

August 14, 2017

U.S. Energy Corp. Announces Second Quarter 2017 Results; 2017 Mid-Year Reserve Report

DENVER, Aug. 14, 2017 (GLOBE NEWSWIRE) -- **U.S. Energy Corp.** (NASDAQ:USEG) ("U.S. Energy" or the "Company") today announced financial and operational results for the quarter ended June 30, 2017, mid-year proved oil & gas reserves, and Revolving Credit Facility ("Credit Facility") updates.

Highlights

- | Second quarter production of 58,369 BOE increased 17% as compared to the first quarter of 2017. Daily production averaged 641 BOEPD;
- | Second quarter oil and gas revenue of \$2.0 million increased 17% as compared to the first quarter of 2017;
- | Second quarter lease operating expenses of \$0.5 million, or \$9.18 per BOE, decreased 35% as compared to the first quarter of 2017;
- | Second quarter Adjusted EBITDA of \$0.4 million;
- | Total proved reserves of 1,458 MBOE at 6/30/2017;
- | PV-10 of \$13.9 million at 6/30/2017;
- | Cash and cash equivalents of \$2.0 million at 6/30/2017;
- | Current shares outstanding of 6,134,506; and
- | Extended maturity of Credit Facility to 7/30/2019 and set new financial ratio covenants

Second Quarter 2017 Production

For the second quarter of 2017, U.S. Energy's total production volumes on a BOE basis increased 17% as compared to the first quarter of 2017. During the second quarter of 2017, U.S. Energy realized a \$44.19 average price per Bbl of oil compared to an \$42.70 average price per Bbl of oil during the first quarter of 2017.

	<u>2nd Quarter 2017</u>	<u>1st Quarter 2017</u>
Sales Volume (Total)		
Oil (Bbls)	36,004	29,036
Gas (Mcf)	134,187	125,094
Sales volumes (Boe)	<u>58,369</u>	<u>49,885</u>
Average Sales Prices		
Oil (Bbl)	\$ 44.19	\$ 42.70
Gas (Mcf)	\$ 2.99	\$ 4.05
Barrel of Oil Equivalent	<u>\$ 34.13</u>	<u>\$ 35.02</u>

2017 Mid-Year Reserves

As of June 30, 2017, U.S. Energy had total proved reserves of approximately 1,458 MBoe, all of which are proved developed producing reserves ("PDP"). The proved reserves total had a pre-tax PV10% value of \$13.9 million.

	<u>As of 6/30/2017</u>
Proved Developed Oil Reserves (MBbls)	<u>1,234</u>
Proved Undeveloped Oil Reserves (MBbls)	-
Total Proved Oil Reserves (MBbls)	<u><u>1,234</u></u>
Proved Developed Gas Reserves (MMcf)	1,347
Proved Undeveloped Gas Reserves (MMcf)	-
Total Proved Gas Reserves (MMcf)	<u><u>1,347</u></u>
Total Proved Reserves (MBoe)	1,458

Present Value of Estimated Future Net Revenues Before
Income Taxes, Discounted at 10% (In thousands)* \$ 13,930

***SEC pricing of \$48.95/bbl of oil and \$3.01/mcf of gas**

Financial Results

Revenues from sales of oil and natural gas for the second quarter of 2017 were \$2.0 million compared to \$1.7 million for the first quarter of 2017. The 17% quarter over quarter increase in revenue is primarily associated with an increase in production. Revenue from oil production represented 80% of Company revenue during the second quarter of 2017.

Lease operating expenses for the second quarter of 2017 were \$0.5 million compared to \$0.7 million for the first quarter of 2017. On a per unit basis, lease operating expenses were \$9.18 per BOE in the second quarter of 2017 compared to \$14.03 per BOE in the first quarter of 2017. This decrease on a per unit basis compared to the first quarter of 2017 was primarily due to the implementation of cost reduction strategies by the operators of our wells. The Company expects to continue realizing the positive effects of cost reduction strategies going forward. General and administrative expenses for the second quarter of 2017 were \$1.0 million compared to \$1.3 million for the same first quarter in 2017. The quarter over quarter decrease is primarily associated with a reduction in professional fees associated with the assignment and transfer of the Company's Credit Facility.

Adjusted EBITDA was \$0.4 million for the second quarter of 2017, as compared to \$(0.5) million for the first quarter of 2017. Net Income (Loss) was \$0.3 million for the second quarter of 2017 compared to \$(0.7) million for the first quarter of 2017. Adjusted EBITDA is a non-GAAP financial measure. For additional information please refer to the reconciliation of this measure at the end of this news release.

Credit Facility Update

On May 2, 2017, the Credit Facility between the Company's wholly owned subsidiary, Energy One and Wells Fargo Bank N.A. was sold, assigned and transferred to APEG Energy II, L.P. ("APEG"). On June 28, 2017, the Company and APEG entered into the Fifth Amendment to the Credit Agreement providing for, among other things, an extension of the maturity date to July 19, 2019, new financial coverage ratio covenants and a limited release and waiver with respect to any historical Company non-compliance with any and all financial covenants. As of June 30, 2017, the Company was in compliance with all financial covenants and fully confirming with all requirements under its credit facility. Accordingly, the entire outstanding balance under the Credit Facility of \$6.0 million has been classified as a long-term liability.

Credit Facility Covenants	Required Covenant Ratio	U.S. Energy at 6/30/2017*
Current Ratio	Greater than 1.0 to 1.0	5.6 to 1.0
PDP to Secured Debt	Greater than 1.2 to 1.0	2.3 to 1.0

*Represents amounts subject to calculation per Credit Agreement amendment

Update to Hedging Activity

Crude oil price swaps were entered into during the second quarter of 2017 for the remainder of the year. On July 26, 2017, the Company entered into natural gas price swaps for the entirety of 2018. An overview of outstanding Company hedges is summarized below:

	<u>Begin</u>	<u>End</u>	<u>Quantity (bbls/d)</u>	<u>Price</u>
Crude oil price swaps	<u>7/1/17</u>	<u>12/31/17</u>	<u>300</u>	<u>\$52.40</u>

	<u>Begin</u>	<u>End</u>	<u>Quantity (mcf/d)</u>	<u>Price</u>
Natural gas price swaps	<u>1/1/18</u>	<u>12/31/18</u>	<u>500</u>	<u>\$3.01</u>

Management Comment

David Veltri, U.S. Energy's Chief Executive Officer, stated, "U.S. Energy posted its strongest quarter since the beginning of

the global commodity price decline. Production increased 17% quarter over quarter while LOE per barrel decreased 35% over the same time period. These highly positive outcomes are a direct result of the U.S. Energy team working with the operators of its wells to maximize cash flow from operations through optimizing existing production while remaining focused on implementing cost reduction strategies. We anticipate additional consolidation efforts and acreage trades involving our North Dakota Assets along with upcoming development opportunities on our South Texas projects in the near future."

Mr. Veltri added, "U.S. Energy is also pleased to be working with its new strategic partner and existing lender, APEG Energy II and its parent, Angelus Capital. Our mutual goal is to position ourselves to capitalize on the significant growth and consolidation opportunities we are currently seeing in the market and expect to see more of going forward. The Company will continue to focus on accretive capital allocation, growing reserves and increasing production to help prepare us for future opportunities and value creation for all shareholders."

About U.S. Energy Corp.

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 the Williston Basin of North Dakota and South Texas. We continue to focus on increasing production, reserves, and cash flow from operations while pro-actively managing our debt levels. More information about U.S. Energy Corp. can be found at www.usnrg.com.

Forward-Looking Statements

This press release may include "forward-looking statements" within the meaning of the securities laws. All statements other than statements of historical facts included herein may constitute forward-looking statements. Forward-looking statements in this document may include statements regarding the Company's expectations regarding the Company's operational, exploration and development plans; expectations regarding the nature and amount of the Company's reserves; and expectations regarding production, revenues, cash flows and recoveries. When used in this press release, the words "will," "potential," "believe," "estimate," "intend," "expect," "may," "should," "anticipate," "could," "plan," "predict," "project," "profile," "model," or their negatives, other similar expressions or the statements that include those words, are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the Company, which may cause actual results to differ materially from those implied or expressed by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, fluctuations in oil and natural gas prices, uncertainties inherent in estimating quantities of oil and natural gas reserves and projecting future rates of production and timing of development activities, competition, operating risks, acquisition risks, liquidity and capital requirements, the effects of governmental regulation, adverse changes in the market for the Company's oil and natural gas production, dependence upon third-party vendors, and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,987	\$ 2,518
Oil and gas sales receivable	641	562
Discontinued operations - assets of mining segment	114	114
Assets available for sale	653	653
Marketable securities	622	946
Oil price risk derivatives	311	-
Other current assets	<u>233</u>	<u>96</u>
Total current assets	<u>4,561</u>	<u>4,889</u>
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	<u>(83,094)</u>	<u>(82,640)</u>

Net oil and gas properties	9,489	9,858
Other assets:		
Property and equipment, net	1,650	1,864
Other assets	108	156
Total other assets	1,758	2,020
Total assets	<u>\$ 15,808</u>	<u>\$ 16,767</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities:

Payable to major operator	\$ 2,667	\$ 2,710
Contingent ownership interests	1,518	1,430
Other	748	743
Accrued compensation and benefits	63	49
Current portion of long-term debt	-	6,000

Total current liabilities	4,996	10,932
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Noncurrent liabilities:

Revolving credit facility	6,000	-
Asset retirement obligations	1,061	1,045
Warrant liability	510	1,030
Other liabilities	-	2
Total noncurrent liabilities	7,571	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 June 30, 2017 and December 31, 2016; liquidation preference of \$2,375 as of June 30, 2017.

	1	1
Common stock, \$0.01 par value; unlimited shares authorized; 6,134,506 and 5,834,568 shares issued and outstanding, respectively	61	61
Additional paid-in capital	127,787	127,576
Accumulated deficit	(124,229)	(123,825)
Other comprehensive loss	(379)	(55)

Total shareholders' equity	3,241	3,758
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Total liabilities and shareholders' equity	<u>\$ 15,808</u>	<u>\$ 16,767</u>
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**U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)**

Three Months Ended		Six Months Ended	
June 30:		June 30:	
2017	2016	2017	2016

Revenue:

Oil	\$ 1,591	\$ 1,677	\$ 2,830	\$ 2,541
Natural gas and liquids	<u>401</u>	<u>319</u>	<u>909</u>	<u>521</u>
Total revenue	<u>1,992</u>	<u>1,996</u>	<u>3,739</u>	<u>3,062</u>
Operating expenses:				
Oil and gas operations:				
Production costs	803	1,434	1,856	2,464
Depreciation, depletion and amortization	202	864	473	1,646
Impairment of oil and gas properties	-	2,611	-	9,568
General and administrative:				
Compensation and benefits, including director and contract employees	178	172	354	311
Stock-based compensation	106	34	212	68
Professional services	571	541	1,350	768
Insurance, rent and other	<u>136</u>	<u>16</u>	<u>237</u>	<u>183</u>
Total operating expenses	<u>1,996</u>	<u>5,672</u>	<u>4,482</u>	<u>15,008</u>
Operating loss	(4)	(3,676)	(743)	(11,946)
Other income (expense):				
Realized gain (loss) on oil price risk derivatives	100	380	100	1,262
Unrealized gain (loss) on oil price risk derivatives	311	(887)	311	(1,460)
Gain on sale of assets	1	100	1	100
Rental and other income (loss)	(131)	(48)	(347)	(79)
Warrant fair value adjustment	180		520	
Interest expense	<u>(121)</u>	<u>(75)</u>	<u>(246)</u>	<u>(247)</u>
Total other income (expense)	340	(530)	339	(424)
Income (loss) from continuing operations	336	(4,206)	(404)	(12,370)
Discontinued operations				
Discontinued operations	-	(10)	-	(2,448)
Loss from discontinued operations	-	(10)	-	(2,448)
Net income (loss)	336	(4,216)	(404)	(14,818)
Change in fair value of marketable equity securities	(238)	927	(324)	927
Comprehensive profit (loss)	<u>\$ 98</u>	<u>\$ (3,289)</u>	<u>\$ (728)</u>	<u>\$ (13,891)</u>
Profit (loss) from continuing operations applicable to common shareholders:				
Profit (loss) from continuing operations	\$ 98	\$ (4,206)	\$ (728)	\$ (12,370)
Accrued dividends related to Series A Convertible Preferred Stock	<u>(71)</u>	<u>(62)</u>	<u>(140)</u>	<u>(96)</u>
Profit (loss) from continuing operations applicable to common shareholders	<u>\$ 27</u>	<u>\$ (4,268)</u>	<u>\$ (868)</u>	<u>\$ (12,466)</u>

Profit (loss) per share-
Basic:

Continuing operations	\$ 0.05	\$ (0.90)	\$ (0.09)	\$ (2.63)
Discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.52)</u>
Total	\$ 0.05	\$ (0.90)	\$ (0.09)	\$ (3.15)
Diluted:				
Continuing operations	\$ 0.05	\$ (0.90)	\$ (0.09)	\$ (2.63)
Discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.52)</u>
Total	<u>\$ 0.05</u>	<u>\$ (0.90)</u>	<u>\$ (0.09)</u>	<u>\$ (3.15)</u>
Weighted average shares outstanding:				
Basic	5,834,568	4,705,000	5,834,568	4,705,000
Diluted:	<u>6,626,344</u>	<u>4,705,000</u>	<u>5,834,568</u>	<u>4,705,000</u>

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net loss	\$ (404)	\$ (14,818)
Loss from discontinued operations	<u>-</u>	<u>2,448</u>
Loss from continuing operations	(404)	(12,370)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and depletion	674	1,718
Debt amortization	27	
Impairment of oil and gas properties	-	9,568
Change in fair value of oil price risk derivative	(311)	1,460
Stock-based compensation and services	212	68
Warrant fair value adjustment	(520)	-
Other	(8)	52
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Oil and gas sales receivable	(79)	309
Other assets	(138)	(160)
Increase (decrease) in:		
Accounts payable and accrued liabilities	-	(948)
Accrued compensation and benefits	<u>14</u>	<u>(1,131)</u>
Net cash used in operating activities	(533)	(1,434)
Cash flows from investing activities:		
Capital expenditures	(22)	(86)
Proceeds from asset sale	<u>24</u>	<u>-</u>
Net cash used in investing activities:	2	(86)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	-	1

Payments for debt issuance costs	-	(24)
Cash payment for fractional shares in reverse stock split	<u>-</u>	<u>(3)</u>
	-	
Net cash provided by financing activities	-	(26)
Discontinued operations:		
Net cash used in discontinued operations	<u>-</u>	<u>(448)</u>
Net decrease in cash and equivalents	(531)	(1,994)
Cash and equivalents, beginning of period	<u>2,518</u>	<u>3,354</u>
Cash and equivalents, end of period	<u>\$ 1,987</u>	<u>\$ 1,360</u>
Non-cash investing and financing activities:		
Issuance of preferred stock in disposition of mining segment	<u>-</u>	<u>\$ 1,999</u>
Elimination of asset retirement obligations in disposition of mining segment	<u></u>	<u>204</u>
Unrealized gain on marketable equity securities	<u></u>	<u>927</u>
Net additions to oil and gas properties through asset retirement obligations	<u>-</u>	<u>1</u>

In addition to reporting net income (loss) as defined under GAAP, we also present net earnings before interest, income taxes, depletion, depreciation, and amortization, accretion of discount on asset retirement obligations, impairment of oil and natural gas properties, warrant revaluation (gains) and expenses, net gain (loss) from mark-to-market on commodity derivatives, cash settlements received (paid), standby rig expenses and non-cash expenses relating to share based payments recognized under ASC Topic 718 ("Adjusted EBITDA"), which is a non-GAAP performance measure. Adjusted EBITDA consists of net earnings after adjustment for those items described in the table below. Adjusted EBITDA does not represent, and should not be considered an alternative to GAAP measurements, such as net income (loss) (its most directly comparable GAAP measure), and our calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating the items described below, we believe the measure is useful in evaluating its fundamental core operating performance. We also believe that Adjusted EBITDA is useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies in similar industries. Our management uses Adjusted EBITDA to manage our business, including in preparing our annual operating budget and financial projections. Our management does not view Adjusted EBITDA in isolation and also uses other measurements, such as net income (loss) and revenues to measure operating performance. The following table provides a reconciliation of net loss to Adjusted EBITDA for the periods presented:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Income (loss) from continuing operations				
(GAAP)	\$ 336	\$ (4,206)	\$ (404)	\$ (12,370)
Impairment of oil and gas properties	-	2,611	-	9,568
Depreciation, depletion and amortization:				
Oil and gas operations	202	864	473	1,646
Other		36		72
Unrealized (gain) loss on oil price risk derivatives	(311)	887	(311)	1,460
Stock-based compensation	106	34	212	68
Gain on sale of assets	(1)	(100)	(1)	100
Rental and other income (expense), net	131	48	347	79

Warrant Fair Value Adjustment (gain) loss	(180)		(520)	
Interest expense	<u>121</u>	<u>69</u>	<u>246</u>	<u>247</u>
Adjusted EBITDAX (Non-GAAP)	<u>\$ 404</u>	<u>\$ 243</u>	<u>\$ 42</u>	<u>\$ 870</u>

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