



May 14, 2018

U.S. Energy Corp. Announces First Quarter 2018 Results

DENVER, May 14, 2018 (GLOBE NEWSWIRE) -- **U.S. Energy Corp.** (NASDAQCM:USEG) ("U.S. Energy" or the "Company") today announced financial and operational results for the first quarter ended March 31, 2018.

Highlights

- | Production of 37,413 BOE, or daily production of 416 BOEPD, a 5% sequential increase;
- | Oil and gas revenues of \$1.6 million, a 23% sequential increase;
- | Lease operating expenses of \$0.4 million or \$11.33 per BOE;
- | Cash and cash equivalents of \$2.1 million at 3/31/2018;
- | Total outstanding debt of \$0.9 million at 3/31/2018;
- | Shares outstanding of 12,460,220 at 3/31/2018

Management Comment

David Veltri, U.S. Energy's Chief Executive Officer, stated, "We are pleased to announce a strong operational quarter as a result of resumed drilling activity, well performance exceeding our initial expectations and strengthening commodity prices. Over the first quarter of 2018, U.S. Energy returned to sequential production and revenue growth while driving down operating costs and maintaining low levels of leverage. We continue to evaluate a number of opportunities around our existing assets with the ultimate objective being to build scale through participating in organic development and acreage trades, while working toward larger acquisitions that will lead to efficient and economic asset development. We look forward to updating the market on the results of these efforts."

First Quarter 2018 Production

	1st Quarter 2018	4th Quarter 2017
Sales Volume (Total)		
Oil (Bbls)	20,379	16,875
Gas (Mcf)	102,205	113,469
Sales volumes (BOE)	37,413	35,786
Average Daily Production (BOEPD)	416	389
Average Sales Prices		
Oil (Bbl)	\$ 60.39	\$ 54.09
Gas (Mcf)	\$ 3.18	\$ 3.13
Barrel of Oil Equivalent	\$ 41.57	\$ 35.44

Operations Update

CML Beeler Ranch #1H: The CML Beeler Ranch #1H came on line in January 2018. The well is located in our Zavala county leasehold in South Texas and is a dual lateral with each lateral comprising approximately 10,000 feet of open hole completion within the Georgetown formation. The completion resulted in an initial 24-hour max IP rate of 1,046 barrels of oil and 1,085 mcf of natural gas and a 30-day average IP of 773 barrels of oil and 850 mcf of natural gas. After 90 days of production the well produced an average rate of 716 barrels of oil and 626 mcf of natural gas while maintaining an oil rate of 93% of the initial average. U.S. Energy expects continued development of the Georgetown Formation on existing and surrounding acreage over the course of 2018.

Financial Results

Revenues from sales of oil and natural gas during the first quarter of 2018 were \$1.6 million compared to \$1.3 million during the fourth quarter of 2017 and \$1.7 million during the first quarter of 2017. The increase in revenue from the fourth quarter of 2017 was driven by both an increase in production combined with increased oil prices. The primary cause of the

decrease in revenue from the first quarter of 2017 is driven by the assets associated with the October 2017 asset divestiture. Revenue from oil production represented 79% of Company revenue during the first quarter of 2018.

Lease operating expenses for the first quarter of 2018 were \$0.4 million, or \$11.33 per BOE, during the first quarter of 2018 compared to \$0.7 million or \$14.03 per BOE during the first quarter of 2017. This decrease was primarily attributed to the divestment of high-cost properties by the Company during 2017.

G&A expenses totaled \$1.1 million during the first quarter of 2018 compared to \$1.3 million during the first quarter of 2017. The decrease was primarily attributable to a \$0.7 million reduction in professional fees due to the completion of Company transactions during 2017. The decrease was partially offset by a \$0.6 million increase in incentive compensation.

Adjusted EBITDAX was (\$0.4) million for the first quarter of 2018 as compared to \$(0.6) million for the first quarter of 2017. Net Loss was \$0.2 million for the first quarter of 2018 compared to \$0.7 million for the first quarter of 2017. Adjusted EBITDAX 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 March 31, 2018, the Company was in compliance with all financial covenants and fully conforming with all requirements under its credit facility.

Credit Facility Covenants	Required Covenant Ratio	U.S. Energy at 3/31/2018
Current Ratio	Greater than 1.0 to 1.0	7.3 to 1.0
PDP to Secured Debt*	Greater than 1.2 to 1.0	10.0 to 1.0

*Represents outstanding indebtedness of \$0.9 million under the Credit Facility at 3/31/18.

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. As of March 31, 2018, U.S. Energy had an unrealized loss on commodity price derivatives of \$0.1 million. The following table summarizes U.S. Energy's open crude oil and natural gas derivative contracts scheduled to settle after March 31, 2018.

	Position	Begin	End	Quantity (bbls/d)	Price
Crude oil price swaps	Bought	4/1/18	6/30/18	150	52.20
Crude oil call option	Bought	4/1/18	4/30/18	150	60.00

	Position	Begin	End	Quantity (mcf/d)	Price
Natural gas price swaps	Bought	4/1/18	12/31/18	500	3.01

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.

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

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,095	\$ 3,277
Oil and gas sales receivable	1,078	687
Discontinued operations - assets of mining segment	114	114
Assets available for sale	-	653
Marketable securities	798	876
Transaction deposit	374	250
Other current assets	316	61
Total current assets	<u>4,775</u>	<u>5,918</u>
Oil and gas properties under full cost method:		
Unevaluated properties	4,664	4,664
Evaluated properties	86,356	86,313
Less accumulated depreciation, depletion and amortization	<u>(83,500)</u>	<u>(83,362)</u>
Net oil and gas properties	<u>7,520</u>	<u>7,615</u>
Other assets:		
Property and equipment, net	2,340	1,717
Other assets	<u>62</u>	<u>66</u>
Total other assets	<u>2,402</u>	<u>1,783</u>
Total assets	<u>\$ 14,697</u>	<u>\$ 15,316</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities:

Oil and gas payables	464	707
Related party payable	-	50
Accrued compensation and benefits	82	64
Liabilities from derivative contracts	107	161
Current portion of long-term debt	-	600

Total current liabilities	<u>653</u>	<u>1,582</u>
Noncurrent liabilities:		
Asset retirement obligations	919	913
Revolving credit facility	937	937
Warrant liability	930	1,200
Other liabilities	<u>28</u>	<u>22</u>
Total noncurrent liabilities	<u>2,814</u>	<u>3,072</u>
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 as of 3/31/2018; liquidation preference of \$2,606 as of 3/31/2018.	1	1
Common stock, \$0.01 par value; unlimited shares authorized; 12,460,220 and 6,134,506 shares issued and outstanding as of 3/31/2018 and 12/31/2017, respectively	124	118
Additional paid-in capital	137,515	136,631
Accumulated deficit	(125,429)	(125,185)
Other comprehensive loss	<u>(981)</u>	<u>(903)</u>
Total shareholders' equity	<u>11,230</u>	<u>10,662</u>
Total liabilities and shareholders' equity	<u>\$ 14,697</u>	<u>\$ 15,316</u>

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

	<u>2018</u>	<u>2017</u>
Revenue:		
Oil	\$ 1,230	\$ 1,240
Natural gas and liquids	<u>325</u>	<u>507</u>
Total revenue	<u>1,555</u>	<u>1,747</u>
Operating expenses:		
Oil and gas operations:		
Production costs	633	1,053
Depreciation, depletion and amortization	145	270
General and administrative:		
Compensation and benefits, including directors and contract employees	783	176
Stock-based compensation	13	106
Professional fees, insurance and other	<u>320</u>	<u>880</u>
Total operating expenses	<u>1,894</u>	<u>2,485</u>
Operating loss	<u>(339)</u>	<u>(738)</u>
Other income (expense):		
Realized loss on oil price risk derivatives	(179)	-
Unrealized gain on oil price risk derivatives	54	-

Rental and other loss	(14)	(216)
Warrant fair value adjustment	270	340
Interest expense	(36)	(125)
Other expense	-	(1)
Total other income (expense)	<u>95</u>	<u>(2)</u>
Net loss	<u>(244)</u>	<u>(740)</u>
Change in fair value of marketable equity securities, net of tax	<u>(78)</u>	<u>(86)</u>
Comprehensive loss	<u>\$ (322)</u>	<u>\$ (826)</u>
Loss applicable to common shareholders		
Loss from operations	(244)	(740)
Accrued dividends related to Series A Convertible Preferred Stock	<u>(79)</u>	<u>(69)</u>
Loss applicable to common shareholders	(323)	(809)
Loss per share- basic & diluted		
Total	<u>\$ (0.03)</u>	<u>\$ (0.14)</u>
Weighted average shares outstanding		
Basic & diluted	<u>12,148,527</u>	<u>5,834,568</u>

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017 (In Thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net loss	\$ (244)	\$ (740)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	178	304
Change in fair value of oil price risk derivative	(54)	-
Stock-based compensation and services	13	106
Warrant fair value adjustment	(270)	(340)
Other	8	28
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Oil and gas sales receivable	(391)	(96)
Other assets	(5)	(140)
Transaction deposit	(374)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	(293)	533
Accrued compensation and benefits	<u>19</u>	<u>12</u>
Net cash used in operating activities	(1,413)	(333)
Cash flows from investing activities:		
Capital expenditures	<u>(46)</u>	<u>(21)</u>
Net cash used in investing activities:	(46)	(21)

Cash flows from financing activities:

Payment on short-term debt	(600)	-
Proceeds from issuance of common stock, net	877	-
	<u>277</u>	<u>-</u>
Net cash provided by financing activities		
	<u>277</u>	<u>-</u>
Net decrease in cash and equivalents	(1,182)	(354)
Cash and equivalents, beginning of period	3,277	2,518
Cash and equivalents, end of period	<u>\$ 2,095</u>	<u>\$ 2,164</u>

Non-cash investing and financing activities:

Unrealized loss on marketable securities	<u>78</u>	<u>86</u>
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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 EBITDAX"), which is a non-GAAP performance measure. Adjusted EBITDAX consists of net earnings after adjustment for those items described in the table below. Adjusted EBITDAX 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 EBITDAX 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 EBITDAX to manage our business, including in preparing our annual operating budget and financial projections. Our management does not view Adjusted EBITDAX 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 EBITDAX for the periods presented:

	<u>2018</u>	<u>2017</u>
Loss from continuing operations (GAAP)	\$ (244)	\$ (740)
Depreciation, depletion and amortization	145	304
Unrealized gain on oil price risk derivatives	(54)	-
Stock-based compensation	13	106
Warrant fair value adjustment (gain) loss	(270)	(340)
Interest expense	<u>36</u>	<u>125</u>
Total	<u>\$ (374)</u>	<u>\$ (545)</u>

 [Primary Logo](#)

Source: U.S. Energy Corp.

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