated under the laws of Nevada, USA. Significant inter-company balances and transactions have been eliminated upon consolidation.

### Foreign currency translation

Financial statements of the Company's foreign subsidiary are translated into Canadian dollar equivalents using the temporal method whereby all monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Income and expenses are translated at rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities at each year end are recognized in the statement of operations.

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

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## 2. Significant accounting policies (cont'd...)

### Oil and gas exploration

The Company follows the full cost method of accounting for its oil and gas exploration whereby all costs related to the acquisition of, exploring for and developing oil and natural gas reserves are capitalized. These costs, together with the estimated future costs to be incurred in developing proved reserves, are depleted or depreciated using the unit-of-production method based on the proved reserves before royalties as estimated by independent petroleum engineers. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depletion, depreciation and amortization. A downward revision to the reserve estimate could result in higher depletion, depreciation and amortization and thus lower net earnings. In addition, estimated reserves are also used in the ceiling test. If the net capitalized costs exceed the calculated ceiling, the excess must be written off as an expense charged against earnings. The ceiling is equal to the estimated undiscounted future net revenue from proved reserves, based on year-end prices, plus the cost (net of impairments) of unproved properties less estimated future capital costs, future site restoration, general and administrative, financing and income tax costs.

Proceeds from the sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a change in the depletion rate of 20% or more.

The Company's oil and gas reserves will be evaluated and reported on by an independent petroleum engineer. The estimates of reserves is a subjective process as forecasts are based on engineering data, projected future rates of production, estimated future commodity prices and the timing of future expenditures, which are all subject to uncertainty and interpretation.

Management relies on professional industry consultants to determine whether losses from environmental, legal, and other contingencies are probable, and if so, how much to accrue for each contingency. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

### Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of environmental obligations, impairment of minerals claims and deferred exploration expenditures, rates for depletion and amortization and stock-based compensation. Actual results could differ from those estimates.

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

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## 2. Significant accounting policies (cont'd...)

### **Future income taxes**

The Company follows the asset and liability method of accounting for income taxes whereby future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is likely to be realized.

### **Deferred share issue costs**

Professional, consulting and regulatory fees as well as other costs that are directly attributable to financing transactions are deferred until such time as the transactions are completed. Share issue costs are charged to capital stock when the related shares are issued. Costs relating to financing transactions that are not completed are charged to operations.

### **Loss per share**

The Company uses the treasury stock method to calculate diluted loss per share. Diluted loss per share considers the dilutive impact of the exercise of outstanding stock options, warrants and similar instruments as if the events had occurred at the beginning of the period or at time of issuance, if later. For the three month periods ended September 30, 2006 and 2005, this calculation proved to be anti-dilutive. Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

### **Stock-based compensation**

The Company accounts for stock options using the fair value method. Under the fair value method, options granted to employees and non-employees are charged against income over the period of vesting. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes options pricing model. Any consideration paid upon exercise of stock options is credited to share capital.

### **Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

### 3. Oil and gas properties and deferred costs:

Expenditures incurred on oil and gas properties were as follows:

	June 30, 2005	Expenditures (Write-offs)	June 30, 2006	Expenditures (Write-offs)	September 30, 2006
<b>Saturn I Property, Montana USA</b>					
Acquisition	\$ -	\$ 151,367	\$151,367	\$ 6,797	\$158,164
<b>Saturn II Property, Montana USA</b>					
Acquisition	-	344,115	344,115	-	344,115
	\$ -	\$ -	\$495,482	\$ 6,797	\$502,279

#### **Saturn I Property, Daniels County Montana, USA:**

In September 2005, the Company purchased a block of oil and gas leases, directly from the Montana state auction, referred to as the Saturn I Property for \$133,292 plus a finder's fee of \$6,575 and 100,000 shares of common stock valued at \$11,500 for a total acquisition cost of \$151,367. The agent retained a 3 1/3% overriding royalty. Additional lease payments of \$6,797 were made in the three month period ended September 30, 2006.

#### **Saturn II Property, Daniels County Montana, USA:**

In August 2006, the Company entered into two separate non-binding agreements relating to the Saturn II Property - a Letter of Intent to Purchase (the "Purchase Agreement") and a Letter of Intent to Farmout (the "Farmout").

##### ***I. Letter of Intent to Purchase – Saturn State #1, Gendreau #1, Fisher Salt Water Disposal Well***

Letter of Intent to Purchase – the Company can purchase a 30% net working interest in these wells, referred to as the Saturn State #1, the Gendreau #1 and the Fisher Salt Water Disposal Well, for US\$400,000 and a final payment of US\$350,000 conditional upon workovers on the wells obtaining minimum production levels of 65 barrels per day. The Company has the right to recover its purchase cost from any future production from drilling on the property, by way of the Farmout. The Company will receive first priority payment on any future production rendered from new drilling on the Saturn II Property until all costs are recouped; in addition, the Company has the right of first refusal on the potential purchase of the remaining 70% interest of the wells covered under the Letter of Intent. This property is subject to a 20% gross overriding royalty. This letter of intent is subject to TSX-V approval and terms must be completed by December 31, 2006 or the letter of intent terminates.

##### ***II. Letter of Intent to Farmout – Saturn II Property***

Letter of Intent to Farmout – the Company, as the operator, will pay 100% of the costs of drilling and completing the first well (before payout costs), and will be entitled to an after payout working interest of 70% subject to an overriding royalty interest of up to 5%, dependent on the age of the leases being developed under the Farmout. The State of

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
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Montana is entitled to royalties of between 13 1/3% and 16 2/3% depending on the age of the underlying mineral leases.

## 4. Related party transactions:

During the three month period ended September 30, 2006, the Company entered into the following transactions with related parties:

- a) Paid or accrued \$1,313 (2005 - \$3,000) for occupancy cost to a director and former directors.
- b) Paid or accrued \$22,550 (2005 - \$15,000) for management and administration costs to directors and former directors.
- c) Paid or accrued \$4,237 (2005 - \$Nil) for consulting fees, included in management and administration costs, to a company controlled by a director.
- d) Paid or accrued \$Nil (2005 - \$4,500) for travel and promotion to a former director.

Included in accounts payable and accrued liabilities is \$23,461 (2005 - \$Nil) owed to directors, companies owned by directors and former directors for services provided.

Amounts due to and from related parties are non-interest bearing and with no fixed terms of repayment. These transactions were in the normal course of operations and have been recorded at the exchange amount, which is the amount agreed to by the related parties.

## 5. Loan payable:

In May, 2006, the Company borrowed \$170,010 (US\$150,000) bearing interest at 12%, and secured by a promissory note and general security agreement on all of the current assets of the Company. The loan is due and payable on the earlier of receipt of private placement proceeds or May 1, 2008, and may be repaid at any time at the option of the Company.

The Company is contingently obligated, under certain terms and conditions, to grant the lender bonus warrants to acquire common shares of the Company up to an amount equivalent to 40% of the loan proceeds (\$60,000).

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
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## 6. Share capital and contributed surplus:

(a) Authorized:

Unlimited common shares without par value  
10,000,000 Class "A" preference shares with a par value of \$10 each  
10,000,000 Class "B" preference shares with a par value of \$50 each

(b) Common shares issued:

	Number of shares	Share Capital	Contributed Surplus
Balance, June 30, 2005	14,086,393	\$ 5,165,437	\$ -
Issued during year:			
Issued for finder's fee (Note 4)	100,000	11,500	-
Private placement	6,755,000	540,400	-
Share issue costs	-	(18,118)	-
Exercise of options	181,900	18,190	-
Exercise of options for settlement of accounts payable	217,210	21,721	-
Fair value of stock-based compensation on exercise of options	-	45,852	(45,852)
Stock Based compensation	-	-	172,329
Balance, June 30, 2006	21,340,503	5,784,982	126,477
Balance, September 30, 2006	21,340,503	\$ 5,784,982	\$ 126,477

In September 2005, the Company issued 100,000 shares valued at \$11,500 as a finder's fee for the purchase of the Saturn I oil and gas property.

In December 2005 the Company completed a private placement consisting of 6,755,000 units at \$0.08 per unit for proceeds of \$540,400. Each unit consisted of one common share and one half of a common share purchase warrant. One whole warrant entitles the holder to acquire one common share at a price of \$0.15 for one year from the issue date. Finder's fees in the amount of \$18,118 were paid in cash.

On April 7, 2006, the Company announced a brokered private placement of up to 26,250,000 units at a price of \$0.08 per unit for proceeds of \$2,100,000. Each unit consists of one common share and one half of one purchase warrant, with each whole warrant exercisable into one common share at \$0.15 for the first year and at \$0.20 for the second year. The agent on the brokered placement will be paid an 8% cash commission and an option to purchase 10% of the number of units sold exercisable at \$0.08 per unit for two years. The brokered private placement is currently postponed due to renegotiations of the terms of the related acquisition of the Saturn II property. Deferred financing costs of \$40,481 have been incurred in connection with these placements.

On September 6, 2006, the Company announced a non-brokered private placement of up to 11,538,462 units at \$0.065 per unit for proceeds of \$750,000. Each unit consists of one common share and one half of one purchase warrant, with each whole warrant exercisable into one common share at \$0.10 for a period of one year.

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

## 6. Share capital and contributed surplus (cont'd...)

### (c) Share purchase warrants:

As at September 30, 2006, the Company had outstanding warrants enabling the holders to acquire common shares as follows:

Number Of Warrants	Exercise Price	Expiry Date
1,645,000	\$ 0.15	October 26, 2006
1,632,500	0.15	December 21, 2006
<u>100,000</u>	0.15	January 16, 2007
<u>3,377,500</u>		

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding as at June 30, 2005	-	-
Granted	3,377,500	0.15
Expired/cancelled	-	-
Exercised	<u>-</u>	-
Outstanding as at June 30, 2006	<u>3,377,500</u>	0.15
Outstanding as at September 30, 2006	<u>3,377,500</u>	<u>\$ 0.15</u>
<u>Exercisable as at September 30, 2006</u>	<u>3,377,500</u>	<u>\$ 0.15</u>

### d) Stock options:

The Company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of options. The term of the stock options granted are fixed by the board of directors and are not to exceed 5 years. The exercise prices of the stock options granted may not be less than the minimum then specified by the rules of the TSX-V. Vesting periods are determined by the board of directors.

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

## 6. Share capital and contributed surplus (cont'd...)

d) (cont'd...)

As at September 30, 2006, the Company had outstanding options enabling the holders to acquire common shares as follows:

Number of Options	Exercise Price	Expiry Date
1,100,890	\$ 0.10	December 16, 2009

Option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding as at June 30, 2005	619,500	0.10
Granted	1,500,000	0.10
Expired/cancelled	(619,500)	0.10
Exercised	(399,110)	0.10
Outstanding as at June 30, 2006	1,100,890	0.10
Outstanding as at September 30, 2006	1,100,890	\$ 0.10
Exercisable as at September 30, 2006	1,100,890	\$ 0.10

(e) Stock-based compensation:

During the three month period ended September 30, 2006, the Company did not grant any options.

## 7. Income taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Fiscal 2005-2006	Fiscal 2004-2005
Loss before income taxes	\$ (627,030)	\$ (120,711)
Expected income tax recovery	\$ (232,640)	\$ (48,429)
Items not deductible for income tax purposes	142,952	-
Items deducted for income tax purposes	(4,350)	-
Unrecognized benefit of non-capital losses	94,038	48,429
Total income tax recovery	\$ -	\$ -

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

## 7. Income taxes (cont'd...)

The significant components of the Company's future income tax assets are as follows:

	Fiscal 2005-2006	Fiscal 2004-2005
Future income tax assets:		
Non-capital loss carryforwards	\$ 251,000	\$ 198,000
Resource properties	176,000	139,000
Financing costs	<u>15,000</u>	<u>-</u>
	442,000	337,000
Valuation allowance	<u>(442,000)</u>	<u>(337,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$812,000 of non-capital losses which may be applied to reduce taxable income in future years. If not utilized, the losses expire through to 2026. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

## 8. Supplemental disclosure with respect to cash flows

There were no significant non-cash transactions during the three month period ended September 30, 2006.

## 9. Financial instruments

The Company's financial instruments consist of cash, receivables, bank indebtedness, accounts payable and accrued liabilities, loan payable, and amounts due to or from related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility in those rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

# UNIVERSAL ENERGY CORPORATION

Notes to the Consolidated Financial Statements  
September 30, 2006.

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## 10. Segmented information:

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of oil and gas properties in Canada and the United States. Segmented information on a geographic basis is as follows:

	Q1 ended Sept. 30, 2006	Fiscal 2005-2006
Capital assets		
Canada	\$ -	\$ 179,328
United States	495,482	495,482
	<u>\$ 495,482</u>	<u>\$ 674,810</u>

## 11. Subsequent events:

Subsequent to September 30, 2006, the Company had the following events:

- a) On October 26, 2006, warrants for the purchase of 1,645,000 common shares expired unexercised. If the currently outstanding warrants and options were all exercised immediately, this would provide at total of \$369,964 to the company.