U.S. ENERGY CORP.

November 14, 2017

U.S. Energy Corp. Announces Third Quarter 2017 Results

DENVER, Nov. 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 September 30, 2017.

Highlights

- Production of 42,637 BOE, or daily production of 463 BOEPD;
- Oil and gas revenue of $1.5 million;
- Lease operating expenses of $0.6 million;
- Adjusted EBITDA of $0.3 million;
- Cash and cash equivalents of $1.8 million at 9/30/2017; Pro-forma cash balance of $3.8 million for previously announced asset divestiture which closed in early October 2017; and
- Current shares outstanding of 5,983,498.

Management Comment

David Veltri, U.S. Energy's Chief Executive Officer, stated, "Over the course of 2017, U.S. Energy has either completed transactions or entered into definitive agreements which have allowed the Company to refinance its legacy credit facility, potentially equitize a significant portion of its outstanding debt and eliminate the majority of the Company's outstanding liabilities, all while significantly increasing the Company's liquidity profile. The results of these efforts will begin immediately showing up on our 2017 year-end financial statements and we expect to see continued improvements in both our operating margins and profitability going forward. With both the immediate cash received from these transactions and the future cash savings due to a significantly reduced interest expense, U.S. Energy is well positioned to deploy capital to create accretive future growth for all shareholders during 2018 and beyond. To that end, we intend to target significant acquisitions during the coming year to increase our production as well as expand our drilling inventory. As evidenced by our recently announced participation in the horizontal drilling program targeting the Georgetown formation on our South Texas acreage position, U.S. Energy has transitioned itself into a growth-oriented E&P company focused on returns on invested capital and maximizing shareholder value."

Third Quarter 2017 Production

For the third quarter of 2017, U.S. Energy's total production volumes on a BOE basis decreased as compared to the second quarter of 2017, primarily driven by downtime due to necessary maintenance on a specific producing well that the Company holds a significant working interest in. The well was offline for the majority of the quarter and was brought back online towards the end of September 2017. Now back online and producing, the Company expects the well to return to its forecasted production profile. During the third quarter of 2017, U.S. Energy realized a $36.07 average price per Bbl of oil compared to an $34.13 average price per Bbl of oil during the second quarter of 2017.

	3rd Quarter 2017	2nd Quarter 2017
Sales Volume (Total)		
Oil (Bbls)	30,000	36,004
Gas (Mcf)	75,820	134,187
Sales volumes (Boe)	42,637	58,369
Average Sales Prices		
Oil (Bbl)	$ 43.70	$ 44.19
Gas (Mcf)	$ 2.99	$ 2.99
Barrel of Oil Equivalent	$ 36.07	$ 34.13

Financial Results

Revenues from sales of oil and natural gas for the second quarter of 2017 were $1.5 million compared to $2.0 million for the second quarter of 2017. The quarter over quarter decrease in revenue is primarily due to production downtime attributable to maintenance on a specific producing well that the Company holds a significant working interest in. Revenue from oil production represented 85% of Company revenue during the third quarter of 2017.

Lease operating expenses for the third quarter of 2017 were $0.6 million compared to $0.5 million for the second quarter of 2017. This slight increase as compared to the second quarter of 2017 was primarily due to workover costs associated with maintenance on a portion of the Company's producing wells.

General and administrative expenses for the third quarter of 2017 were $0.6 million compared to $1.0 million for the second 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 $0.3 million for the third quarter of 2017, as compared to $0.4 million for the second quarter of 2017. Net Income (Loss) was $(0.4) million for the third quarter of 2017 compared to $0.3 million for the second 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

As of September 30, 2017, the Company was in compliance with all financial covenants and fully confirming with all requirements under its credit facility.

Credit Facility Covenants	Required Covenant Ratio	U.S. Energy at 9/30/2017*
Current Ratio	Greater than 1.0 to 1.0	7.9 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

As previously announced, on October 5, 2017, U.S. Energy Corp. announced that the Company, the Company's wholly owned subsidiary Energy One LLC and APEG Energy II, L.P., ("APEG"), an entity controlled by Angelus Private Equity Group, LLC entered into an exchange agreement (the "Exchange Agreement"), pursuant to which, on the terms and subject to the conditions of the Exchange Agreement, APEG will exchange $4,463,380 of outstanding borrowings under the Company's Credit Facility, for 5,819,270 new shares of common stock of the Company, par value $0.01 per share, representing an exchange price of $0.767 representing a 1.3% premium over the 30-day volume weighted average price of the Company's common stock on September 20, 2017 (the "Exchange Shares"). Accrued, unpaid interest on the Credit Facility held by APEG will be paid in cash at the closing of the transaction. Immediately following the close of the transaction, APEG will hold approximately 49.3% of the outstanding Common Stock of U.S. Energy. The Company expects to close the Transaction in the fourth quarter of 2017. The Transaction is subject to certain customary closing conditions, including approval by the Company's shareholders of the Transaction.

Update to Hedging Activity

U.S. Energy hedges portions of its expected production volumes to increase the predictability of its cash flow and to help maintain a strong financial position. The following table summarizes U.S. Energy's open crude oil and natural gas derivative contracts scheduled to settle after September 30, 2017.

	Begin	End	Quantity (bbls/d)	Price
Crude oil price swaps	10/1/2017	12/31/2017	300	$ 52.4
	1/1/2018	6/30/2018	150	52.2

	Begin	End	Quantity (mcf/d)	Price
Natural gas price swaps	1/1/2018	12/31/2018	500	$ 3.01

Transaction Subsequent to September 30, 2017

As previously announced, on October 4, 2017, U.S. Energy Corp., the Company's wholly owned subsidiary Energy One LLC and Statoil Oil and Gas LP ("Statoil") entered into a purchase and sale agreement (the "Purchase Agreement"), pursuant to which, on the terms, and subject to the conditions of the Purchase Agreement, the Company assigned, sold, and conveyed certain non-operated assets in the Williston Basin, North Dakota, in consideration for the elimination of $4.0 million in outstanding liabilities and payment by Statoil to the Company of $2.0 million in cash. U.S. Energy has historically accounted for the eliminated liabilities on the Company's balance sheet under "Payable to major operator" and "Contingent ownership interests." The Purchase Agreement was unanimously approved by the board of directors of the Company and closed on October 5, 2017, with an effective date of August 1, 2017. As the transaction closed in the fourth quarter of 2017, the effects of this transaction will be reflected on U.S. Energy's year-end 2017 financial statements and year-end 2017 reserve report.

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)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and equivalents	$ 1,814	$ 2,518
Oil and gas sales receivable	464	562
Discontinued operations - assets of mining segment	114	114
Assets available for sale	653	653
Marketable securities	464	946
Commodity price risk derivatives	29	-
Other current assets	131	96
Total current assets	3,669	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	(83,233)	(82,640)
Net oil and gas properties	9,350	9,858
Other assets:		

Property and equipment, net	1,749	1,864
Other assets	125	156
Total other assets	1,874	2,020
Total assets	$ 14,893	$ 16,767
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities:		
Payable to major operator	$ 2,442	$ 2,710
Contingent ownership interests	1,557	1,430
Other	392	743
Accrued compensation and benefits	69	49
Current portion of long-term debt	-	6,000
Total current liabilities	4,460	10,932
Noncurrent liabilities:		
Revolving credit facility	6,000	-
Asset retirement obligations	1,069	1,045
Warrant liability	580	1,030
Other liabilities	6	2
Total noncurrent liabilities	7,655	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 September 30, 2017 and December 31, 2016; liquidation preference of $2,450 as of September 30, 2017.	1	1
Common stock, $0.01 par value; unlimited shares authorized; 5,983,498 and 5,834,568 shares issued and outstanding, respectively	61	61
Additional paid-in capital	127,864	127,576
Accumulated deficit	(124,611)	(123,825)
Other comprehensive loss	(537)	(55)
Total shareholders' equity	2,778	3,758
Total liabilities and shareholders' equity	$ 14,893	$ 16,767

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

(In Thousands, Except Share and Per Share Amounts)

	Three Months Ended September 30:		Nine Months Ended September 30:	
	2017	**2016**	**2017**	**2016**
Revenue:				
Oil	$ 1,311	$ 1,496	$ 4,141	$ 4,037
Natural gas and liquids	227	371	1,135	892
Total revenue	1,538	1,867	5,276	4,929
Operating expenses:				
Oil and gas operations:				
Production costs	856	1,348	2,712	3,812

Depreciation, depletion and amortization	146	669	618	2,315
Impairment of oil and gas properties	-	-	-	9,568
General and administrative:				
Compensation and benefits, including director and contract employees	190	158	544	469
Stock-based compensation	77	30	289	98
Professional services	268	457	1,618	1,225
Insurance, rent and other	64	99	301	282
Total operating expenses	1,601	2,761	6,082	17,769
Operating loss	(63)	(894)	(806)	(12,840)
Other income (expense):				
Realized gain on commodity price risk derivatives	116	139	217	1,401
Unrealized gain (loss) on commodity price risk derivatives	(282)	(97)	29	(1,557)
Gain on sale of assets	-	-	1	100
Gain on receipt of marketable equity securities	-	750	-	750
Rental and other income (loss)	53	(46)	(296)	(125)
Warrant fair value adjustment	(70)	-	450	-
Interest expense	(136)	(117)	(382)	(364)
Total other income (expense)	(319)	629	19	205
Loss from continuing operations	(382)	(265)	(787)	(12,635)
Discontinued operations				
Discontinued operations	-	-	-	(2,448)
Loss from discontinued operations	-	-	-	(2,448)
Net Loss	(382)	(265)	(787)	(15,083)
Change in fair value of marketable equity securities	(158)	(6)	(482)	921
Comprehensive Loss	$ (540)	$ (271)	$ (1,269)	$ (14,162)
Loss from continuing operations applicable to common shareholders:				
Loss from continuing operations	$ (382)	$ (265)	$ (787)	$ (12,635)
Accrued dividends related to Series A Convertible Preferred Stock	(74)	(68)	(219)	(164)
Loss from continuing operations applicable to common shareholders	$ (456)	$ (333)	$ (1,006)	$ (12,799)
Loss per share-				
Basic:				
Continuing operations	$ (0.07)	$ (0.06)	$ (0.13)	$ (2.67)
Discontinued operations	-	-	-	(0.52)
Total	$ (0.07)	$ (0.06)	$ (0.13)	$ (3.19)
Weighted average shares outstanding:				
Basic	5,834,568	4,768,000	5,834,568	4,726,000
Diluted:	5,834,568	4,768,000	5,834,568	4,726,000

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

(In Thousands)

	2017	2016
Cash flows from operating activities:		
Net loss	$ (787)	$ (15,083)
Loss from discontinued operations	-	2,448
Loss from continuing operations	(787)	(12,635)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and depletion	723	2,422
Debt amortization	9	221
Impairment of oil and gas properties	-	9,568
Change in fair value of commodity price risk derivative	(29)	1,557
Stock-based compensation and services	289	98
Warrant fair value adjustment	(450)	-
Other	(189)	(850)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Oil and gas sales receivable	98	449
Other assets	(35)	(74)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(355)	(1,111)
Accrued compensation and benefits	20	(1,120)
Net cash used in operating activities	(706)	(1,475)
Cash flows from investing activities:		
Capital expenditures	(21)	(121)
Proceeds from asset sale	23	-
Net cash provided by (used in) investing activities:	2	(121)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	-	1
Payments for debt issuance costs	-	(105)
Cash payment for fractional shares in reverse stock split	-	(3)
Net cash used in financing activities	-	(107)
Discontinued operations:		
Net cash used in discontinued operations	-	(447)
Net decrease in cash and equivalents	(704)	(2,150)
Cash and equivalents, beginning of period	2,518	3,354
Cash and equivalents, end of period	$ 1,814	$ 1,204
Non-cash investing and financing activities:		
Issuance of preferred stock in disposition of mining segment	-	$ 1,999
Elimination of asset retirement obligations in disposition of mining segment	-	204
Unrealized gain (loss) on marketable equity securities	(483)	921
Net additions to oil and gas properties through asset retirement obligations	-	1

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Loss from continuing operations (GAAP)	$ (382)	$ (265)	$ (787)	$ (12,635)
Impairment of oil and gas properties	-	-	-	9,568
Depreciation, depletion and amortization:				
Oil and gas operations	146	669	618	2,315
Other	-	5	-	16
Unrealized (gain) loss on oil price risk derivatives	282	97	(29)	1,557
Stock-based compensation	77	30	289	98
Gain on sale of assets	-	-	(1)	(100)
Rental and other income (expense), net	(53)	(704)	296	(625)
Warrant Fair Value Adjustment (gain) loss	70	-	(450)	-
Interest expense	136	117	382	364
Adjusted EBITDAX (Non-GAAP)	$ 276	$ (51)	$ 318	$ 558

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Source: U.S. Energy Corp.