US ENERGY CORP

FORM 10-Q
(Quarterly Report)

Filed 05/19/17 for the Period Ending 03/31/17

Address	4643 S. ULSTER STREET SUITE 970 DENVER, CO 80237
Telephone	303 993 3200
CIK	0000101594
Symbol	USEG
SIC Code	1311 - Crude Petroleum and Natural Gas
Industry	Mining Support Services & Equipment
Sector	Basic Materials
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☑ Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2017

☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 000-6814

U.S. ENERGY CORP.
(Exact Name of Registrant as Specified in its Charter)

Wyoming	**83-0205516**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4643 S. Ulster Street, Suite 970, Denver, CO	**80237**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**(303) 993-3200**

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☑ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑
Emerging growth company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

The registrant had 6,134,506 shares of its $0.01 par value common stock outstanding as of May 15, 2017.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Amounts)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and equivalents	$ 2,164	$ 2,518
Oil and gas sales receivable	659	562
Discontinued operations - assets of mining segment	114	114
Assets available for sale	653	653
Marketable securities	861	947
Other current assets	254	95
Total current assets	4,705	4,889
Oil and gas properties under full cost method:		
Unevaluated properties and exploratory wells in progress	4,664	4,664
Evaluated properties	87,919	87,834
Less accumulated depreciation, depletion and amortization	(82,901)	(82,640)
Net oil and gas properties	9,682	9,858
Other assets:		
Property and equipment, net	1,817	1,864
Other assets	121	156
Total other assets	1,938	2,020
Total assets	$ 16,325	$ 16,767
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities:		
Payable to Major Operator	$ 2,923	$ 2,710
Contingent ownership interests	1,383	1,430
Other	1,176	743
Accrued compensation and benefits	61	49
Current portion of long-term debt	6,000	6,000
Total current liabilities	11,543	10,932
Noncurrent liabilities:		
Asset retirement obligations	1,053	1,045
Warrant liability	690	1,030
Other liabilities	1	2
Total noncurrent liabilities	1,744	2,077
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, par value $0.01 per share. Authorized 100,000 shares, 50,000 shares of series A Convertible Preferred Stock outstanding as of March 31, 2017 and December 31, 2016; liquidation preference of $2,302 as of March 31, 2017.	1	1
Common stock, $0.01 par value; unlimited shares authorized; 6,134,506 and 4,699,956 shares issued and outstanding, respectively	61	61
Additional paid-in capital	127,681	127,576
Accumulated deficit	(124,565)	(123,825)
Other comprehensive loss	(140)	(55)
Total shareholders' equity	3,038	3,758

Total liabilities and shareholders' equity	$ 16,325	$ 16,767

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

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(In Thousands, Except Share and Per Share Amounts)

	2017	2016
Revenue:		
Oil	$ 1,240	$ 864
Natural gas and liquids	507	202
Total revenue	1,747	1,066
Operating expenses:		
Oil and gas operations:		
Production costs	1,053	1,030
Depreciation, depletion and amortization	270	782
Impairment of oil and gas properties	-	6,957
General and administrative:		
Compensation and benefits, including directors and contract employees	176	139
Stock-based compensation	106	34
Professional fees, insurance and other	880	576
Total operating expenses	2,485	9,518
Operating loss	(738)	(8,452)
Other income (expense):		
Realized gain (loss) on oil price risk derivatives	-	882
Unrealized gain (loss) on oil price risk derivatives	-	(573)
Gain on investments	-	9
Rental and other income/(loss)	(216)	21
Warrant fair value adjustment	340	-
Interest expense	(125)	(162)
Other expense	(1)	-
Total other income (expense)	(2)	177
Loss from continuing operations	(740)	(8,275)
Discontinued operations:		
Discontinued operations	-	(2,327)
Loss from discontinued operations	-	(2,327)
Net loss	**(740)**	**(10,602)**
Change in fair value of marketable equity securities	(86)	-
Comprehensive loss	$ (826)	$ (10,602)
Loss from continuing operations applicable to common shareholders		
Loss from continuing operations	(740)	(8,275)
Accrued dividends related to Series A Convertible Preferred Stock	(69)	(34)
Loss from continuing operations applicable to common shareholders	(809)	(8,309)
Loss per share- basic & diluted		
Continuing operations	$ (0.14)	$ (1.76)
Discontinued operations	-	(0.49)
Total	$ (0.14)	$ (2.25)
Weighted average shares outstanding		
Basic & diluted	5,834,568	4,705,500

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

Please note that 2016 “Loss per share- basic & diluted” may differ from results reported on the Company’s quarterly report on Form 10-Q for the period ending March 31, 2016 due to fractional shares associated with the Company’s 6 for 1 stock split in June 2016.

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(In Thousands)

	2017	2016
Cash flows from operating activities:		
Net loss	$ (740)	$ (10,602)
Loss from discontinued operations	-	2,327
Loss from continuing operations	(740)	(8,275)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation, depletion and amortization	304	818
Impairment of oil and gas properties	-	6,957
Change in fair value of oil price risk derivative	-	573
Stock-based compensation and services	106	34
Warrant fair value adjustment	(340)	-
Other	28	105
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Oil and gas sales receivable	(96)	517
Other assets	(140)	(298)
Increase (decrease) in:		
Accounts payable and accrued liabilities	533	(465)
Accrued compensation and benefits	12	(1,072)
Net cash used in operating activities	(333)	(1,106)
Cash flows from investing activities:		
Capital expenditures	(21)	(1)
Net cash used in investing activities:	(21)	(1)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	-	1
Net cash provided by financing activities	-	1
Discontinued operations:		
Net cash used in operating activities	-	(327)
Net cash used in discontinued operations	-	(327)
Net decrease in cash and equivalents	(354)	(1,433)
Cash and equivalents, beginning of year	2,518	3,354
Cash and equivalents, end of year	$ 2,164	$ 1,921
Non-cash investing and financing activities:		
Issuance of preferred stock in disposition of mining segment	-	$ 2,000

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

1. ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

U.S. Energy Corp. (collectively with its subsidiaries referred to as the "Company" or "U.S. Energy") was incorporated in the State of Wyoming on January 26, 1966. The Company's principal business activities are focused in the acquisition, exploration and development of oil and gas properties in the United States.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP") and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial statements have been included.

We have substantial debt obligations and our ongoing capital and operating expenditures will exceed the revenue we expect to receive from our oil and natural gas operations in the near future. If we are unable to raise substantial additional funding, refinance existing indebtedness or consummate significant asset sales on a timely basis and/or on acceptable terms, we may be required to significantly curtail our business and operations. The consolidated financial statements included in this report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not reflect any adjustments that might be necessary should we be unable to continue as a going concern. Our ability to continue as a going concern is subject to, among other factors, our ability to monetize assets, our ability to obtain financing or refinance existing indebtedness, our ability to continue our cost cutting efforts, oil and gas commodity prices, our ability to recognize, acquire and develop strategic interests and prospects, the speed and cost with which we can develop our prospects and the ability to adapt our business by integrating specific operations associated with operating companies. There can be no assurance that we will be able to obtain additional funding on a timely basis and on satisfactory terms, or at all. In addition, no assurance can be given that any such funding, if obtained, will be adequate to meet our capital needs and support our growth. If additional funding cannot be obtained on a timely basis and on satisfactory terms, then our operations would be materially negatively impacted and we may be unable to continue as a going concern. If we become unable to continue as a going concern, we may find it necessary to file a voluntary petition for reorganization under the Bankruptcy Code in order to provide us additional time to identify an appropriate solution to our financial situation and implement a plan of reorganization aimed at improving our capital structure.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. Our financial condition as of March 31, 2017, and operating results for the three months ended March 31, 2017 are not necessarily indicative of the financial condition and results of operations that may be expected for any future interim period or for the year ending December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 estimates include oil and gas reserves that are used in the calculation of depreciation, depletion, amortization and impairment of the carrying value of evaluated oil and gas properties; production and commodity price estimates used to record accrued oil and gas sales receivable; valuation of commodity derivative instruments; the impact of commodity prices and other events affecting impairment of mining properties; and the cost of future asset retirement obligations. The Company evaluates its estimates on an on-going basis and bases its estimates on historical experience and on various other assumptions the Company believes to be reasonable. Due to inherent uncertainties, including the future prices of oil and gas, these estimates could change in the near term and such changes could be material.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its wholly-owned subsidiary Energy One LLC ("Energy One"). All inter-company balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation of the accompanying financial statements.

Comprehensive Income (Loss)

Comprehensive income (loss) is used to refer to net income (loss) plus other comprehensive income (loss). Other comprehensive income (loss) is comprised of revenues, expenses, gains, and losses that under GAAP are reported as separate components of shareholders' equity instead of net income (loss).

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers". This comprehensive guidance will replace all existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2017, and interim periods therein. This update is not expected to have a significant impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU is intended to improve the recognition and measurement of financial instruments. Among other things, this ASU requires certain equity investments to be measured at fair value with changes in fair value recognized in net income. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods therein. This update is not expected to have a significant impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing guidance for lease accounting. This ASU will require lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. This update is not expected to have a significant impact on the Company's financial statements.

2016-05
In March 2016, the FASB issued ASU 2016-06 *, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments.* The amendments clarify the steps required to assess whether a call or put option meets the criteria for bifurcation as an embedded derivative. The amendment is effective for fiscal years and interim periods beginning after December 1, 2016. This amendment did not have a significant impact on the Company's financial statements.

2016-11
In May 2016, the FASB issued ASU No. 2016-11, *Revenue Recognition* (Topic 605) and *Derivatives and Hedging* (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting ("ASU 2016-11"). The SEC Staff is rescinding the following SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities-Oil and Gas, effective upon adoption of Topic 606. Specifically, registrants should not rely on the following SEC Staff Observer comments upon adoption of Topic 606: a) Revenue and Expense Recognition for Freight Services in Process which is codified in 605-20-S99-2; b) Accounting for Shipping and Handling Fees and Costs, which is codified in paragraph 605-45-S99-1; c) Accounting for Consideration Given by a Vendor to a Customer, which is codified in paragraph 605-50-S99-1 and d) Accounting for Gas-Balancing Arrangements (that is, use of the "entitlements method"), which is codified in paragraph 932-10-S99-5. We do not use the entitlements method of accounting and are not impacted by this specific SEC Staff Observer comment; however, we are assessing the potential impact of other SEC Staff Observer comments included in ASU 2016-11 on our consolidated financial condition and results of operations.

2016-15
In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (Topic 230) *: Classification of Certain* Cash *Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in ASU 2016-15 provide guidance on specific cash flow issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and distributions received from equity method investees. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. We are currently assessing the potential impact of ASU 2016-15 on our consolidated financial condition and results of operations.

2017-03
In January 2017, the FASB issued ASU No. 2017-03, *Accounting Changes and Error Corrections* (Topic 250) *and Investments – Equity Method and Joint Ventures* (Topic 323), which stated additional qualitative disclosures should be considered to assess the significance of the impact upon adoption. This ASU is effective for the annual period beginning after December 15, 2018, and for annual and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial condition and results of operations.

2. LIQUIDITY & GOING CONCERN

As of March 31, 2017, the Company has a working capital deficit of $6.8 million and an accumulated deficit of $124.6 million. Additionally, the Company incurred a net loss of $0.7 million for the three months ended March 31, 2017. As of March 31, 2017, the Company failed to remain in compliance with financial covenants in its credit agreement. Accordingly, the entire balance of $6.0 million is required to be classified as a current liability. On May 2, 2017, the credit facility between U.S. Energy Corp.'s wholly-owned subsidiary, Energy One and Wells Fargo was sold, assigned and transferred to APEG Energy II, L.P. ("APEG"). APEG purchased and assumed all of Wells Fargo's rights and obligations as the lender to Energy One under the credit facility. Concurrently, U.S. Energy Corp., Energy One and APEG entered into a Limited Forbearance Agreement dated May 2, 2017. The Company believes that the Forbearance Agreement will provide the parties sufficient time to work toward a long-term solution that enables the Company to execute its operational strategy and ensure value for existing shareholders. Please refer to Note 13 entitled "Subsequent Events" for further information.

As of March 31, 2017, the Company had cash and equivalents of $2.2 million. Management believes overhead and mining expense reductions have poised the Company to survive the current low commodity price environment. However, there can be no assurance that the Company will be able to complete future financings, dispositions or acquisitions on acceptable terms or at all.

The significantly lower oil price environment that we have experienced since late 2014 has substantially decreased our cash flows from operating activities. Sustained low oil prices could significantly reduce or eliminate our planned capital expenditures. If production is not replaced through the acquisition or drilling of new wells our production levels will lower due to the natural decline of production from existing wells.

Our strategy is to continue to (1) maintain adequate liquidity and selectively participate in new drilling and completion activities, subject to economic and industry conditions, (2) pursue acquisition and disposition opportunities as available liquidity permits and (3) evaluate various avenues to strengthen our balance sheet and improve our liquidity position. We expect to fund any near-term capital requirements and working capital needs from current cash on hand. Our activity could be further curtailed if our cash flows decline from expected levels. Because production from existing oil and natural gas wells declines over time, further reductions of capital expenditures used to drill and complete new oil and natural gas wells would likely result in lower levels of oil and natural gas production in the future.

3. OIL PRICE RISK DERIVATIVES

The Company's wholly-owned subsidiary Energy One has historically entered into crude oil derivative contracts ("economic hedges"). The derivative contracts are priced based on West Texas Intermediate ("WTI") quoted prices for crude oil. The Company is a guarantor of Energy One's obligations under the economic hedges. The objective of utilizing the economic hedges is to reduce the effect of price changes on a portion of the Company's future oil production, achieve more predictable cash flows in an environment of volatile oil and gas prices and to manage the Company's exposure to commodity price risk. The use of these derivative instruments limits the downside risk of adverse price movements. However, there is a risk that such use may limit the Company's ability to benefit from favorable price movements. Energy One may, from time to time, add incremental derivatives to hedge additional production, restructure existing derivative contracts or enter into new transactions to modify the terms of current contracts in order to realize the current value of its existing positions. The Company does not engage in speculative derivative activities or derivative trading activities, nor does it use derivatives with leveraged features. As of March 31, 2017, the Company did not have any outstanding crude oil derivative contracts.

Unrealized gains and losses resulting from derivatives are recorded at fair value in the consolidated balance sheet. Changes in fair value, as well as realized gains (losses) arising upon derivative contract settlements, are included in the "change in unrealized gain (loss) on oil price risk derivatives" in the consolidated statements of operations. For the three months ended March 31, 2017 and 2016, the Company's unrealized losses from derivatives amounted to $0 and $0.6 million, respectively.

Please refer to Note 13 entitled "Subsequent Events" for more information.

4. CEILING TEST FOR OIL AND GAS PROPERTIES

The reserves used in the Company's full cost ceiling test incorporate assumptions regarding pricing and discount rates in the determination of present value. In the calculation of the ceiling test as of March 31, 2017, the Company used a price of $42.09 per barrel for oil and $2.65 per MMbtu for natural gas (as further adjusted for property specific gravity, quality, local markets and distance from markets) to compute the future cash flows of the Company's producing properties. These prices compare to $42.75 per barrel for oil and $2.48 per MMbtu for natural gas used in the calculation of the Ceiling Test as of December 31, 2016. The discount factor used was 10%.

For the three months ended March 31, 2017 and 2016, ceiling test impairment charges for the Company's oil and gas properties amounted to $0 and $6,957, respectively.

5. DISCONTINUED OPERATIONS AND PREFERRED STOCK ISSUANCE

Disposition of Mining Segment

In February 2006, the Company reacquired the Mt. Emmons molybdenum mining properties (the "Property"). In February 2016, the Company's Board of Directors decided to dispose of the Property rather than continuing the Company's long-term development strategy whereby the Company entered into the following agreements:

A. The Company entered into an Acquisition Agreement (the "Acquisition Agreement") with Mt. Emmons Mining Company, a subsidiary of Freeport-McMoRan Inc. ("MEM"), whereby MEM acquired the Property. The Company did not receive any cash consideration for the disposition; the sole consideration for the transfer was that MEM assumed the Company's obligations to operate the WTP and to pay the future mine holding costs for portions of the Property that it desires to retain.

   Under U.S. GAAP, the disposal of a segment is reported as discontinued operations in the Company's financial statements. Presented below are the assets and liabilities associated with the Company's mining segment as of March 31, 2017 and December 31, 2016:

	2017	2016
Assets retained by the Company:		
Performance bonds	$ 114	$ 114
Total assets of discontinued operations	$ 114	$ 114

B. Concurrent with entry into the Acquisition Agreement and as additional consideration for MEM to accept transfer of the Property, the Company entered into a Series A Convertible Preferred Stock Purchase Agreement (the “Series A Purchase Agreement”) with MEM, whereby the Company issued 50,000 shares of newly designated Series A Convertible Preferred Stock (the “Preferred Stock”) to MEM in exchange for (i) MEM accepting the transfer of the Property and replacing the Company as the permittee and operator of the WTP, and (ii) the payment of approximately $1 to the Company. The Series A Purchase Agreement contains customary representations and warranties on the part of the Company. As contemplated by the Acquisition Agreement and the Series A Purchase Agreement and as approved by the Company’s Board of Directors, the Company filed with the Secretary of State of the State of Wyoming Articles of Amendment containing a Certificate of Designations with respect to the Preferred Stock (the “Certificate of Designations”). Pursuant to the Certificate of Designations, the Company designated 50,000 shares of its authorized preferred stock as Series A Convertible Preferred Stock. The Preferred Stock accrues dividends at a rate of 12.25% per annum of the Adjusted Liquidation Preference (as defined); such dividends are not payable in cash but are accrued and compounded quarterly in arrears on the first business day of the succeeding calendar quarter. At issuance, the aggregate fair value of the Preferred Stock was $2,000 based on the initial liquidation preference of $40 per share. The “Adjusted Liquidation Preference” is initially $40 per share of Preferred Stock, with increases each quarter by the accrued quarterly dividend. The Preferred Stock is senior to other classes or series of shares of the Company with respect to dividend rights and rights upon liquidation. No dividend or distribution will be declared or paid on junior stock, including the Company’s common stock, (1) unless approved by the holders of Preferred Stock and (2) unless and until a like dividend has been declared and paid on the Preferred Stock on an as-converted basis.

At the option of the holder, each share of Preferred Stock was initially convertible into approximately 13.33 shares of the Company’s $0.01 par value common stock (the “Conversion Rate”) for an aggregate of 666,667 shares of common stock. The Conversion Rate is subject to anti-dilution adjustments for stock splits, stock dividends, certain reorganization events, and to price-based anti-dilution protections if the Company subsequently issues shares for less than 90% of fair value on the date of issuance. Each share of Preferred Stock will be convertible into a number of shares of common stock equal to the ratio of the initial conversion value to the conversion value as adjusted for accumulated dividends multiplied by the Conversion Rate. In no event will the aggregate number of shares of common stock issued upon conversion be greater than approximately 793,000 shares. The Preferred Stock will generally not vote with the Company’s common stock on an as-converted basis on matters put before the Company’s shareholders. The holders of the Preferred Stock have the right to approve specified matters as set forth in the Certificate of Designations and have the right to require the Company to repurchase the Preferred Stock in connection with a change of control. However, the Company’s Board of Directors has the ability to prevent any change of control that could trigger a redemption obligation related to the Preferred Stock.

During the first quarter of 2016, the Company recorded the fair value of the Preferred Stock based on the initial liquidation preference of $2,000. Since the cash consideration paid by MEM for the Preferred Stock was a nominal amount, the Company recorded a charge to operations of approximately $2,000 associated with the issuance.

C. Concurrent with entry into the Acquisition Agreement and the Series A Purchase Agreement, the Company and MEM entered into an Investor Rights Agreement, which provides MEM rights to certain information and Board observer rights. MEM has agreed that it, along with its affiliates, will not acquire more than 16.86% of the Company’s issued and outstanding shares of Common Stock. In addition, MEM has the right to demand registration of the shares of Common Stock issuable upon conversion of the Preferred Stock under the Securities Act of 1933, as amended.

Combined Results of Operations for Discontinued Operations

The results of operations of the discontinued mining operations are presented separately in the accompanying financial statements. Presented below are the components for the three months ended March 31, 2017 and 2016:

	2017	2016
Issuance of preferred stock to induce disposition	$ -	$ (1,999)
Operating expenses of mining segment:		
Water treatment plant	-	(211)
Mine property holding costs	-	(117)
Total results for discontinued operations	$ -	$ (2,327)

6. DEBT

Energy One, a wholly-owned subsidiary the Company, has a credit facility with Wells Fargo Bank, National Association ("Wells Fargo"). As of March 31, 2017 and 2016, outstanding borrowings under the credit facility amounted to $6.0 million. As of March 31, 2017 and 2016, the borrowing base was $6.0 million. Borrowings under the credit facility are collateralized by Energy One's oil and gas producing properties and substantially all of the Company's cash and equivalents. Each borrowing under the agreement has a term of six months, but can be continued at the Company's election through July 2017 if the Company remains in compliance with the covenants under the credit facility. The weighted average interest rate on this debt is 7.39% as of March 31, 2017.

Energy One is required to comply with customary affirmative covenants and with certain negative covenants. The principal negative financial covenants do not permit (i) the interest coverage ratio (EBITDAX to interest expense) to be less than 3.0 to 1; (ii) total debt to EBITDAX to be greater than 3.5 to 1; and (iii) the current ratio to be less than 1.0 to 1.0. EBITDAX is defined in the Credit Agreement as consolidated net income, plus non-cash charges. Additionally, the Credit Agreement prohibits or limits Energy One's ability to incur additional debt, pay cash dividends and other restricted payments, sell assets, enter into transactions with affiliates, and to merge or consolidate with another company. The Company is a guarantor of Energy One's obligations under the Credit Agreement.

As of March 31, 2017, Energy One and the Company were not in compliance with any of the financial covenants.
Because the Company projects that it is unlikely that Energy One will regain compliance with all of the financial covenants before the July 30, 2017 maturity date, outstanding borrowings of $6.0 million are presented as a current liability in the accompanying consolidated balance sheet as of March 31, 2017.

On May 2, 2017, the credit facility between U.S. Energy Corp.'s wholly-owned subsidiary, Energy One and Wells Fargo was sold, assigned and transferred to APEG Energy II, L.P. ("APEG"). APEG purchased and assumed all of Wells Fargo's rights and obligations as the lender to Energy One under the credit facility. Concurrently, U.S. Energy Corp., Energy One and APEG entered into a Limited Forbearance Agreement dated May 2, 2017. The Company believes that the Forbearance Agreement will provide the parties sufficient time to work toward a long-term solution that enables the Company to execute its operational strategy and ensure value for existing shareholders.

The credit facility requires the Company's compliance with certain restricted financial covenants. The Company previously violated the financial ratio covenants for the fiscal quarters ended September 30, 2016 and December 31, 2016, which constituted an event of default under the credit agreement, and the violation of said covenants has continued in 2017. Subject to continued performance and compliance by the Company and Energy One with the terms and conditions of the Forbearance Agreement and credit facility, APEG has agreed not to exercise its rights and remedies arising as a result of certain existing and prospective events of default under the credit facility until July 30, 2017. Commencing on May 2, 2017, interest shall accrue on the outstanding principal balance of the loans under the credit facility at a rate of 8.75% per annum. In the event of default under the Forbearance Agreement, the forbearance period will terminate immediately and, without further notice or opportunity to cure, APEG will be entitled to exercise all of its rights and remedies under the credit facility and Forbearance Agreement, including acceleration of the debt and foreclosure. Please refer to Note 13 entitled "Subsequent Events" for more information.

7. COMMITMENTS AND CONTINGENCIES

Commitments

Lessee Operating Leases. In November 2015, the Company took assignment of a lease agreement for office space in Denver, Colorado. The future minimum rental commitment under this sublease requires payments of $59,000 in 2017, when the sublease expires.

Letter of Credit. In connection with the Company's sublease of office space in Denver, Colorado, a security deposit was provided in the form of an irrevocable letter of credit for $35,000. The letter of credit expires in September 2017. Collateral for the letter of credit is a certificate of deposit for $35,000 that is included in other assets in the accompanying balance sheet as of March 31, 2017.

Contingencies

From time to time, the Company is party to certain legal actions and claims arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not expect these matters to have a materially adverse effect on the Company's financial position or results of operations. Following are currently pending legal matters:

North Dakota Properties. On June 8, 2011, Brigham Oil & Gas, L.P. ("Brigham"), as the operator of the Williston 25-36 #1H Well, filed an action in the State of North Dakota, County of Williams, in District Court, Northwest Judicial District, Case No. 53-11-CV-00495 to interplead to the court with respect to the undistributed suspended royalty funds from this well to protect itself from potential litigation. Brigham became aware of an apparent dispute with respect to ownership of the mineral interest between the ordinary high water mark and the ordinary low water mark of the Missouri River. Brigham suspended payment of certain royalty proceeds of production related to the minerals in and under this property pending resolution of the apparent dispute. Brigham was subsequently sold to Statoil ASA ("Statoil") who assumed Brigham's rights and obligations under this case. The Company owns a working interest, not royalty interest, in this well and no funds have been withheld.

On January 28, 2013, the District Court Northwest Judicial District issued an Order for Partial Summary Judgment holding that the State of North Dakota as part of its title to the beds of navigable waterways owns the minerals in the area between the ordinary high and low watermarks on these waterways, and that this public title excludes ownership and any proprietary interest by riparian landowners. This issue has been appealed to the North Dakota Supreme Court. The Company's legal position is aligned with Brigham, who will continue to provide legal counsel in this case for the benefit of all working interest owners.

The Company is also a party to litigation that seeks to reform certain assignments of mineral interests it acquired from Brigham. This matter involves the depth below the surface to which the assignments were effective. The plaintiff is seeking to reform the agreement such that the Company's assignment would be revised to be 12 feet closer to the surface. This dispute affects one of the Company's producing wells.

The ultimate outcome of these matters is ongoing and cannot presently be determined. However, in management's opinion the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the accompanying consolidated financial statements.

Quiet Title Action – Willerson Lease. In September 2013, the Company acquired from Chesapeake a 15% working interest in approximately 4,244 gross mineral acres referred to as the Willerson lease. In January 2014, Willerson inquired if their lease had terminated due to the failure to achieve production in paying quantities pursuant to the terms of the lease. The Company along with Crimson and Liberty filed a declaratory judgment action in the District Court of Dimmit County in May 2014 seeking a determination from the court that the lease remains valid and in effect. The lessors counterclaimed for breach of contract, trespass, and related causes of action. In January 2016, the lessors filed a third-party petition alleging breach of contract, trespass, and related causes of action against Chesapeake and EXCO Operating Company, LP. As of March 31, 2017 unevaluated oil and gas properties include $1,171,000 related to the leasehold costs that are subject to this matter. The matter has settled in 2017 with the Company's portion being $75,000 plus the related legal fees of $165,000 as reflected in the Company's financial statements under "Professional fees, insurance and other" as of March 31, 2017.

Arbitration of Employment Claim. A former employee has claimed that the Company owes up to $1.8 million under an Executive Severance and Non-Compete agreement (the "Agreement") due to a change of control and termination of employment without cause. The Agreement requires that any disputes be submitted to binding arbitration and a request for arbitration was submitted by the parties in March 2016. This matter was settled in May 2017 for $175,000 plus non-essential equipment of $13,000 as reflected in the Company's financial statements under "Rental and other income/(loss)" as of March 31, 2017.

Contingent Ownership Interests. As of March 31, 2017, the Company had recognized a contingent liability associated with uncertain ownership interests of $1,383. This liability arises when the calculations of respective joint ownership interests by operators differs from the Company's calculations. These differences relate to a variety of matters, including allocation of non-consent interests, complex payout calculations for individual wells and groups of wells, along with the timing of reversionary interests. Accordingly, these matters are subject to legal interpretation and the related obligations are presented as a contingent liability in the accompanying condensed consolidated balance sheet as of March 31, 2017. While the Company has classified this entire amount as a current liability, most of these issues are expected to be resolved through arbitration, mediation or litigation; due to the complexity of the issues involved, there can be no assurance that the outcome of these contingencies will be resolved during 2017.

Anfield Gain Contingency. In 2007, the Company sold all of our uranium assets for cash and stock of the purchaser, Uranium One Inc. ("Uranium One"). The assets sold included a uranium mill in Utah and unpatented uranium claims in Wyoming, Colorado, Arizona and Utah. Pursuant to the asset purchase agreement, the Company was entitled to additional consideration from Uranium One up to $40,000 based on the performance of the mill, achievement of commercial production and royalties, but no additional consideration was ever received from Uranium One. In August 2014, the Company entered into an agreement with Anfield Resources Inc. ("Anfield") whereby if Anfield was successful in acquiring the property from Uranium One, Anfield would be released from the future payment obligations stemming from the 2007 sale to Uranium One. On September 1, 2015, Anfield acquired the property from Uranium One and is now obligated to provide the following consideration to the Company:

- Issuance of $2,500 in Anfield common shares to the Company. The Anfield shares are to be held in escrow and released in tranches over a 36-month period. Pursuant to the agreement, if any of the share issuances result in the Company holding in excess of 20% of the then issued and outstanding shares of Anfield (the "Threshold"), such shares in excess of the Threshold would not be issued at that time, but deferred to the next scheduled share issuance. If, upon the final scheduled share issuance the number of shares to be issued exceeds the Threshold, the value in excess of the Threshold is payable to the Company in cash,
- $2,500 payable in cash upon 18 months of continuous commercial production, and
- $2,500 payable in cash upon 36 months of continuous commercial production.

The first tranche of common shares resulted in the issuance of 7,436,505 shares of Anfield with a market value of $750,000 and such shares were delivered to us in September 2015. The second tranche of shares resulted in the issuance of 3,937,652 additional shares of Anfield with a market value of $750,000, and such shares were delivered to us in September 2016. Since the trading volume in Anfield shares has increased beginning primarily in the quarterly period ending June 30, 2016, we determined a mark-to-market technique would be the most appropriate method to determine the fair value for Anfield shares. The primary factor in using a mark-to-market valuation in determining the fair value of Anfield shares is justified because of our belief that due to the increased liquidity in the stock, using current market prices for Anfield shares reflects the most accurate fair value calculation. At March 31, 2017, we determined the fair value of the Anfield shares to be approximately $0.9 million. The timing of any future receipt of cash from Anfield is not determinable and there can be no assurance that any cash will ever be received from Anfield or that the shares received from Anfield will ever be liquidated for cash.

8. SHAREHOLDERS’ EQUITY

Preferred Stock

The Company’s articles of incorporation authorize the issuance of up to 100,000 shares of preferred stock, $0.01 par value. Shares of preferred stock may be issued with such dividend, liquidation, voting and conversion features as may be determined by the Board of Directors without shareholder approval. As discussed in Note 5, in February 2016 the Board of Directors approved the designation of 50,000 shares of Series A Convertible Preferred Stock in connection with the disposition of the Company’s mining segment.

Warrants

On December 21, 2016, the Company completed a registered direct offering of 1.0 million shares of common stock at a net price of $1.50 per share. Concurrently, the investors received warrants to purchase 1.0 million shares of Common Stock of the Company at an exercise price of $2.05 per share, subject to adjustment, for a period of five years from closing. The total net proceeds received by the Company was approximately $1.32 million. The fair value of the warrants upon issuance was $1.24 million, with the remaining $0.08 million being attributed to common stock. The warrants contain a dilutive issuance and other liability provisions which cause the warrants to be accounted for as a liability. Such warrant instruments are initially recorded as a liability and are accounted for at fair value with changes in fair value reported in earnings.

Stock Options

For the three months ended March 31, 2017 and 2016, total stock-based compensation expense related to stock options was $18,000 and $21,000 respectively. As of March 31, 2017, there was $62,000 of unrecognized expense related to unvested stock options, which will be recognized as stock-based compensation expense through January 2018. For the three months ended March 31, 2017, no stock options were granted, exercised, forfeited or expired. Presented below is information about stock options outstanding and exercisable as of March 31, 2017 and December 31, 2016:

	March 31, 2017		December 31, 2016	
	Shares	Price (1)	Shares	Price (1)
Stock options outstanding	390,525	$ 20.64	390,525	$ 20.64
Stock options exercisable	381,640	$ 20.79	376,084	$ 20.97

(1) Represents the weighted average price.

The following table summarizes information for stock options outstanding and exercisable at March 31, 2017:

Options Outstanding					Options Exercisable	
Number of Shares	Exercise Price Range Low	Exercise Price Range High	Exercise Price Weighted Average	Remaining Contractual Term (years)	Number of Shares	Weighted Average Exercise Price
56,786	$ 9.00	$ 9.00	$ 9.00	7.8	51,231	$ 9.00
49,504	12.48	12.48	12.48	6.3	49,504	12.48
98,396	13.92	17.10	15.01	2.5	98,396	15.01
185,839	22.62	30.24	29.35	1.0	182,509	29.48
390,525	$ 9.00	$ 30.24	$ 20.64	3.2	381,640	$ 20.97

As of March 31, 2017, no shares are available for future grants under the Company's stock option plans. Based upon the closing price for the Company's common stock of $0.89 per share on March 31, 2017, there was no intrinsic value related to stock options outstanding as of March 31, 2017.

Restricted Stock Grants

In January 2015, the Board of Directors granted 340,711 shares of restricted stock under the 2012 Equity Plan to four officers of the Company. These shares originally vested annually over a period of three years. However, during 2015 vesting was accelerated for three of the four officers in connection with severance agreements for an aggregate of 240,711 shares. The remaining 100,000 shares vested for 33,333 shares in both January 2016 and January 2017 and the remaining shares will vest for 33,334 shares in January 2018. The fair market value of the 340,711 shares on the date of grant was approximately $511,000. On September 23, 2016, the Board of Directors granted restricted stock to each member of the Board for 58,500 shares per Board member for an aggregate grant of 351,000 shares. The vesting of 292,500 of such shares was accelerated in May 2017 in connection with the resignations of members of the Company's Board of Directors. The closing price of the Company's common stock on the grant date was $1.74, which is expected to result in an aggregate compensation charge of $611,000 as the stock vests. For the three months ended March 31, 2017 and 2016, total stock-based compensation expense related to restricted stock grants was $88,000 and $13,000 respectively. As of March 31, 2017, there was $84,000 of unrecognized expense related to unvested restricted stock grants, which will be recognized as stock-based compensation expense through January 2018.

9. INCOME TAXES

For Federal income tax purposes, as of December 31, 2016 the Company had net operating loss and percentage depletion carryovers of approximately $74.7 million and $2.5 million, respectively. The net operating loss carryovers may be carried back two years and forward twenty years from the year the net operating loss was generated. The net operating losses may be used to offset future taxable income and expire in varying amounts through 2035. In addition, the Company has alternative minimum tax credit carry-forwards of approximately $0.7 million which are available to offset future federal income taxes over an indefinite period. The Company has established a valuation allowance for all deferred tax assets including the net operating loss and alternative minimum tax credit carryforwards discussed above since the "more likely than not" realization criterion was not met as of March 31, 2017 and 2016. Accordingly, the Company did not recognize an income tax benefit for the three months ended March 31, 2017 and 2016.

The Company recognizes, measures, and discloses uncertain tax positions whereby tax positions must meet a "more-likely-than-not" threshold to be recognized. As of March 31, 2017, gross unrecognized tax benefits are immaterial and there was no change in such benefits during the three months ended March 31, 2017. The Company does not expect significant increase or decrease to the uncertain tax positions within the next twelve months.

10. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding. For the three months ended March 31, 2017 and 2016, common stock equivalents excluded from the calculation of weighted average shares because they were antidilutive are as follows:

	2017	2016
Stock options	390,525	390,525(1)
Unvested shares of restricted common stock	356,555	11,111(1)
Total	747,080	401,636

(1) Includes weighted average number of shares for options and shares of restricted stock issued during the period.

11. SIGNIFICANT CONCENTRATIONS

The Company has exposure to credit risk in the event of nonpayment by the joint interest operators of the Company's oil and gas properties. Approximately 27% of the Company's proved developed oil and gas reserve quantities are associated with wells that are operated by a single operator (the "Major Operator"). As of March 31, 2017 and December 31, 2016, the Company had a liability to the Major Operator of $2,923,000 and $2,710,000 respectively, for accrued operating expenses and overpayments of net revenues when the Major Operator failed to recognize that the Company's ownership interest reverted after payout was achieved for certain wells during 2014 and 2015. Beginning in the second quarter of 2015, the Major Operator began withholding the Company's net revenues from all wells that it operates for the Company and management expects the Major Operator will continue to withhold the Company's net revenues until this liability is paid in full. Based on the oil and gas prices and costs used in the Company's reserve report as of March 31, 2017, this liability is not expected to be fully settled until the first quarter of 2020, but under higher pricing scenarios the Company expects the liability will be repaid from future production. Accordingly, the aggregate balances are presented as current liabilities in the accompanying consolidated balance sheets.

12. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 - Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The Company has processes and controls in place to attempt to ensure that fair value is reasonably estimated. The Company performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are evaluated through a management review process.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The following is a description of the valuation methodologies used for complex financial instruments measured at fair value:

Marketable Equity Securities Valuation Methodologies

The fair value of available for sale securities is based on quoted market prices obtained from independent pricing services. Accordingly, the Company has classified these instruments as Level 1.

Warrant Valuation Methodologies

The warrants contain a dilutive issuance and other liability provisions which cause the warrants to be accounted for as a liability. Such warrant instruments are initially recorded and valued as a level 3 liability and are accounted for at fair value with changes in fair value reported in earnings.

The Company estimated the value of the warrants issued with the Securities Purchase Agreement on December 31, 2016 to be $1,030,000, or $1.03 per warrant, using the Monte Carlo model with the following assumptions: a term expiring June 21, 2022, exercise price of $2.05, stock price of $1.28, average volatility rate of 90%, and a risk-free interest rate of 2.01%. The Company re-measured the warrants as of March 31, 2017, using the same Monte Carlo model, using the following assumptions: a term expiring June 21, 2022, exercise price of $2.05, stock price of $0.89, average volatility rate of 88%, and a risk-free interest rate of 1.97%. As of March 31, 2017, the fair value of the warrants was $690,000, or $0.69 per warrant, and was recorded as a liability on the accompanying consolidated balance sheets. An increase in any of the variables would cause an increase in the fair value of the warrants. Likewise, a decrease in any variable would cause a decrease in the value of the warrants.

Other Financial Instruments

The carrying amount of cash and equivalents, oil and gas sales receivable, other current assets, accounts payable and accrued expenses approximate fair value because of the short-term nature of those instruments. The recorded amounts for the Senior Secured Revolving Credit Facility discussed in Note 6 approximates the fair market value due to the variable nature of the interest rates, and the fact that market interest rates have remained substantially the same since the latest amendment to the credit facility.

Recurring Fair Value Measurements

Recurring measurements of the fair value of assets and liabilities as of March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Marketable equity securities:								
Sutter Gold Mining Company	$ 15	$ -	$ -	$ 15	$ 16	$ -	$ -	$ 16
Anfield Resources, Inc.	846	-	-	846	930	-	-	930
Total	$ 861	$ -	$ -	$ 861	$ 946	$ -	$ -	$ 946
Outstanding warrant liability	$ -	$ -	$ 690	$ 690	$ -	$ -	$ 1,030	$ 1,030

The following table presents a reconciliation of changes in assets and liabilities measured at fair value on a recurring basis for the period ended March 31, 2017 and the year ended December 31, 2016.

	Assets		Liabilities	
	Marketable Securities			
	Sutter (Level 1)	Anfield (Level 1)	Warrants (Level 3)	Net
Fair value, December 31, 2016	$ 16	$ 930	$ 1,030	$ 1,976
Total net losses included in:				
Other comprehensive loss	(1)	-	-	(1)
Fair value adjustments included in net loss:				
Net unrealized gain on warrant fair value adjustment	-	-	(340)	(340)
Net unrealized loss on Anfield shares	-	(84)	-	(84)
Fair value, March 31, 2017	$ 15	$ 846	690	$ 1,551

13. SUBSEQUENT EVENTS

On April 5, 2017, for the period beginning May 1, 2017 through December 31, 2017, the Company entered into crude oil swap contracts for 300 barrels per day at $52.40 per barrel.

On May 2, 2017, the credit facility between U.S. Energy Corp.'s wholly-owned subsidiary, Energy One and Wells Fargo was sold, assigned and transferred to APEG Energy II, L.P. ("APEG"). APEG purchased and assumed all of Wells Fargo's rights and obligations as the lender to Energy One under the credit facility. Concurrently, U.S. Energy Corp., Energy One and APEG entered into a Limited Forbearance Agreement dated May 2, 2017. The Company believes that the Forbearance Agreement will provide the parties sufficient time to work toward a long-term solution that enables the Company to execute its operational strategy and ensure value for existing shareholders.

The credit facility requires the Company's compliance with certain restricted financial covenants. The Company previously violated the financial ratio covenants for the fiscal quarters ended September 30, 2016 and December 31, 2016, which constituted an event of default under the credit agreement, and the violation of said covenants has continued in 2017. Subject to continued performance and compliance by the Company and Energy One with the terms and conditions of the Forbearance Agreement and credit facility, APEG has agreed not to exercise its rights and remedies arising as a result of certain existing and prospective events of default under the credit facility until July 30, 2017. Commencing on May 2, 2017, interest shall accrue on the outstanding principal balance of the loans under the credit facility at a rate of 8.75% per annum. In the event of default under the Forbearance Agreement, the forbearance period will terminate immediately and, without further notice or opportunity to cure, APEG will be entitled to exercise all of its rights and remedies under the credit facility and Forbearance Agreement, including acceleration of the debt and foreclosure. For additional information please see the 8-K filed by the Company on May 8, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included in and incorporated by reference into this Form 10-Q are forward-looking statements. When used in this Form 10-Q, the words "will", "expect", "anticipate", "intend", "plan", "believe", "seek", "estimate" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements in this Form 10-Q include statements regarding our expected future revenue, income, production, liquidity, cash flows, reclamation and other liabilities, expenses and capital projects, future capital expenditures and future transactions. Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements due to a variety of factors, including those associated with our ability to find oil and natural gas reserves that are economically recoverable, the volatility of oil, NGL and natural gas prices, declines in the values of our properties that have resulted in and may in the future result in additional ceiling test write downs, our ability to replace reserves and sustain production, our estimate of the sufficiency of our existing capital sources, our ability to raise additional capital to fund cash requirements for our participation in oil and gas properties and for future acquisitions, the uncertainties involved in estimating quantities of proved oil and natural gas reserves, in prospect development and property acquisitions or dispositions and in projecting future rates of production or future reserves, the timing of development expenditures and drilling of wells, hurricanes and other natural disasters and the operating hazards attendant to the oil and gas and minerals businesses. In particular, careful consideration should be given to cautionary statements made in the "Risk Factors" section of our 2015 Annual Report on Form 10-K and other quarterly reports on Form 10-Q filed with the SEC, all of which are incorporated herein by reference. The Company undertakes no duty to update or revise any forward-looking statements.

General Overview

We are an independent energy company focused on the lease acquisition and development of oil and gas producing properties in the continental United States. Our business is currently focused in South Texas and the Williston Basin in North Dakota. However, we do not intend to limit our focus to these geographic areas. We continue to focus on increasing production, reserves, revenues and cash flow from operations while managing our level of debt.

We currently explore for and produce oil and gas through a non-operator business model; however, we may operate oil and gas properties for our own account and may expand our holdings or operations into other areas. As a non-operator, we rely on our operating partners to propose, permit and manage wells. Before a well is drilled, the operator is required to provide all oil and gas interest owners in the designated well the opportunity to participate in the drilling costs and revenues of the well on a pro-rata basis. After the well is completed, our operating partners also transport, market and account for all production. As discussed in Item 1. Business, our long-term strategic focus is to develop operational capabilities through the pursuit of opportunities to acquire operated properties and/or operatorship of existing properties.

Recent Developments

Effective May 1, 2017 through December 31, 2017, the Company entered into crude oil swap contracts for 300 barrels per day at $52.40 per barrel.

On May 2, 2017, the credit facility between U.S. Energy Corp.'s wholly-owned subsidiary, Energy One and Wells Fargo was sold, assigned and transferred to APEG Energy II, L.P. ("APEG"). APEG purchased and assumed all of Wells Fargo's rights and obligations as the lender to Energy One under the credit facility. Concurrently, U.S. Energy Corp., Energy One and APEG entered into a Limited Forbearance Agreement dated May 2. The Company believes that the Forbearance Agreement will provide the parties sufficient time to work toward a long-term solution that enables the Company to execute its operational strategy and ensure value for existing shareholders.

The credit facility requires the Company's compliance with certain restricted financial covenants. The Company previously violated the financial ratio covenants for the fiscal quarters ended September 30, 2016 and December 31, 2016, which constituted an event of default under the credit agreement, and the violation of said covenants has continued in 2017. Subject to continued performance and compliance by the Company and Energy One with the terms and conditions of the Forbearance Agreement and credit facility, APEG has agreed not to exercise its rights and remedies arising as a result of certain existing and prospective events of default under the credit facility until July 30, 2017. Commencing on May 2, 2017, interest shall accrue on the outstanding principal balance of the loans under the credit facility at a rate of 8.75% per annum. In the event of default under the Forbearance Agreement, the forbearance period will terminate immediately and, without further notice or opportunity to cure, APEG will be entitled to exercise all of its rights and remedies under the credit facility and Forbearance Agreement, including acceleration of the debt and foreclosure. For additional information please see the 8-K filed by the Company on May 8, 2017.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires us to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. A summary of our significant accounting policies is detailed in *Note 1 – Organization, Operations and Significant Accounting Polices* in Item 8 of our 2016 Annual Report on Form 10-K filed with the SEC on April 17, 2017.

Recently Issued Accounting Standards

Please refer to the section entitled *Recent Accounting Pronouncements* under *Note 1 – Organization, Operations and Significant Accounting Policies* in the Notes to the Financial Statements included in Item 1 of this report for additional information on recently issued accounting standards and our plans for adoption of those standards.

Results of Operations

Comparison of our Statements of Operations for the Three Months Ended March 31, 2017 and 2016

During the three months ended March 31, 2017, we recorded a net loss of $0.7 million as compared to a net loss of $10.6 million for the three months ended March 31, 2016. Our loss from continuing operations was $0.7 million for the three months ended March 31, 2017 compared to $8.3 million for the three months ended March 31, 2016. In the following sections we discuss our revenue, operating expenses, non-operating income, and discontinued operations for the three months ended March 31, 2017 compared to the three months ended March 31, 2016.

Revenue. Presented below is a comparison of our oil and gas sales, production quantities and average sales prices for the three months ended March 31, 2017 and 2016 (dollars in thousands, except average sales prices):

			Change	
	2017	**2016**	**Amount**	**Percent**
Revenue:				
Oil	$ 1,240	$ 864	$ 376	43%
Gas	507	202	305	151%
Total	$ 1,747	$ 1,066	$ 681	64%
Production quantities:				
Oil (Bbls)	29,036	39,648	(10,612)	-27%
Gas (Mcfe)	125,094	65,878	59,216	90%
BOE	49,885	50,628	(743)	-1%
Average sales prices:				
Oil (Bbls)	$ 42.70	$ 21.79	$ 20.91	96%
Gas (Mcfe)	4.05	3.07	0.98	32%
BOE	35.02	21.06	13.96	66%

The increase in our oil sales of $0.4 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 was primarily the result of a 96% increase in the average oil price realized during the three months ended March 31, 2017. The increase in the average oil price realized offset a 27% reduction in our oil production quantity during the three months ended March 31, 2017. The increase in our gas sales of $0.3 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 was driven by a 90% increase in our gas production combined with a 32% increase in the average gas price realized during the three months ended March 31, 2017. The increase in our net realized oil price is reflective of the partial recovery in global commodity prices during the first quarter of 2017. During the last year, the differential between West Texas Intermediate ("WTI") quoted prices for crude oil and the prices we realize for sales in the Williston Basin was approximately $8.00 per barrel lower. We expect this differential to continue (with the amount of the differential varying over time) and that our oil sales revenue will be affected by lower realized prices from this region.

For the three months ended March 31, 2017, we produced 49,885 BOE, or an average of 554 BOE per day, as compared to 50,628 BOE or 556 BOE per day during the comparable period in 2016. This 1% reduction was attributable to several factors, including (i) the normal decline in production for wells in the area of our properties, (ii) we did not add significant reserves from drilling or acquisition over the past year, and (iii) in this low price environment operators have an incentive to scale back production until prices recover.

Oil and Gas Production Costs . Presented below is a comparison of our oil and gas production costs for the three months ended March 31, 2017 and 2016 (dollars in thousands):

			Change	
	2017	2016	Amount	Percent
Production taxes and other expenses	$ 353	$ 158	$ 195	123%
Lease operating expenses	700	872	(172)	-20%
Total	$ 1,053	$ 1,030	$ 23	2%

For the three months ended March 31, 2017, production taxes and other expenses increased by $0.2 million compared to the comparable period in 2016. Substantially all of this increase in production taxes resulted from increased oil and gas sales. For the three months ended March 31, 2017, lease operating expense decreased by $0.2 million which was primarily due to the implementation of cost reduction strategies by the operators of our wells. During 2017, we expect cost reduction implementation programs to continue during the prolonged global commodity price downtown.

Depreciation, depletion and amortization. Our DD&A rate for the three months ended March 31, 2017 was $5.25 per BOE compared to $15.45 per BOE for the three months ended March 31, 2016. Our DD&A rate can fluctuate as a result of changes in drilling and completion costs, impairments, divestitures, changes in the mix of our production, the underlying proved reserve volumes and estimated costs to drill and complete proved undeveloped reserves. The primary factor that resulted in a reduction in our DD&A rate for the three months ended March 31, 2017 was $9.6 million of aggregate quarterly impairment charges that resulted from our quarterly Full Cost Ceiling limitations during 2016. During each of the quarters ended March 31, 2016 and June 30, 2016, we recognized impairment charges which reduced the net capitalized costs subject to future DD&A calculations. Accordingly, our DD&A rate per BOE decreased as we reduced the net capitalized costs by the quarterly impairment charges discussed below.

Impairment of oil and gas properties. During the three months ended March 31, 2017 and 2016, we recorded impairment charges related to our oil and gas properties of $0.0 million and $7.0 million, respectively, because the net capitalized costs were in excess of the Full Cost Ceiling limitation. These quarterly impairment charges were primarily due to the deepening declines in the price of oil beginning in 2015 and continuing through 2016. Presented below are the weighted average prices (before applying the impact of basis differentials between the benchmark prices and the actual prices realized for our wells) used to prepare our reserve estimates and to calculate our Full Cost Ceiling limitations for each of the last five calendar quarters, along with the impairment charges recognized during each of those quarters (dollars in thousands, except average prices):

	Average Price (1) Oil (Bbl)	Average Price (1) Gas (MMbtu)	Impairment Charge
First quarter of 2016	$ 46.26	$ 2.40	$ 6,957
Second quarter of 2016	43.12	2.24	2,611
Third quarter of 2016	41.68	2.28	-
Fourth quarter of 2016	42.75	2.48	-
First quarter of 2017	47.61	2.73	-

(1) Represents the trailing 12-month average for benchmark oil and gas prices ending in the last month of the calendar quarter shown.

Our quarterly reserve reports are prepared based on a trailing 12-month average for benchmark oil and gas prices.

General and Administrative Expenses. Presented below is a comparison of our general and administrative expenses for the three months ended March 31, 2017 and 2016 (dollars in thousands):

	2017	2016	Change Amount	Change Percent
Compensation and benefits, including directors	$ 176	$ 139	$ 37	27%
Stock-based compensation	106	34	72	212%
Professional fees	880	365	515	141%
Insurance, rent and other	101	211	(110)	-52%
Total	$ 1,263	$ 749	$ 514	69%

General and administrative expenses increased by $0.5 million for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. This increase was primarily attributable to (i) an increase of $0.5 million in professional fees as we replaced some of the services previously performed by employees with consultants combined with a legal settlement on the Willerson lease (See Note 7 Commitments and Contingencies), and (ii) an increase in stock-based compensation which primarily resulted from the amortization of restricted stock grants issued in September 2016.

Non-Operating Income (Expense). Presented below is a comparison of our non-operating income (expense) for the three months ended March 31, 2017 and 2016 (dollars in thousands):

	2017	2016	Change Amount	Change Percent
Realized gain on oil price risk derivatives	$ -	$ 882	$ (882)	N/A
Unrealized loss on oil price risk derivatives	-	(573)	573	N/A
Unrealized gain on marketable equity securities	-	9	(9)	N/A
Rental and other income (expense), net	(28)	21	(49)	-233%
Warrant revaluation gain	340	-	340	N/A
Interest expense	(125)	(162)	37	23%
Employee Arbitration Settlement	(188)	-	(188)	N/A
Other expense	(1)	-	(1)	N/A
Total other income (expense)	$ (2)	$ 177	$ (179)	-101%

During the three months ending March 31, 2017, the Company had no outstanding crude derivative contacts outstanding and therefore did not recognize any gain or loss compared to a gain of $0.9 million for the comparable period in 2016. Unrealized gains or losses result from changes in the fair value of the derivatives as commodity prices increase or decrease. Unrealized losses are also recognized in the month when derivative contracts are settled in cash through the recognition of a realized gain. Similarly, unrealized gains are also recognized in the month when derivative contracts are settled in cash through the recognition of a realized loss.

During the three months ending March 31, 2017, we realized a non-cash gain on the revaluation of our outstanding warrants of $0.3 million. Our warrant liability is accounted for using the mark-to-market accounting method whereby gains and losses from changes in the fair value of derivative instruments are recognized immediately into earnings. No warrants were outstanding for the period ending March 31, 2016. We will continue to revalue our outstanding warrants on a quarterly basis.

Interest expense decreased by $0.04 million during the three months ended March 31, 2017 compared to the comparable period in 2016. The decrease was attributable to the one-time amortization of a debt issuance cost that was recognized in the three months March 31, 2016. The average interest rate increased to 7.39% for the three months ended March 31, 2017 in comparison to 2.95% for the three months ended March 31, 2016. See Note 8 for additional information on the Employee Arbitration Settlement.

Discontinued Operations. In February 2016 we completed the disposition of our mining segment to Mt. Emmons Mining Company ("MEM"), including the Keystone Mine, the WTP and other related properties. A significant objective for completing the disposition was to improve future profitability through the elimination of the obligations to operate the WTP and mine holding costs, which are expected to result in estimated annual cash savings of $3.0 million. During the three months ended March 31, 2017 and 2016, we incurred operating expenses associated with the discontinued mining segment of $0 and $0.3 million, respectively.

In order to induce MEM to assume the Company's obligations to operate the WTP we issued additional consideration in the form of 50,000 shares of Series A Convertible Preferred Stock. For the three months ended March 31, 2016, we recorded the fair value of the Preferred Stock based on the initial liquidation preference of $2.0 million. Since the cash consideration paid by MEM for the Preferred Stock was $500, we recorded a charge to discontinued operations of approximately $2.0 million associated with the issuance. There were no charges associated with discontinued operations for the period ended March 31, 2017.

Non-GAAP Financial Measures- Adjusted EBITDAX

Adjusted EBITDAX represents income (loss) from continuing operations as further modified to eliminate impairments, depreciation, depletion and amortization, stock-based compensation expense, loss on investments and other non-operating income or expense, income taxes, unrealized derivative gains and losses, interest expense, exploration expense, and other items set forth in the table below. Adjusted EBITDAX excludes certain items that we believe affect the comparability of operating results and can exclude items that are generally one-time in nature or whose timing and/or amount cannot be reasonably estimated.

Adjusted EBITDAX is a non-GAAP measure that is presented because we believe it provides useful additional information to investors and analysts as a performance measure. In addition, adjusted EBITDAX is widely used by professional research analysts and others in the valuation, comparison, and investment recommendations of companies in the oil and gas exploration and production industry, and many investors use the published research of industry research analysts in making investment decisions. Adjusted EBITDAX should not be considered in isolation or as a substitute for net income (loss), income (loss) from operations, net cash provided by operating activities, or profitability or liquidity measures prepared under GAAP. Because adjusted EBITDAX excludes some, but not all items that affect net income (loss) and may vary among companies, the adjusted EBITDAX amounts presented may not be comparable to similar metrics of other companies. Our wholly-owned subsidiary, Energy One LLC, is also subject to a debt to adjusted EBITDAX ratio as one of the financial covenants under its Credit Facility and the calculation for purposes of the Credit Facility differs from our financial reporting definition.

The following table provides reconciliations of income (loss) from continuing operations to adjusted EBITDAX for the three months ended March 31, 2017 and 2016:

	2017	2016
Loss from continuing operations (GAAP)	$ (740)	$ (8,275)
Impairment of oil and gas properties	-	6,957
Depreciation, depletion and amortization	304	818
Unrealized loss on oil price risk derivatives	-	573
Unrealized gain on marketable equity securities	-	(9)
Stock-based compensation	106	34
Warrant fair value adjustment (gain) loss	(340)	-
Interest expense	125	162
Adjusted EBITDAX (Non-GAAP)	$ (545)	$ 260

Liquidity and Capital Resources

The following table sets forth certain measures of our liquidity as of March 31, 2017 and December 31, 2016:

	2017	2016	Change
Cash and equivalents	$ 2,164	$ 2,518	$ (354)
Working capital deficit (1)	(6,838)	(6,043)	(795)
Total assets	16,325	16,767	(442)
Outstanding debt under Credit Facility	6,000	6,000	-
Borrowing base under Credit Facility	6,000	6,000	-
Total shareholders' equity	3,038	3,758	(720)
Select Ratios			
Current ratio (2)	0.41 to 1.00	0.45 to 1.00	
Debt to equity ratio (3)	1.97 to 1.00	1.59 to 1.00	

(1) Working capital deficit is computed by subtracting total current liabilities from total current assets.
(2) The current ratio is computed by dividing total current assets by total current liabilities.
(3) The debt to equity ratio is computed by dividing total debt by total shareholders’ equity.

As of March 31, 2017, we have a working capital deficit of $6.8 million compared to a working capital deficit of $6.0 million as of December 31, 2016, an increase of $0.7 million. This increase was primarily attributable to a reduction in cash by $0.4 million, primarily driven by an increase in professional service fees, and an increase in payables to operators of $0.3 million, and an accrual for the settlement of the Employee Arbitration (See Note 7 Commitments and Contingencies).

As of March 31, 2017, Energy One and the Company were not in compliance with any of the financial covenants under its credit facility. Because the Company projects that it is unlikely that Energy One will regain compliance with all of the financial covenants before the July 30, 2017 maturity date, outstanding borrowings of $6.0 million are presented as a current liability in the accompanying consolidated balance sheet as of March 31, 2017.

On May 2, 2017, the credit facility between U.S. Energy Corp.'s wholly-owned subsidiary, Energy One and Wells Fargo was sold, assigned and transferred to APEG Energy II, L.P. ("APEG"). APEG purchased and assumed all of Wells Fargo's rights and obligations as the lender to Energy One under the credit facility. Concurrently, U.S. Energy Corp., Energy One and APEG entered into a Limited Forbearance Agreement dated May 2, 2017. The Company believes that the Forbearance Agreement will provide the parties sufficient time to work toward a long-term solution that enables the Company to execute its operational strategy and ensure value for existing shareholders.

The credit facility requires the Company's compliance with certain restricted financial covenants. The Company previously violated the financial ratio covenants for the fiscal quarters ended September 30, 2016 and December 31, 2016, which constituted an event of default under the credit agreement, and the violation of said covenants has continued in 2017. Subject to continued performance and compliance by the Company and Energy One with the terms and conditions of the Forbearance Agreement and credit facility, APEG has agreed not to exercise its rights and remedies arising as a result of certain existing and prospective events of default under the credit facility until July 30, 2017. Commencing on May 2, 2017, interest shall accrue on the outstanding principal balance of the loans under the credit facility at a rate of 8.75% per annum. In the event of default under the Forbearance Agreement, the forbearance period will terminate immediately and, without further notice or opportunity to cure, APEG will be entitled to exercise all of its rights and remedies under the credit facility and Forbearance Agreement, including acceleration of the debt and foreclosure. For additional information please see the 8-K filed by the Company on May 8, 2017.

During 2015 and 2014, we received significant overpayments due to an operator's failure to timely recognize the payout implications of our joint operating agreements. During the second quarter of 2015, the operator corrected its records and has elected to begin withholding the net revenues from all of our wells that it operates to recover these overpayments. As of March 31, 2017, the balance of the overpayment was approximately $2.9 million. Based on the oil and gas prices and costs used in the Company's reserve report as of March 31, 2017, this liability is not expected to be fully settled until the first quarter of 2020, but under higher pricing scenarios we expect the entire liability will be repaid sooner. The aggregate balances are presented as current liabilities in our consolidated balance sheets.

We believe certain operators have failed to allocate our share of non-consent ownership interests which results in contingent liabilities to the extent we have not been billed for our proportionate share of such interests, and contingent assets to the extent that we have not received our share of the net revenues. We record net contingent liabilities for the obligations that we believe are probable which amounted to $1.4 million as of March 31, 2017. The ultimate resolution of these uncertainties about our working interests and net revenue interests can extend over a long period of time and we cannot provide any assurance that these matters will be resolved within the next year.

As of March 31, 2017, we had cash and equivalents of $2.2 million, and we expect to maintain cash balances in this range for some time. We also expect potential investors and lenders will find our singular industry focus, combined with attractive producing properties and a low-cost overhead structure to be an attractive vehicle to partner with the Company during this continued industry downturn and low commodity price environment. However, there can be no assurance that we will be able to complete future transactions on acceptable terms or at all.

Additionally, our long-term strategy is to acquire additional oil and gas properties at attractive prices. Our ability to finance our capital expenditure budgets for 2017 and 2018 and our ability to acquire additional producing properties is contingent upon our ability to obtain alternative financing to our Credit Facility and this alternative financing will need to provide for borrowing capacity substantially greater than our Credit Facility.

If we have unanticipated needs for financing in 2017, alternatives that we will consider if necessary include selling or joint venturing an interest in some of our oil and gas assets, selling our real estate assets in Wyoming, selling our marketable equity securities, issuing shares of our common stock for cash or as consideration for acquisitions, and other alternatives, as we determine how to best fund our capital programs and meet our financial obligations.

Our capital expenditure plan and our ability to obtain sufficient funding to make anticipated capital expenditures and satisfy our financial obligations are subject to numerous risks and uncertainties, including the risk of continued low commodity prices or further reductions in those prices, the risk that breaches of covenants in our Credit Facility will not be waived and will result in liquidation, bankruptcy or similar proceedings, the risk that we will be unable to enter into additional financing arrangements on acceptable terms or at all, and numerous other risks, including those discussed in *Risk Factors* in our 2016 Annual Report on Form 10-K.

Cash Flows

The following table summarizes our cash flows for the three months ended March 31, 2017 and 2016 (in thousands):

	2017	2016	Change
Net cash provided by (used in):			
Operating activities	$ (333)	$ (1,106)	$ 773
Investing activities	(21)	(1)	(20)
Financing activities	-	1	(1)
Discontinued operations	-	(327)	327

Operating Activities. Cash used in operating activities for the three months ended March 31, 2017 was $0.3 million as compared to cash used by operated activities $1.1 million for the comparable period in 2016, an improvement of $0.8 million. The improvement is primarily attributed to severance agreements with previous employees being paid in the period ended March 31, 2016.

Investing Activities. Cash used in investing activities for the three months ended March 31, 2017 was $0.02 million as compared to cash used in investing activities of $0.01 million for the comparable period in 2016. The primary use of cash in our investing activities for 2017 was for capital workovers for our oil and gas drilling activities.

Financing Activities. For the three months ended March 31, 2017, we had no cash flow from financing compared to March 31, 2016 of a nominal amount received for the issuance of Series A Convertible Preferred Stock.

Discontinued Operations. We had no cash used for discontinued operations for the three months ended of March 31, 2017. Cash used in discontinued operations was $0.3 million for the three months ended March 31, 2016.

Off-balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

We evaluate our transactions to determine if any variable interest entities exist. If it is determined that we are the primary beneficiary of a variable interest entity, that entity will be consolidated in our consolidated financial statements. We have not been involved in any unconsolidated SPE transactions during the periods covered by this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide the information under this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of our quarter ended March 31, 2017, our Chief Executive Officer and Principal Financial Officer (both roles are currently held by the same individual) determined that our controls were not adequate due to a vacancy in certain accounting and finance consulting positions that the Company has historically utilized to implement the Company's review of key controls in a timely manner. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Accordingly, based on this material weakness, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this Quarterly Report on Form 10-Q, March 31, 2017 as it relates to the timely implementation of the Company's review of key controls. The Company has addressed this weakness by filling the consulting vacancy with professionals with experience in implementing a full review of key controls on an ongoing basis.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended March 31, 2017, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth above in Note 7 to the Financial Statements as to the Willerson matter and an employment claim, there have been no material changes from the legal proceedings as previously disclosed in Item 3 of our 2016 Annual Report on Form 10-K.

Item 1A.   Risk Factors.

As a smaller reporting company, we are not required to provide the information under this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits

3.1*	By-laws of U.S. Energy Corp. as amended and restated
10.1*	Limited Forbearance Agreement dated May 2, 2017 between U.S. Energy Corp., Energy One LLC and APEG Energy II, L.P.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2*	Certification of principal financial officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1*†	Certification under Rule 13a-14(b) of Chief Executive Officer and principal financial officer
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

* Filed herewith.
† In accordance with SEC Release 33-8238, Exhibit 32.1 is being furnished and not filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

U.S. ENERGY CORP. (Registrant)

Date: May 19, 2017

By: /s/ David A. Veltri
DAVID A. VELTRI, Chief Executive Officer

Exhibit 3.1

U.S. ENERGY CORP.

BYLAWS

AS ADOPTED ON APRIL 22, 1992
AND AMENDED (AND READOPTED IN THEIR ENTIRETY ON OCTOBER 14, 2005)
EXCEPT THAT THE INCREASE IN THE NUMBER OF DIRECTORS TO SEVEN
IS EFFECTIVE AS OF DECEMBER 13, 1996;
FURTHER AMENDED (AND READOPTED IN THEIR ENTIRETY AS OF
JUNE 22, 2007) TO CONFORM SECTION 5 OF ARTICLE II TO WYOMING LAW;
FURTHER AMENDED (AND READOPTED IN THEIR ENTIRETY) AS OF NOVEMBER 6, 2007 TO ALLOW FOR BOOK-ENTRY OWNERSHIP OF SHARES; FURTHER AMENDED (AND READOPTED IN THEIR ENTIRETY) AS OF MARCH 7, 2008 TO AMEND PROCEDURES FOR SHAREHOLDER REQUESTS FOR CONSIDERATION OF PERSONS TO BE NOMINATED AS DIRECTORS; FURTHER AMENDED (AND READOPTED IN THEIR ENTIRETY) AS OF MARCH 17, 2009 TO ADD AN ADVANCE NOTICE PROVISION FOR MATTERS TO BE CONSIDERED AT MEETINGS OF SHAREHOLDERS; FURTHER AMENDED (AND READOPTED IN THEIR ENTIRETY) AS OF APRIL 17, 2009 TO LIMIT THE TERM OF INDEPENDENT DIRECTORS; AND FURTHER AMENDED (AND READOPTED IN THEIR ENTIRETY) AS OF APRIL 3, 2014; FURTHER AMENDED (AND READOPTED IN THEIR ENTIRETY) AS OF APRIL 27, 2017 TO DECREASE THE NUMBER OF DIRECTORS TO FIVE.

ARTICLE I
OFFICES

The principal office of U.S. Energy Corp. (the "Corporation") shall be located in the City of Riverton in the state of incorporation. The Corporation may have such other offices or relocate its principal office either within or without the state of incorporation as the Board of Directors of the Corporation (the "Board") may designate or as the business of the Corporation may require.

The registered office of the Corporation in the Articles of Incorporation (the "Articles") need not be identical with the principal office in the state of incorporation.

ARTICLE II
SHAREHOLDERS

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held each year on a date and at a time and place to be determined by resolution of the Board, for the purpose of electing directors and for the purpose of voting upon such matters as properly may come before the meeting in accordance with these Bylaws. The nomination (which shall be conducted at the annual meeting) of persons for election to the Board of Directors shall be considered an integral part of the purpose of electing directors at the annual meeting. If the election of directors shall not be held on the day designated for the annual meeting of the shareholders, or at any adjournment thereof, the Board shall cause the election to be held at a special meeting of the shareholders.

Section 2. Special Meetings. Special meetings of the shareholders for any purpose, unless otherwise provided for by statute, may be called by the President or by the Board. The President shall call a special meeting upon receipt by the Corporation's Secretary of one or more written demands of the holders of fifty percent (50%) of all the votes entitled to be cast at the proposed special meeting, signed and dated, by such holders, either manually or in facsimile, and setting forth the purposes for which it is to be held. Provided, however, that the Board has the discretion to require that the issues for which a special meeting is demanded by shareholders holding fifty percent (50%) of the votes entitled to be cast at the proposed special meeting be considered instead at the next annual meeting if the demand for the special meeting is made within 180 days of the next annual meeting. If a purpose of a special meeting is to elect directors to the Board, the nomination (which shall be conducted at the special meeting) of persons for election to the Board of Directors shall be considered an integral part of the purpose of electing directors at the special meeting.

Section 3. Place of Meeting. The Board may designate any place, either within or without the state of incorporation, as the place of meeting for any annual or special meeting. If no designation is made, the place of meeting shall be the registered office of the Corporation in the state of incorporation.

Section 4. Notice of Meeting. Written notice, stating the place, day and hour of the meeting shall be delivered, only by the Corporation, no fewer than ten (10) and no more than sixty (60) days before the meeting date. A notice of a special meeting, if demanded by the holders of at least fifty percent (50%) of all the votes entitled to be cast at the special meeting, shall state the purpose or purposes for which that meeting is called, and that notice shall be delivered, only by the Corporation, and then only if the requirements of Section 13 have been satisfied, not more than sixty (60) days before the special meeting date. Additionally, the period of time between the Corporations' receipt of a special meeting demand, and the sending of notice thereof (if the requirements of Section 13 have been satisfied), shall be sufficient to allow the proper operation of Section 13. If an annual or special meeting is adjourned to a different time or place, notice need not be given of the new date, time or place if the new date, time or place is announced at the meeting before adjournment; provided however, notice of the adjourned meeting shall be given to persons who are shareholders as of any new record date that is fixed with respect to the adjournment.

Except for a shareholder proposal which has been properly brought before an annual or special meeting pursuant to Section 13, no matter which is not within the purposes or purposes specifically described in the notice of a meeting of shareholders, whether an annual or a special meeting, shall be conducted at the meeting, nor shall any action be taken by the shareholders on any other matter unless it is specifically described as a purpose in the notice for the meeting.

Section 5. Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, entitled to demand a special shareholders' meeting, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board may fix in advance a date (the "Record Date") for any such determination of shareholders, which date shall be not more than 60 days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no Record Date is fixed by the Board, the Record Date for any such purpose shall be ten days before the date of such meeting or action. The Record Date determined for the purpose of ascertaining the shareholders entitled to notice of or to vote at a meeting may not be less than ten days prior to the meeting.

When a Record Date has been determined for the purpose of a meeting, the determination shall apply to any adjournment thereof, except the original record date shall only be effective with respect to an adjournment or adjournments held within one hundred twenty (120) days after the date fixed at the original meeting.

Section 6. Quorum.

(a) A majority of the votes entitled to be cast on a matter represented in person or by proxy shall constitute a quorum at a meeting of shareholders with respect to such matters. If less than a quorum of the outstanding shares are represented at a meeting, such meeting may be adjourned without further notice for a period which may be determined at the time such meeting is adjourned. At such adjourned meeting, at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting, and for any adjournment of that meeting unless a new record date is or shall be set for that adjourned meeting.

(b) Shareholders present or represented by proxy at an annual or special meeting at which a quorum is not present may take only the following actions:

(i) Ratify or reject the independent auditors selected by the Board.

(ii) With the consent of the officer presiding at the meeting, receive or hear any reports on the affairs of the Corporation that may be presented.

(iii) Within the constraints of the time allowed on the agenda, ask questions concerning the affairs of the Corporation of any officer or Board member present.

(iv) Adjourn or recess the meeting to allow time to assemble a quorum, but the shareholders may not adjourn or recess to a different city and the total of all the adjournments and recesses may not exceed two business days without the consent of the Board.

(v) If a quorum is not present, the shareholders may adjourn the meeting without an appointed date for resumption, provided the motion to adjourn without an appointed date for resumption shall not be in order until at least two hours have passed since the time specified for the start of the meeting and the time at which the meeting was called to order.

(c) If an annual meeting is adjourned without an appointed date for resumption without achieving a quorum, the requirement of the Wyoming Business Corporation Act section 17-16-701 (or its successor provision) shall have been satisfied. The Board may call a second annual meeting to take the place of the one adjourned without a quorum, but the Board is not obligated to do so.

(d) If a special meeting is adjourned without an appointed date for resumption without achieving a quorum, or without achieving the quorum necessary to consider completely the purpose or purposes for which the meeting was called, the Board may call another special meeting, but is not obligated to do so. The remedy of a shareholder aggrieved by a failure of the Board to call another special meeting shall be to follow the procedures necessary to demand that a new special meeting be called.

(e) If different quorums are required for different purposes at a meeting, the absence of a quorum on one purpose shall not affect the ability of the shareholders at the meeting to act on other purposes where a quorum is present.

Section 7. Voting of Shares. Each outstanding share of common stock entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders.

Section 8. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed, either manually or in facsimile, by the shareholder or by his duly authorized attorney-in-fact. Such appointment of a proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No appointment of a proxy shall be valid after 11 months from the date of its execution, unless a longer period is expressly provided in the appointment form. The proxies named in the Corporation's proxy statement shall have discretionary authority to vote at all meetings of shareholders as provided Rule 14a-4(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as that rule is currently in effect or as it subsequently may be amended or superseded.

Section 9. Voting of Shares by Certain Holders. Shares standing in the name of another corporation may be voted by agent or proxy as the bylaws of such corporation may prescribe or, in the absence of such provision, as the Board of Directors of such corporation may determine as evidenced by a duly certified copy of either the bylaws or corporate resolution.

Neither treasury shares, shares of its own stock held by the Corporation in a fiduciary capacity nor shares held by another corporation, if the majority of the shares entitled to vote for the election of directors of such other corporation is held by the Corporation (except to the extent permitted by the articles of incorporation and Wyoming law), shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

Shares held by an administrator, executor, guardian or conservator may be voted by such fiduciary, either in person or by proxy, without a transfer of such shares into the name of such fiduciary. Shares standing in the name of a trustee may be voted by such trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by a trustee without a transfer of the shares into such trust.

Shares standing in the name of a receiver may be voted by such receiver and shares held by or under the control of a receiver may be voted by such receiver, without the transfer thereof into the name of such receiver if authority so to do is contained in an appropriate order of the court by which the receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred on the books of the Corporation into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Section 10. Cumulative Voting. Cumulative voting shall be permitted in the election of directors, unless otherwise provided by the Articles and the laws of the state of incorporation.

Section 11. Inspectors and Shareholder Lists.

Inspectors. The Board may, in advance of any meeting of shareholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If the inspectors shall not be so appointed or if any of them shall fail to appear or act, the chairman of the meeting may appoint inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the chairman of the meeting or any shareholder entitled to vote thereat, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them.

Shareholder Lists.

(a) Access to the list of shareholders shall be restricted to a period beginning two days after the date of the notice of the shareholders' meeting for which the list was prepared, or 10 days before the date of the meeting, whichever is less.

(b) The Board may deny to shareholders the right to copy the list of shareholders before the meeting, provided that:

(i) Arrangements are made for an independent firm to provide to shareholders any information any shareholder wants to send them relative to the matters to be considered at the meeting, provided the shareholder pays for the mailing and provides the material in a timely fashion;

(ii) The list is made available at the shareholder's expense to any shareholder at or after the meeting who is bringing a legal challenge to the right of any other shareholder to vote at the meeting; and

(iii) The list is available for inspection (but not copying) as provided by (a) above, and at the meeting. The making of handwritten copies by the shareholder or his attorney of the names and addresses of individual shareholders shall not be construed as copying within the meaning of subsection (a).

(c) The Board may take any other steps it deems reasonable or necessary to prevent the use of its shareholder lists for purposes not related to issues under consideration at a shareholder meeting.

Section 12. [Reserved]

Section 13. Advance Notice Requirement for Shareholder Proposals. For any matter to be considered as a proper purpose for consideration by the shareholders at an annual or special meeting, which is not specifically stated as a purpose in the Corporation's notice of the meeting (such other matter referred to in this section as an "Additional Purpose"), each of the conditions set forth below must be satisfied. For purposes of this Section 13 (and Article II in general), a proposal to nominate persons for election to the Board shall be deemed to constitute an Additional Purpose.

The following conditions also shall apply to any motion which the requesting shareholder intends to make from the floor of the meeting to nominate a person for election to the Board, where such person has not been included as a director candidate in the Corporation's notice of the meeting.

(i) At least 90 calendar days before the date of the meeting of the Corporation's shareholders, the requesting shareholder shall give written notice to the Secretary of the Corporation, providing:

(a) a brief description of the Additional Purpose which the shareholder wishes to present to the meeting;

(b) the reason why the Additional Purpose is sought to be presented at the meeting;

(c) a statement of any material interest which the requesting shareholder or its beneficial owners have in the Additional Purpose;

(d) as to the requesting shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal to nominate or another proposal is made, a statement of (1) the requesting shareholder's and such beneficial owner's name and address, (2) the number of shares of the Corporation owned of record or beneficially by the requesting shareholder and such beneficial owner, (3) the name of each nominee holder of shares owned beneficially but not of record by the requesting shareholder and the number of shares of stock held by each such nominee holder, and (4) whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of the requesting shareholder with respect to stock of the Corporation and whether any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock) has been made by or on behalf of the requesting shareholder, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk of stock price changes for, such shareholder or to increase or decrease the voting power or pecuniary or economic interest of the requesting shareholder with respect to stock of the Corporation;

(e) a description of all agreements, arrangements or understandings between the requesting shareholder and any other person or persons (including their names) in connection with the proposal of the Additional Purpose;

(f) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination and a representation whether the shareholder or the beneficial owner, if any, intends or is part of a group which intends to solicit proxies from other shareholders in support of such nomination; and

(g) the text of any amendment to the Articles of Incorporation of the Corporation, or these Bylaws, which would be part of the Additional Purpose.

(ii) Notwithstanding a requesting shareholder’s compliance with the provisions of paragraph (i) above, an Additional Purpose shall not be deemed properly presented to the meeting if the full Board of Directors, by majority vote, determines that allowing the Additional Purpose to be considered by the shareholders at the meeting would be prohibited by the Corporation’s Articles of Incorporation, other provisions of these Bylaws then in effect, Wyoming law, or the Federal securities laws.

ARTICLE III
BOARD OF DIRECTORS

Section 1. General Powers. The Board shall manage and direct the business and affairs of the Corporation in such manner as it sees fit. Directors shall discharge their duties in such capacity in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner reasonably believed to be in or at least not opposed to the best interests of the Corporation. For the purposes of the preceding sentence, a director, in determining what is reasonably believed to be in or not opposed to the best interests of the Corporation, shall consider the interests of the Corporation's shareholders, and at the director's discretion may consider the interests of the Corporation's employees, suppliers, creditors and customers, the economy of the state and nation, the impact of any action upon the communities in or near which the Corporation's facilities or operations are located, the long-term interests of the Corporation and its shareholders, including the possibility that those interests may be best served by the continued independence of the Corporation and any other factors relevant to preserving public or community interests. In addition to the powers and authorities expressly conferred upon it, the Board may do all lawful acts which are not directed to be done by the shareholders by statute, by the Articles or by these Bylaws.

Section 2. Number, Tenure and Qualifications. The number of directors of the Corporation shall be five. Subject to the provision in the Articles of Incorporation for a staggered Board, each director shall hold office until the next annual meeting of shareholders and until a successor director has been elected and qualified, or until the death, resignation or removal of such director, unless their terms are staggered under W.S. 17-16-806. The term of each independent director (as defined in the rules and regulations of the Nasdaq Stock Market and the Securities and Exchange Commission) shall be two terms, unless the Chairman of the Board of Directors specifically recommends and the full Board approves one additional term for such independent director. Directors need not be residents of the state of incorporation or shareholders of the Corporation.

Section 3. Regular Meetings. A regular meeting of the Board shall be held, without other notice than this Bylaw, immediately after and at the same place as an annual meeting of shareholders. The Board may provide, by resolution, the time and place, either within or without the state of incorporation, for the holding of additional regular meetings, without other notice than such resolution.

Section 4. Special Meetings. Special meetings of the Board may be called by or at the request of the Chief Executive Officer, President or any three directors. Meetings called by or at the request of the Chief Executive Officer or President may be called for any place, either within or without the state of incorporation. Meetings called by three directors shall be held at the registered office of the Corporation in the state of incorporation.

Section 5. Telephonic Meetings. Members of the Board and committees thereof may participate and be deemed present at a meeting by means of conference telephone or any other means of communications equipment by which all persons participating may communicate with each other during the meeting.

Section 6. Notice. Notice of any special meeting of the Board shall be given by telephone, e-mail, facsimile or written notice sent by mail. Notice shall be delivered at least two days prior to the meeting if the meeting is called by or at the request of the President if given by telephone or by written notice. Written or telephonic notice of a meeting called by three directors shall be delivered personally or by mail to each director at such director's business or home address at least five days prior to the meeting.

If notice of a directors' meeting is given by mail or e-mail, such notice shall be deemed to be delivered when deposited in the United States mail so addressed with postage thereon prepaid or at the time sent such e-mail is sent.

Any director may waive notice of any meeting and except as provided in the following sentence, such waver shall be in writing, signed either manually or in facsimile, and filed with the minutes or corporate records. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting.

Section 7. Quorum. A majority of the total membership of the Board shall constitute a quorum for the transaction of business at any meeting of the Board, but if a quorum shall not be present at any meeting or adjournment thereof, a majority of the directors present may adjourn the meeting without further notice.

Section 8. Action by Consent of All Directors. Any action required to be taken, or which may be taken at a meeting of the Board may be taken without a meeting, if the action is taken by all members of the Board, evidenced by one or more written consents describing the action taken, signed, either manually or in facsimile, by each director, and included in the minutes or filed with the corporate records reflecting the action taken. Actions taken by written unanimous consent are effective when the last director signs the consent, unless the consent specifies a different effective date.

Section 9. Manner of Acting. The act of a majority of the directors present at a meeting at which a quorum is present shall be an act of the Board.

The order of business at any regular or special meeting of the Board shall be:

1. Record of those present.
2. Secretary's proof of notice of meeting, if notice is not waived.
3. Reading and disposal of unapproved minutes, if any.
4. Reports of officer.
5. Unfinished business, if any.
6. New Business.
7. Adjournment.

Section 10. Vacancies. Any vacancy occurring in the Board by reason of an increase in the number of directors specified in these Bylaws, or for any other reason, may be filled by the affirmative vote of a majority of the directors voting on such matter at a duly convened meeting, or in the event that the directors remaining in office constitute fewer than a quorum of the Board, by the affirmative vote of a majority of all directors remaining in office.

Section 11. Compensation. By resolution of the Board, the directors may be paid their expenses, if any, for attendance at each meeting of the Board and may be paid a fixed sum for attendance at each meeting of the Board and a stated salary or other compensation as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor or from receiving compensation for any extraordinary or unusual services as a director.

Section 12. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board at which action on any corporate matter is taken shall be deemed to have assented to an action taken at such meeting unless the director objects at the beginning of the meeting or promptly upon arrival to holding the meeting or transacting business at the meeting; the dissent of such director is entered in the minutes of the meeting; or the director delivers written notice of such dissent or abstention to the presiding officer of the meeting before its adjournment or to the Corporation immediately after adjournment of the meeting. Such right to dissent is not available to a director who voted in favor of such action.

Section 13. Executive or Other Committees. The Board, by resolution adopted by the greater of a majority of the directors in office when the action is taken or the number of directors required by the Articles or Bylaws to take action under Wyoming Statute Section 17-16-824, may create one or more committees and appoint members of the Board to serve on them. Each committee shall have one (1) or more members who serve at the pleasure of the Board. Any committee designated as an executive committee may exercise the authority of the Board under Wyoming Statute Section 17-16-801, and shall have all of the authority of the Board, but unless specifically authorized by the Board no such committee shall have the authority of the Board in reference to authorizing distributions, approving or proposing to shareholders action that the Wyoming Business Corporation Act requires be approved by shareholders, filling vacancies on the Board or any of its committees, amending the Articles pursuant to Wyoming Statute Section 17-16-1002, adopting, amending or repealing the Bylaws, a plan of merger not requiring shareholder approval, authorizing or approving a reacquisition of shares (except according to a formula method prescribed by the Board), or determining the designation and relative rights, preferences and limitations of a class or series of shares (except that the Board may authorize a committee or a senior executive officer of the Corporation to do so within limits specifically prescribed by the Board). The designation of such committees and the delegation thereto of authority shall not operate to relieve the Board, or any member thereof, of any responsibility imposed by law.

Any action required to be taken, or which may be taken at a meeting of a committee designated in accordance with this Section of the Bylaws, may be taken without a meeting, if the action is taken by all members of the Committee, evidenced by one or more written consents, setting forth the action so taken, signed either manually or in facsimile, by each Committee member and filed with the Corporation records reflecting the transaction. Such action by written consent of all entitled to vote shall have the same force and effect as a unanimous vote of such persons.

Section 14. Resignation of Officers or Directors. Any director or officer may resign at any time by submitting a resignation in writing. Such resignation takes effect from the time of its receipt by the Corporation unless a date or time is fixed in the resignation, in which case it will take effect from that time. Acceptance of the resignation shall not be required to make it effective.

Section 15. Removal. A director may be removed by shareholders, only for cause pursuant to the Articles of Incorporation, at a duly convened meeting called for the purpose of such removal. The notice for any meeting at which it is proposed that a director be removed must specifically state that such is a purpose of the meeting.

ARTICLE IV
OFFICERS

Section 1. Number. The officers of the Corporation shall be a Chief Executive Officer, President, a Secretary and a Treasurer. For so long as the Corporation has a class of stock registered with the Securities and Exchange Commission under Section 12 of the Securities Exchange Act of 1934, the Corporation also shall have a Chief Financial Officer. All of the preceding shall be executive officers and shall be elected by the Board. One or more vice Presidents shall be executive officers if the Board so determines by resolution. Such other officers and assistant officers, as may be deemed necessary, shall be designated administrative assistant officers and may be appointed and removed in accordance with Article IV, Section 11, hereof. Any two or more offices may be held by the same person.

Section 2. Election and Term of Office. The executive officers of the Corporation shall be elected annually by the Board at its first meeting held after each annual meeting of the shareholders or at a convenient time soon thereafter. Each executive officer shall hold office until the resignation of such officer or a successor shall be duly elected and qualified, until the death of such executive officer, or until removal of such officer in the manner herein provided.

Section 3. Removal. Any officer or agent elected or appointed by the Board may be removed by the Board whenever, in its judgment, the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Vacancies. A vacancy in any executive office because of death, resignation, removal, disqualification or otherwise may be filled by the Board for the unexpired portion of the term.

Section 5. Chairman of the Board. The Chief Executive Officer shall also serve as the Chairman of the Board of Directors, unless otherwise determined by the Board. The Chairman shall preside at all meetings of the shareholders and of the Board.

Section 6. Chairman of the Board/Chief Executive Officer. A Chairman of the Board may also be elected as Chief Executive Officer, in which case such Chairman shall perform the duties set forth in Section 7 below.

Section 7. The Chief Executive Officer and the President. The Chief Executive Officer subject to the control of the Board shall be in general charge of the affairs of the Corporation. He shall sign, with the other officers of the Corporation as appropriate and as authorized by the Board generally, certificates for shares of the Corporation, deeds, mortgages, bonds, contracts or other instruments whose execution the Board has authorized, except in cases where the signing and execution thereof shall be expressly delegated by the Board or Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed. The President shall perform all duties incident to that office, and shall serve also serve as Chief Operating Officer of the Corporation, as determined by the Board from time to time. If the Chief Executive Officer should be unable to serve, the President shall execute such of his duties as may be appropriate and approved generally by the Board, pending return of the Chief Executive Officer to active service.

Section 8. The Vice President. From time to time, the Board may appoint one or more Vice-Presidents, with such duties as may be assigned to him or them.

Section 9. The Secretary. Unless the Board otherwise directs, the Secretary shall keep the minutes of the shareholders' and directors' meetings in one or more books provided for that purpose. The Secretary shall also see that all notices are duly given in accordance with the law and the provisions of the Bylaws; be custodian of the corporate records and the seal of the Corporation: affix the seal or direct its affixing to all documents, the execution of which on behalf of the Corporation is duly authorized; keep a list of the address of each shareholder; sign with the Chief Executive Officer certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board; have charge of the stock transfer books of the Corporation; and perform all duties incident to the office of Secretary and such other duties as may be assigned by the Chief Executive Officer or the President or by the Board.

Section 10. The Treasurer and Chief Financial Officer. Unless otherwise determined by the Board, the offices of Treasurer and Chief Financial Officer shall be served by the same person. Neither the Treasurer nor the Chief Financial Officer shall be required to shall give a bond for the faithful discharge of their duties. The Treasurer/Chief Financial Officer shall have charge and custody of and be responsible for all funds and securities of the Corporation, receive and give receipts for monies due and payable to the Corporation from any source whatsoever, deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of the Bylaws, and perform all the duties as from time to time may be assigned by the Chief Executive Officer, the President, or the Board. Additionally, the Treasurer/Chief Financial Officer shall have the duties associated with the chief financial officer position under the Federal securities laws.

Section 11. Assistant Officers. The Board may elect (or delegate to the Chairman or to the President the right to appoint) such other officers and agents as may be necessary or desirable for the business of the Corporation. Such other officers shall include one or more assistant secretaries and treasurers who shall have the power and authority to act in place of the officer to whom they are elected or appointed as an assistant in the event of the officer's inability or unavailability to act in his official capacity.

Section 12. Salaries. The salaries of the executive officers shall be fixed by the Board and no officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director of the Corporation. The salaries of the assistant officers shall be fixed by the Chief Executive Officer.

Section 13. Standards of Conduct and Discharge of Duties. Executive officers of the Corporation shall discharge their duties in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances and in a manner reasonably believed to be in or at least not opposed to the best interests of the Corporation. For the purposes of determining what is reasonably believed to be in or not opposed to the best interests of the Corporation, each executive officer shall consider the interests of the Corporation's shareholders and in such officer's discretion, may consider the interests of the Corporation's employees, suppliers, creditors and customers, the economy of the state and nation, the impact of any action upon the communities in or near which the Corporation's facilities or operations are located, the long-term interests of the Corporation and its shareholders, including the possibility that those interests may be best served by the independence of the Corporation, and any other factors relevant to promoting or preserving public or community interests.

ARTICLE V
CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract on behalf of the Corporation and such authority may be general or confined to specific instances.

Section 2. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidence of indebtedness, issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

Section 4. Loans to Directors. Except as permitted by Wyoming Statutes Section 17-16-832(c), and then only if allowed under Federal law, the Corporation may not lend money to or guarantee the obligations of a director of the Corporation unless the particular loan or guarantee is approved by a majority of the votes represented by the outstanding voting shares of all classes voting as a single voting group (except the shares owned or voted under the control of the benefited director) or by the Board if it determines that the loan or guarantee benefits the Corporation and it either approves the specific loan or guarantee or a general plan authorizing loans and guarantees.

ARTICLE VI
CERTIFICATES FOR SECURITIES
AND THEIR TRANSFER

Section 1. Certificates for Securities. Certificates representing securities of the Corporation (the "Securities") shall be in such form as shall be determined by the Board. Certificates for Securities shall state the name of the corporation, that it is organized under the laws of the State of Wyoming, the person to whom the Certificate is issued, and the number and class of shares and the designation of the series, if any, the Certificate represents. Each Certificate shall be signed by the Chief Executive Officer and by the Secretary. The signatures may be facsimiles.

A Certificate signed or impressed with the facsimile signature of an officer, who ceases by death, resignation or otherwise to be an officer of the Corporation before the certificate is delivered by the Corporation, is valid as though signed by a duly elected, qualified and authorized officer.

The name of the person to whom the Securities represented by a Certificate are issued, the number of Securities, and date of issue, shall be entered on the Security transfer books of the Corporation. All Certificates surrendered to the Corporation for transfer shall be canceled and no new Certificate shall be issued until the former Certificate for a like number of shares shall have been surrendered and canceled, except that, in case of a lost, destroyed or mutilated Certificate, a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board may prescribe.

This Section 1 shall not prohibit the Corporation from establishing a direct registration program for electronic registry of shares pursuant to the rules of the regulatory association with supervisory authority over the market on which the Corporation’s securities are traded.

Section 2. Transfer of Securities. Transfer of Securities shall be made only on the security transfer books of the Corporation by the holder of record thereof, by the legal representative of the holder who shall furnish proper evidence of authority to transfer, or by an attorney authorized by a power of attorney which was duly executed and filed with the Secretary of the Corporation and a surrender for cancellation of the certificate for such shares. The person in whose name Securities stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes. Provided, that if a direct registration program is established under Section 1 above, the procedures therefor shall not require submission of a paper certificate.

ARTICLE VII
FISCAL YEAR

The fiscal year of the Corporation shall be determined by resolution of the Board.

ARTICLE VIII
DIVIDENDS

The Board may declare, and the Corporation may pay in cash, stock or other property, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and its Articles.

ARTICLE IX
SEAL

The Board shall provide a corporate seal, circular in form, having inscribed thereon the corporate name, the state of incorporation and the word "Seal." The seal may be by facsimile, or engraved, embossed or printed.

ARTICLE X
WAIVER OF NOTICE

Whenever any notice is required to be given to any shareholder, director of the Corporation or member of a committee thereof under the provisions of these Bylaws or under the provisions of the Articles or under the provisions of the applicable laws of the state of incorporation, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before, at or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XI
INDEMNIFICATION

11.1 General. The Corporation shall indemnify to the fullest extent permitted by and in the manner permissible under the Wyoming Business Corporation Act, as amended from time to time (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), any person made, or threatened to be made, a party to any threatened, pending or completed action, suit, or proceeding, whether criminal, civil, administrative, or investigative, by reason of the fact that such person (a) is or was a director or officer of the Corporation or any predecessor of the Corporation or (b) served any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner, trustee, employee or agent at the request of the Corporation or any predecessor of the Corporation; provided, however, that except as provided in Section 11.4, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized in advance by the Board of Directors.

11.2 Advancement of Expenses. The right to indemnification conferred in this Article 11 shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the Corporation within twenty days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time; provided, however, that if the Wyoming Business Corporation Act requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking by or on behalf of such director or officer to repay all amounts so advanced if it shall ultimately be determined by a final judicial decision from which there is no right of appeal that such director or officer is not entitled to be indemnified under this Article 11 or otherwise.

11.3 Procedure for Indemnification. To obtain indemnification under this Article 11, a claimant shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this Section 11.3, a determination, if required by applicable law, with respect to the claimant's entitlement thereto shall be made as follows: (a) if requested by the claimant or if there are not at least two "qualified directors" (as defined in the Wyoming Business Corporation Act), by Independent Counsel (as hereinafter defined) to the extent permitted by law, or (b) by a majority vote of the qualified directors, even though less than a quorum, or by a majority vote of a committee of qualified directors designated by a majority vote of qualified directors, even though less than a quorum. If the determination cannot be made pursuant to the foregoing, the determination may be made in any other manner permitted under the Wyoming Business Corporation Act. If it is determined pursuant to this Section 11.3 that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

11.4 Certain Remedies. If a claim under Section 11.1 is not paid in full by the Corporation within thirty days after a written claim pursuant to Section 11.3 has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the reasonable expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the Corporation) that the claimant has not met the standard of conduct which makes it permissible under the Wyoming Business Corporation Act for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Wyoming Business Corporation Act nor an actual determination by the Corporation (including its Board of Directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

11.5 Binding Effect. If a determination shall have been made pursuant to Section 11.3 that the claimant is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to Section 11.4.

11.6 Validity of this Article. The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to Section 11.4 that the procedures and presumptions of this Article 11 are not valid, binding and enforceable and shall stipulate in such proceeding that the Corporation is bound by all the provisions of this Article 11.

11.7 Non-exclusivity, etc. The right to indemnification and to the advancement of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article 11 shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation, bylaws, agreement, vote of stockholders or qualified directors or otherwise. No repeal or modification of this Article 11 shall in any way diminish or adversely affect the rights of any present or former director or officer of the Corporation or any predecessor thereof hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

11.8 Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Wyoming Business Corporation Act.

11.9 Indemnification of Other Persons. The Corporation may grant rights to indemnification, and rights to the advancement by the Corporation of expenses incurred in defending any proceeding in advance of its final disposition, to any present or former employee or agent of the Corporation or any predecessor of the Corporation to the fullest extent of the provisions of this Article 11 with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

11.10 Definition. For purposes of this Article 11, “Independent Counsel” means a law firm, a member of a law firm, or an independent practitioner that is experienced in matters of corporation law and shall include any such person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the Corporation or the claimant in an action to determine the claimant’s rights under this Article 11. Independent Counsel shall be selected by the Board of Directors.

ARTICLE XII
AMENDMENTS

These Bylaws may be altered, amended, repealed or replaced by new bylaws by the Board at any regular or special meeting of the Board.

ARTICLE XIII
UNIFORMITY OF INTERPRETATION
AND SEVERABILITY

These Bylaws shall be so interpreted and construed as to conform to the Articles and the statutes of the state of incorporation or of any other state in which conformity may become necessary by reason of the qualification of the Corporation to do business in such foreign state, and where conflict between these Bylaws and the Articles or a statute has arisen or shall arise, the Bylaws shall be considered to be modified to the extent, but only to the extent, conformity shall require. If any Bylaw provision or its application shall be deemed invalid by reason of the said nonconformity, the remainder of the Bylaws shall remain operable in that the provisions set forth in the Bylaws are severable.

Exhibit 10.1

Execution Version

LIMITED FORBEARANCE AGREEMENT

This LIMITED FORBEARANCE AGREEMENT (this " **Agreement** "), dated as of May 2, 2017 (the " **Effective Date** "), is by and among Energy One, LLC, a Wyoming limited liability company (" **Borrower** "), U.S. Energy Corp., a Wyoming corporation and the parent of the Borrower (" **Guarantor** ," and together with Borrower, " **Obligors** "), the Lender (as defined below) party hereto, and APEG Energy II, L.P., a Texas limited partnership, as administrative agent (in such capacity, " **Administrative Agent** ") for Lender.

RECITALS:

A. **The Loan Documents** . Obligors are indebted to Lender and granted collateral security as evidenced by certain instruments, agreements and documents including, without limitation, the Amended and Restated Credit Agreement dated as of July 30, 2010 among Borrower, Administrative Agent, and the financial institution party thereto from time to time, as lender (" **Lender** "), as amended by that certain First Amendment to Credit Agreement dated April 10, 2012 and that certain Limited Waiver and Second Amendment to Credit Agreement dated July 23, 2013 and that certain Limited Waiver and Third Amendment to Credit Agreement dated July 15, 2015 and that certain Limited Waiver and Fourth Amendment to Credit Agreement dated August 11, 2016 (collectively, and as further amended, modified or supplemented, the " **Credit Agreement** "), and the other Loan Documents (as defined in the Credit Agreement); such indebtedness being secured by perfected, first priority security interests in and liens on substantially all current and future property of Obligors (the " **Collateral** ") as provided in the Security Instruments (as defined in the Credit Agreement).

B. **Guaranties** . All of the Secured Obligations (as defined in the Credit Agreement) have been unconditionally guaranteed by Guarantors pursuant to certain agreements and documents including, without limitation, the Guaranty and Collateral Agreement dated July 30, 2010, by Borrower and Guarantors in favor of the Administrative Agent, as amended by that certain First Amendment to Guaranty and Collateral Agreement dated April 10, 2012 and as supplemented by that certain Assumption Agreement and Supplement dated July 23, 2013 and as supplemented by that certain Assumption Agreement dated July 15, 2015, and as supplemented by that certain Assumption Agreement dated August 11, 2016 (collectively, and as amended, modified or supplemented, the " **Guaranties** ").

C. **Existing Defaults** . Obligors acknowledge that Events of Default under the Loan Documents have occurred and are continuing, and prospective Events of Default are anticipated to occur, each as more specifically described in Exhibit A attached hereto (the " **Specified Defaults** ").

D. **Forbearance Request by Borrower and Guarantors** . Obligors have requested that Administrative Agent and Lender forbear until July 30, 2017 from exercising their rights and remedies arising as a result of the occurrence of the Specified Defaults in order to allow Obligors sufficient time to improve their liquidity and business operations. Administrative Agent and the Lender party hereto are willing to grant such forbearance subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, representations, warranties and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENTS:

1. **Definitions** . Capitalized terms used and not otherwise defined herein shall have the same meanings as set forth in the Credit Agreement. In addition, the following terms, for the purposes of this Agreement, shall have the following meanings:

(a) " **Forbearance Period** " means the period commencing on the Effective Date and continuing through and including the Termination Date, unless earlier terminated pursuant to the terms and provisions of this Agreement.

(b) " **Material Contracts** " means any contract involving payments to or from any Obligor in an aggregate amount in excess of $1,000.00 excluding items that have been included in the Borrower's Cash Flow Forecasts per section 5(e), and without limitation, those listed on Exhibit B attached hereto.

(c) " **Net Cash Proceeds** " means, with respect to any incurrence of Debt or sale or disposition of (including Casualty Events affecting) Oil and Gas Properties, the cash proceeds of such incurrence, sale or disposition net of reasonable legal fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other customary fees and charges actually incurred in connection with such incurrence, sale or disposition and net of taxes paid or payable as a result of such incurrence, sale or disposition (after taking into account any available tax credit or deduction and any tax sharing arrangements).

(d) " **Termination Date** " means 5:00 p.m. (Houston, Texas Time) on July 30, 2017.

(e) " **Termination Event** " means the occurrence of any of the following: (i) any representation or warranty made or deemed made by any Obligor in this Agreement shall be false, misleading or erroneous in any material respect when made or deemed to have been made, (ii) any Obligor shall fail to perform, observe or comply timely with any covenant, agreement or term contained in this Agreement, (iii) any Default or Event of Default, other than the Specified Defaults, shall occur or shall have occurred under this Agreement or any of the Loan Documents, (iv) any Obligor shall commence a voluntary proceeding seeking liquidation, reorganization, or other relief with respect to itself or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or a substantial part of its property or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it or shall make a general assignment for the benefit of creditors or shall generally fail to pay its debts as they become due or shall take any action to authorize any of the foregoing, (v) an involuntary proceeding shall be commenced against any Obligor seeking liquidation, reorganization, or other relief with respect to it or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official for it or a substantial part of its property, in each case that remains undismissed or unstayed for five (5) consecutive calendar days, (vi) any event or condition shall occur after the Effective Date which shall have a Material Adverse Effect, as determined by Administrative Agent, (vii) any default or event of default shall occur after the Effective Date in connection with any Material Contract, (viii) the exercise by any creditor or holder of Material Indebtedness of any Obligor (excluding the Credit Parties under the Loan Documents) of any right or remedy available to them in connection with any default under the documents governing such Material Indebtedness, including, but not limited to any foreclosure or enforcement action against any Collateral, or (viii) parties mutually agree to terminate this agreement prior to the Termination Date.

2. **Forbearance**.

(a) **Forbearance**. Subject to the terms of this Agreement and only so long as no Termination Event shall have occurred, Administrative Agent and Lender hereby agree to forbear until the Termination Date from exercising their rights and remedies under the Loan Documents arising from Specified Defaults. Notwithstanding the foregoing, the forbearance granted by the Administrative Agent and Lender pursuant hereto shall not constitute and shall not be deemed to constitute a waiver of any of the Specified Defaults or of any other Default or Event of Default under the Loan Documents. On and after the Termination Date, or such earlier date on which a Termination Event occurs, Administrative Agent's and Lender's agreement hereunder to forbear shall terminate automatically without further act or action by Administrative Agent or Lender, and Administrative Agent and Lender shall be entitled to exercise any and all rights and remedies available to it or them under the Loan Documents and this Agreement, at law, in equity, or otherwise.

(b) **Principal and Interest Payments; Borrowings**. Commencing on the Effective Date, Borrower shall pay to Administrative Agent, for the benefit of the Lender on a pro rata basis accrued interest on the outstanding principal balance of the Loans on the last Business Day of each calendar month. Commencing on the Effective Date, interest shall accrue and be payable on the outstanding principal balance of the Loans at a rate per annum equal to one percent (1.00%) plus the Alternate Base Rate, but in no event to exceed the Highest Lawful Rate. During the Forbearance Period, no outstanding Loans may be continued as, or converted into, Eurodollar Loans, no Lender has any obligation to make additional Loans, and Issuing Bank has no obligation to issue any Letter of Credit.

(c) **Other Payments**. Borrower also agrees to reimburse Administrative Agent and the Lender upon demand for all reasonable out-of-pocket expenses (including reasonable attorneys' fees, and settlement costs) incurred in connection with the negotiation of this Agreement, any further restructuring or "workout" with Obligors, whether or not consummated, of any Secured Obligations, and any enforcement of any Secured Obligations. Borrower acknowledges and agrees that all such expenses are being incurred in connection with a restructuring or workout, as these terms are used in Section 12.03(a) of the Credit Agreement.

3. **Representations and Warranties**. To induce Administrative Agent and Lender to enter into this Agreement, Obligors hereby jointly and severally represent and warrant to Credit Parties as follows:

(a) **Duly Organized**. Obligors are duly organized, validly existing and in good standing under the laws of the jurisdiction in which they were organized and formed, and Obligors have the power and authority to perform their respective obligations under this Agreement and the Loan Documents.

(b) **Authority**. The execution, delivery and performance of this Agreement (i) have been duly authorized by all requisite action on the part of Obligors and (ii) do not and will not violate the organizational documents of Obligors, any other material agreement to which any Obligor is a party, or any law, rule or regulation, or any order of any court, governmental authority or arbitrator, by which any Obligor or any of its respective properties is bound.

(c) **No Defenses**. The outstanding principal balance of the Loans is $6,000,000.00 as of the Effective Date. None of Obligors has any defenses to payment, counterclaims, or rights of setoff with respect to the Loans or any other Secured Obligations existing as of the Effective Date.

(d) **No Other Defaults**. Except for the Specified Defaults, no Default or Event of Default under the Loan Documents has occurred and is continuing.

(e) **Deposit Accounts**. Upon and after the Effective Date, all of Obligors' deposit accounts are maintained with First Interstate Bank and are covered by a deposit account control agreement in form and substance acceptable to Administrative Agent.

(f) **Taxes**. All payments due to all taxing authorities with respect to the Collateral are current as of the Effective Date.

4. **Covenants**. Notwithstanding any provisions to the contrary contained in the Loan Documents, Obligors hereby covenant and agree that, during the Forbearance Period, each of them will perform, observe and comply with each of the following covenants:

(a) **Compliance with Related Documents and this Agreement**. Obligors will perform, observe and comply with each covenant, agreement and term contained in this Agreement and each of the Loan Documents, including, without limitation, the fees and payments required thereunder, except for the Specified Defaults.

(b) **Prepayment of Loans**. Borrower shall make a mandatory prepayment of the Loans in an amount equal to 100% of the Net Cash Proceeds received by any Obligor in each of the following circumstances:

(1) If any Obligor sells, assigns, farms out, conveys or otherwise transfers any Oil and Gas Properties (or any Equity Interests in any Obligor owning such Oil and Gas Properties) or terminates, unwinds, cancels or otherwise disposes of any Swap Agreement, and the Net Cash Proceeds of all such transfers and all such terminations of Swap Agreements made since the commencement of the Forbearance Period exceed $10,000.00, in which event the Borrower shall obtain the prior written approval of Lender;

(2) If any Obligor issues any Debt for borrowed money since the commencement of the Forbearance Period; or

(3) If any Obligor receives a tax refund, insurance proceeds or other recoveries for a Casualty Event (collectively, " **Recoveries** "), and the aggregate amount of the Recoveries since the commencement of the Forbearance Period exceeds $10,000.00.

(c) **Deposit of Funds.** Obligors shall cause all of their collections, including but not limited to joint interest billing receivables and hedge settlements, to be deposited in deposit accounts that are covered by a deposit account control agreement in favor of Administrative Agent, and shall not open or maintain any deposit account other than deposit accounts that are maintained with First Interstate Bank.

(d) **Financial Statements** . Borrower shall deliver to Administrative Agent and Lender, no later than twenty (20) days after the end of each calendar every month, a copy of the unaudited consolidated balance sheet for Borrower and its Consolidated Subsidiaries and related statements of operations, stockholders' equity, as applicable, and cash flows as of the end of and for such calendar month and the then elapsed portion of the fiscal year. Such financial statements shall be certified by one of Borrower's Financial Officers as presenting fairly, in all material respects, the financial condition and results of operations of Borrower and its Consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes.

(e) **Cash Flow Forecasts** . Borrower shall deliver to Administrative Agent and Lender, by no later than 12 noon Central Time on the 20th of the month beginning after the Effective Date, an updated upcoming monthly cash flow forecast setting forth all sources and uses of cash and beginning and ending cash balances (the " **Budget** "), an initial copy of which shall be delivered on or prior to the Effective Date. Obligors shall operate strictly in accordance with the Budget and shall pay only those actual, ordinary and necessary operating expenses of Obligors' business in compliance with the Budget.

(f) **Reconciliation Reports** . Borrower shall deliver to Administrative Agent and Lender concurrently with each Budget (i) a variance report reconciling the prior month's cash flow forecast to the actual sources and uses of cash for the prior month, along with a line-by-line reconciliation and explanation of material variances, and (ii) a listing of each Obligor's accounts receivable, including invoices aged by invoice date and due date together with a summary specifying the name, address, and balance due for each account debtor, and a schedule and aging of each Obligor's accounts payable.

(g) **Maximum Capital Expenditures** . Obligors will cause their capital expenditures not to exceed $10,000.00 during the Forbearance Period, excluding items that have been included in the Borrower's Cash Flow Forecasts per section 5(e).

(h) **Notices**. Borrower will give Administrative Agent prompt written notice of the following:

(1) Any notice of a default or required redemption relating to any Material Indebtedness of any Obligor;

(2) The occurrence of any default or event of default, or the pursuit of any remedies against any Obligor, in connection with any of the Material Contracts;

(3) Any actual or threatened suspension of services by key providers of Borrower's operations or any other adverse development in Borrower's relationship with such providers;

(4) The filing or commencement of, or the threat in writing of, any action, suit (whether in state or federal court), proceeding, receivership, involuntary petition in bankruptcy, investigation or arbitration by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting any of the Obligors not previously disclosed in writing to Lender or any material adverse development in any action, suit, proceeding, investigation or arbitration (whether or not previously disclosed to Lender); and

(5) Any notice of the filing or recordation of a mechanic's, materialmen's or other like Lien received by any of the Obligors with respect to any of their Oil and Gas Properties.

(i) **Access**. Administrative Agent, Lender, and their agents shall have access during normal business hours to Obligors' business premises and to the Collateral to review, appraise and evaluate the physical condition of the Collateral and to inspect the books, records and reports of Obligors concerning the operation of Obligors' businesses, financial condition, the transfers and expenditures of funds generated therefrom, the accrual of expenses relating thereto, and any and all other records relating to the operations of Obligors. Obligors and their Advisors will fully cooperate with Administrative Agent and Lender regarding such reviews, evaluations, and inspections, and Obligors shall make their employees, consultants and professionals reasonably available to Administrative Agent and Lender, and Administrative Agent's other professionals and consultants in conducting such reviews, evaluations, and inspections.

(j) **Third Party Professionals**. Borrower shall not engage any third party professional firms to sell, liquidate, transfer or encumber any or part of Borrower's assets without prior written approval from the Administrative Agent.

5. **Conditions Precedent**. As a condition to the commencement of the Forbearance Period on the Effective Date, each of the following conditions shall have been fulfilled by Obligors:

(a) **This Agreement**. The Obligors, the Administrative Agent and the Lender have each executed and delivered this Agreement.

(b) **Budget**. Borrower shall have delivered the initial Budget, together with an aging of each Obligor's receivables and payables in accordance with Section 4(f) of this Agreement;

(c) **Deposit Accounts**. Obligors and First Interstate Bank, as depositary, shall have entered into one or more deposit account control agreements with Administrative Agent covering the accounts maintained by the Obligors with First Interstate Bank;

(d) **Evidence of Authority**. Obligors shall have delivered to Administrative Agent certificates of duly authorized officers of Obligors, and such other documents, instruments and agreements as Administrative Agent shall require, to evidence the due authorization, execution and delivery of this Agreement, each of which shall be in form and substance satisfactory to Administrative Agent.

(e) **Board Composition**. The Guarantor's Board of Directors shall consist of the Guarantor's Chief Executive Officer and at least three (3) other members that are reasonably acceptable to Administrative Agent.

(f) **Indemnification**. Administrative Agent and the Guarantor will execute and deliver customary indemnification agreements with each of the resigning members of the Guarantor's Board of Directors.

6. **Ratification of Related Documents and Collateral**. Obligors hereby acknowledge that each of them has received from Administrative Agent proper notice of Default with respect to the Specified Defaults. Each of the Obligors hereby waives (a) any further notice of Default, notice of intent to accelerate, or demand for payment and (b) any further opportunity to cure any of the Specified Defaults. Except as modified by this Agreement, each Obligor hereby acknowledges, ratifies, reaffirms, and agrees that each of the Loan Documents, and the first priority, perfected liens and security interests created thereby in favor of Administrative Agent in the Collateral, are and will remain in full force and effect and binding on Obligors, and are enforceable in accordance with their respective terms and applicable law. Each of the Obligors acknowledges, ratifies, and reaffirms all of the terms and provisions of the Loan Documents, except as modified herein, which are incorporated by reference as of the Effective Date as if set forth herein including, without limitation, all promises, agreements, warranties, representations, covenants, releases, indemnifications, and waivers of jury trials contained therein. Obligors hereby acknowledge, ratify, and confirm the Credit Agreement, the Notes, the Security Instruments, the Guaranties, the other Loan Documents, and all of their respective debts and obligations to Credit Parties thereunder. Obligors acknowledge and agree that in the event Administrative Agent seeks to take possession of any or all of the Collateral securing any of the Secured Obligations by court process, Obligors each irrevocably waive, to the fullest extent permitted by law, any bonds and any surety or security relating thereto required by any statute, court rule or otherwise as an incident to such possession.

7. **Remedies Upon Termination Event** . Upon the occurrence of a Termination Event, (a) the Forbearance Period will terminate without further act or action by any Credit Party, (b) Administrative Agent will be entitled immediately to accelerate the Secured Obligations, institute foreclosure proceedings against the Collateral and to exercise any and all of Credit Parties' rights and remedies available to Credit Parties under the Loan Documents and this Agreement, at law, in equity, or otherwise, without further opportunity to cure, demand, presentment, notice of dishonor, notice of Default, notice of intent to accelerate, notice of intent to foreclose, notice of protest or other formalities of any kind, all of which are hereby expressly waived by Obligors.

8. **Acknowledgment of Defaults** . Obligors specifically acknowledge the existence and continuation of the Specified Defaults.

9. WAIVER AND RELEASE . EACH OF OBLIGORS (IN ITS OWN RIGHT AND ON BEHALF OF ITS PREDECESSORS, SUCCESSORS, LEGAL REPRESENTATIVES AND ASSIGNS) HEREBY EXPRESSLY AND UNCONDITIONALLY ACKNOWLEDGES AND AGREES THAT IT HAS NO SETOFFS, COUNTERCLAIMS, ADJUSTMENTS, RECOUPMENTS, DEFENSES, CLAIMS, CAUSES OF ACTION, ACTIONS OR DAMAGES OF ANY CHARACTER OR NATURE, WHETHER CONTINGENT, NONCONTINGENT, LIQUIDATED, UNLIQUIDATED, FIXED, MATURED, UNMATURED, DISPUTED, UNDISPUTED, LEGAL, EQUITABLE, SECURED OR UNSECURED, KNOWN OR UNKNOWN, ACTUAL OR PUNITIVE, FORESEEN OR UNFORESEEN, DIRECT, OR INDIRECT, AGAINST ANY CREDIT PARTY, ANY OF ITS AFFILIATES OR ANY OF ITS OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, ATTORNEYS OR REPRESENTATIVES OR ANY OF THEIR RESPECTIVE PREDECESSORS, SUCCESSORS OR ASSIGNS (COLLECTIVELY, THE " LENDER-RELATED PARTIES ") OR ANY GROUNDS OR CAUSE FOR REDUCTION, MODIFICATION, SET ASIDE OR SUBORDINATION OF THE SECURED OBLIGATIONS OR ANY LIENS OR SECURITY INTERESTS OF THE CREDIT PARTIES. IN PARTIAL CONSIDERATION FOR THE AGREEMENT OF ADMINISTRATIVE AGENT AND LENDER TO ENTER INTO THIS AGREEMENT, EACH OF OBLIGORS HEREBY KNOWINGLY AND UNCONDITIONALLY WAIVES AND FULLY AND FINALLY RELEASES AND FOREVER DISCHARGES THE LENDER-RELATED PARTIES FROM, AND COVENANTS NOT TO SUE THE LENDER-RELATED PARTIES FOR, ANY AND ALL SETOFFS, COUNTERCLAIMS, ADJUSTMENTS, RECOUPMENTS, CLAIMS, CAUSES OF ACTION, ACTIONS, GROUNDS, CAUSES, DAMAGES, COSTS AND EXPENSES OF EVERY NATURE AND CHARACTER, WHETHER CONTINGENT, NONCONTINGENT, LIQUIDATED, UNLIQUIDATED, FIXED, MATURED, UNMATURED, DISPUTED, UNDISPUTED, LEGAL, EQUITABLE, SECURED OR UNSECURED, KNOWN OR UNKNOWN, ACTUAL OR PUNITIVE, FORESEEN OR UNFORESEEN, DIRECT OR INDIRECT, ARISING OUT OF OR FROM OR RELATED TO ANY OF THE LOAN DOCUMENTS, WHICH ANY OBLIGOR NOW OWNS AND HOLDS, OR HAS AT ANY TIME HERETOFORE OWNED OR HELD, SUCH WAIVER, RELEASE AND DISCHARGE BEING MADE WITH FULL KNOWLEDGE AND UNDERSTANDING OF THE CIRCUMSTANCES AND EFFECTS OF SUCH WAIVER, RELEASE AND DISCHARGE AND AFTER HAVING CONSULTED LEGAL COUNSEL OF ITS OWN CHOOSING WITH RESPECT THERETO. THIS SECTION IS IN ADDITION TO ANY OTHER RELEASE OF ANY OF THE LENDER-RELATED PARTIES BY ANY OF OBLIGORS AND SHALL NOT IN ANY WAY LIMIT ANY OTHER RELEASE, COVENANT NOT TO SUE, OR WAIVER BY ANY OF OBLIGORS IN FAVOR OF ANY OF THE LENDER- RELATED PARTIES.

10. **No Obligation of Credit Parties**. Obligors hereby acknowledge and understand that upon the expiration or termination of the Forbearance Period, if all the Specified Defaults have not been cured or waived by written agreement in accordance with the Credit Agreement, or if there shall at such time exist a Default or Event of Default, then Credit Parties shall have the right to proceed to exercise any or all available rights and remedies, which may include foreclosure on the Collateral and/or institution of legal proceedings. Credit Parties shall have no obligation whatsoever to extend the maturity of the Secured Obligations, waive any Events of Default or Defaults, defer any payments, or further forbear from exercising its rights and remedies.

11. **No Implied Waivers**. No failure or delay on the part of Credit Parties in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement, the Credit Agreement, the Notes, the Security Instruments, the Guaranties, or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement, the Credit Agreement, the Notes, the Guaranties, or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

12. INDEMNIFICATION. IN ADDITION TO, AND WITHOUT LIMITATION OF, ANY AND ALL INDEMNITIES PROVIDED IN THE LOAN DOCUMENTS, OBLIGORS HEREBY, JOINTLY AND SEVERALLY, INDEMNIFY AND HOLD EACH OF THE LENDER-RELATED PARTIES HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS, LIABILITIES, LOSSES, DAMAGES, CAUSES OF ACTION, SUITS, JUDGMENTS, COSTS, AND EXPENSES, INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES, ARISING OUT OF OR FROM OR RELATED TO ANY OF THE LOAN DOCUMENTS OR THIS AGREEMENT. IF ANY ACTION, SUIT, OR PROCEEDING IS BROUGHT AGAINST ANY OF THE LENDER- RELATED PARTIES, OBLIGORS SHALL, AT SUCH LENDER-RELATED PARTIES' REQUEST, DEFEND THE SAME AT THEIR SOLE COST AND EXPENSE, SUCH COST AND EXPENSE TO BE A JOINT AND SEVERAL LIABILITY OF OBLIGORS, BY COUNSEL SELECTED BY SUCH LENDER-RELATED PARTY. NOTWITHSTANDING ANY PROVISION OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, THIS SECTION 12 SHALL REMAIN IN FULL FORCE AND EFFECT AND SHALL SURVIVE ANY DELIVERY AND PAYMENT ON THE SECURED OBLIGATIONS, THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

13. **Survival of Representations and Warranties**. All representations and warranties made in this Agreement or any other Loan Document will survive the execution and delivery of this Agreement, and no investigation by Credit Parties or any closing will affect the representations and warranties or the right of Credit Parties to rely upon them.

14. **Review and Construction of Documents** . Each of the Obligors hereby acknowledges, represents, and warrants to Credit Parties that (a) Obligors have had the opportunity to consult with legal counsel of their own choice and have been afforded an opportunity to review this Agreement with their legal counsel, (b) Obligors have reviewed this Agreement and fully understand the effects thereof and all terms and provisions contained herein, and (c) Obligors have executed this Agreement of their own free will and volition. The recitals contained in this Agreement shall be construed to be part of the operative terms and provisions of this Agreement.

15. **ENTIRE AGREEMENT; AMENDMENT** . THIS AGREEMENT AND THE RELATED DOCUMENTS AS INCORPORATED HEREIN EMBODY THE FINAL, ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO REGARDING ADMINISTRATIVE AGENT'S AND LENDER'S FORBEARANCE WITH RESPECT TO THEIR RIGHTS AND REMEDIES ARISING AS A RESULT OF THE SPECIFIED DEFAULTS AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO. The provisions of this Agreement may be amended or waived only by an instrument in writing signed by the parties hereto. The Loan Documents, as modified by this Agreement, continue to evidence the agreement of the parties with respect to the subject matter thereof.

16. **Notices** . All notices, requests, demands and other communications under this Agreement will be given in accordance with the provisions of the Credit Agreement, except that notices to Administrative Agent shall be given to the following:

APEG Energy II, L.P.
3305 Northland Dr. Suite 101
Austin, TX 78731
Attention: Paul Haarman
Email: ph@apegtx.com

With a copy to:

Tacey Goss PS
330 - 112 th Avenue NE, Suite 301
Bellevue, WA 98004
Attention: S. Shawn Tacey, Esq.
Email: shawn@taceygoss.com

17. **Successors and Assigns** . This Agreement will be binding upon, and will inure to the benefit of, the parties hereto and their respective successors and assigns, provided that none of Obligors may assign any rights or obligations under this Agreement without the prior written consent of Administrative Agent.

18. **Tolling of Statutes of Limitation** . The parties hereto agree that all applicable statutes of limitations with respect to the Loan Documents shall be tolled and not begin running until the Termination Date.

19. **Arms-Length/Good Faith**. This Agreement has been negotiated at arms-length and in good faith by the parties hereto.

20. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and applicable laws of the United States of America.

21. **Interpretation**. Wherever the context hereof will so require, the singular shall include the plural, the masculine gender shall include the feminine gender and the neuter and vice versa. The headings, captions and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

22. **Severability**. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

23. **Counterparts**. This Agreement may be executed and delivered in any number of counterparts, and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute one and the same instrument; provided that no party shall be bound by this Agreement until each of the parties has executed a counterpart hereof. Execution of this Agreement via facsimile or other electronic means shall be effective, and signatures received via facsimile or other electronic means shall be binding upon the parties hereto and shall be effective as originals.

24. **Further Assurances**. Obligors each agree to execute, acknowledge, deliver, file and record such further certificates, instruments and documents, and to do all other acts and things, as may be reasonably requested by Administrative Agent as necessary or advisable to carry out the intents and purposes of this Agreement.

25. **Loan Document**. This Agreement is a Loan Document for all purposes of the Credit Agreement and the other Loan Documents.

[Signature pages follow.]

Signature Pages

U.S. ENERGY CORP.

/s/ David A. Veltri
David A. Veltri
CEO, President

ENERGY ONE, LLC

/s/ David A. Veltri
David A. Veltri

APEG ENERGY II, L.P.

By: APEG Energy II GP, LLC, a Texas
a Texas limited liability company

Its: General Partner

By: /s/ Patrick Duke
Patrick Duke
Its: Manager

By: /s/ Paul Haarman
Paul Haarman
Its: Manager

EXHIBIT A

SPECIFIED DEFAULTS

Each of the existing and prospective breaches of the Loan Documents set forth below are Specified Defaults:

1. The Event of Default occurring under Section 10.01(d) of the Credit Agreement as a result of a breach of Section 9.01(a), (b) and (c) of the Credit Agreement with respect to the quarters ended September 30, 2016 and December 31, 2016.

2. The Event of Default under Section 10.01(a) of the Credit Agreement as a result of the failure of the Borrower to repay the Borrowing Base Deficiency pursuant to Section 3.04(c)(ii) of the Credit Agreement.

EXHIBIT B

MATERIAL CONTRACTS

1. Employment Agreement by and between U.S. Energy Corp. and David Veltri dated October 23, 2015

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David A. Veltri, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of U.S. Energy Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2017

By: /s/ David A. Veltri
David A. Veltri
President, Chief Executive Officer and principal financial officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David A. Veltri, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of U.S. Energy Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2017

By: /s/ David A. Veltri
David A. Veltri
President, Chief Executive Officer and principal financial officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of U.S. Energy Corp. (the "Company") for the period ending March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 19, 2017

By: /s/ David A. Veltri
David A. Veltri
President, Chief Executive Officer and principal financial officer