November 20, 2024

Zacks Small-Cap Research

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U.S. Energy Corp. (NASDAQ: USEG)

USEG: U.S. Energy reports 3rd quarter 2024 financial and operating results and updates investor community on helium extraction business.

Utilizing a Discounted Cash Flow process containing conservative estimates combined with other valuation methodologies, we believe USEG could be worth **$3.00** per share.

Current Price (11/19/24)	$1.75
Valuation	**$3.00**

OUTLOOK

U.S. Energy (NASDAQ: USEG) is an independent energy company historically focused on the acquisition and development of oil and natural gas producing properties in the U.S. In June 2024, the company acquired acreage in Montana with the goal of extracting and marketing helium products and other industrial gases. Going forward, the primary focus will be on the development and operation of helium and other industrial gases, along with the development of carbon sequestration capabilities. The company has no debt and $21.15 million in available liquidity. We believe the company is well positioned for profitable growth going forward.

SUMMARY DATA

52-Week High	**$1.91**
52-Week Low	**$0.81**
One-Year Return (%)	**48.3**
Beta	**0.49**
Average Daily Volume (sh)	**122,931**
Shares Outstanding (mil)	**27.9**
Market Capitalization ($mil)	**$48.9**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**71**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2024 Estimate	**N/A**
P/E using 2025 Estimate	**N/A**

Risk Level	**Above Avg.**
Type of Stock	**Small Value**
Industry	**Energy**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022					$44.5 A
2023	$8.3 A	$8.0 A	$8.7 A	$7.3 A	$32.3 A
2024	$5.4 A	$6.1 A	$5.0 A	$4.7 E	$21.1 E
2025					$22.3 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022					-$0.04 A
2023	-$0.05 A	-$0.10 A	-$0.35 A	-$0.78 A	-$1.28 A
2024	-$0.16 A	-$0.08 A	-$0.04 A	-$0.08 E	-$0.36 E
2025					-$0.22 E

Quarterly revenues may not equal annual revenues due to rounding.
Quarterly EPS may not equal annual EPS due to rounding or dilution.
Some figures may be non-GAAP.

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WHAT'S NEW

3rd Quarter 2024 Financial and Operating Results

On November 12, 2024, the company reported 3rd quarter 2024 financial and operating results. The year over year revenue comparisons were not relevant due to recent divestitures incurred in 2024. Total oil and gas revenue decreased 43.3% to approximately $5.0 million, compared to $8.7 million in the prior year period. The company divested its South Texas properties in July 2024. Sales from oil production represented 88% of total revenue during the quarter, a decrease from 91% in the 2nd quarter of 2024. Natural gas sales were 12% of revenues in the 3rd quarter of 2024.

Lease operating expense in the 3rd quarter of 2024 was approximately $3.1 million, or $28.95 per Boe, as compared to $4.0 million, or $23.61, in the 3rd quarter of 2023. The decrease in the total amount of LOE was primarily due to a reduction in producing assets as a result of asset divestitures.

Cash general and administrative expenses were approximately $1.6 million during the 3rd quarter of 2024, a reduction from the $2.2 million reported in the prior year period. This reduction reflects recent cost cutting efforts at the corporate level and was offset by one-time costs associated with business development efforts in Montana.

Adjusted EBITDA was $1.8 million in the 3rd quarter of 2024, compared to adjusted EBITDA of $1.7 million in the 3rd quarter of 2023. The company reported a net loss of ($2.2) million, or a loss of ($0.08) per diluted share. Absent the impairment charge, adjusted EPS was a loss of ($0.04) per share.

As of 9/30/24, the company had no outstanding debt and cash balances of $1.15 million and $20.0 million of availability on its bank line of credit which provides total liquidity of $21.15 million. Subsequent to the end of the 3rd quarter, the company divested its Kansas oil & gas properties which provided an additional $1.2 million in liquidity

During the 3rd quarter of 2024, the company produced 105,699 Boe, or an average of 1,149 Boe/d. The South Texas divestiture represented approximately 100 Boe/d in production. When adjusting for the South Texas transaction and other non-core divestitures made to date, the company realized sequential production increases over both the 1st and 2nd quarters of 2024.

In April 2023, the company authorized a share repurchase program of up to $5.0 million. Since then, approximately 900,000 shares have been repurchased at an average price of $1.17 per share, which represents about 3.0% of shares outstanding. During the 3rd quarter of 2024, the company repurchased 19,000 shares at an average price of $1.05. Recently, CEO Ryan Smith has purchased 9,100 shares at an average price of $1.24.

The company's 2024 SEC proved reserves as of July 1, 2024, as prepared by an independent third-party reserve engineer, were 3.5 Mboe and comprised of 62% oil. The total derived PV-10 value was approximately **$50.9 million**. At the end of the 3rd quarter, the SEC PV-10 value was approximately **$52.0 million**. Taking into account the divestiture of the Kansas properties, the SEC PV-10 value of the oil & gas properties was **$49.8 million** as of October 31, 2024.

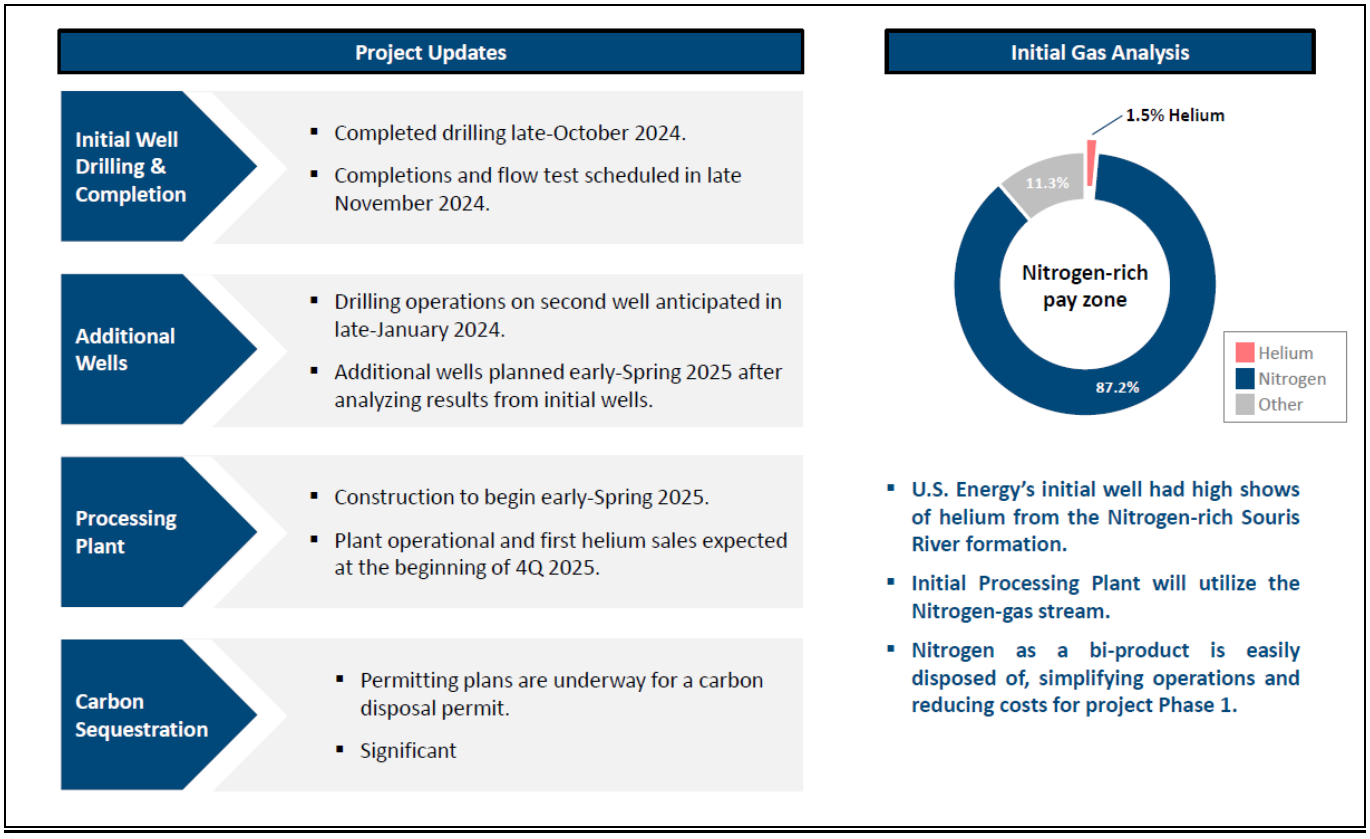
Helium Program Update

Recently, U.S. Energy has had significant advances in developing the industrial gas assets in northern Montana. From September through October of 2024, the company successfully completed drilling operations on its first well which uncovered multiple productive helium zones within non-hydrocarbon-based gas streams.

The highest helium concentrations were identified within a nitrogen-based formation, with additional helium reserves discovered in a CO2-based formation. These results position the company to capitalize on these assets for future industrial gas development and planned carbon sequestration initiatives (see below for more drilling details).

The company expects to begin development of its helium processing plant in the first quarter of 2025. Due to the simplified modular component structure of the proposed plant, the company believes that the plant could become operational by September or October of 2025.

The structure of the helium operations provides for revenue generation from both the wellhead and from the processing plant. U.S. Energy owns an 82.5% working interest in the wells and owns 100% of the processing plants. There are multiple variables that could affect revenues and EBITDA generation in the helium operations including realized pricing, % of helium concentrations, and plant marketing fees. We believe under a wide range of scenarios, full cycle EBITDA generation could be in the **$5.0-$10.0** million range.



Source: usnrg.com

Valuation & Estimates

We utilize multiple valuation methodologies to arrive at our price target of **$3.00** for USEG stock. These include Discounted Cash Flow (DCF) calculations, peer multiples, price to book value, price to asset value and others.

Our DCF calculation assumes monetization of helium extraction begins in late 2025. For calendar year 2026, we believe that helium revenues could total approximately $12.0 million and EBITDA generation would be in the range of $7.0 to $8.0 million. We assume the oil and gas properties produce steady state revenues in the $17.0-$18.0 million range with EBITDA generation of approximately $2.0 million. Under this scenario, our DCF calculation is approximately **$3.00** per share. This may prove to be conservative as we utilize a high discount rate of 12.5%. In addition, we do not incorporate any other industrial gas revenues or carbon sequestration related revenues into our model at this time.

We believe that USEG is also undervalued on an oil & gas standalone basis. The company's 2024 SEC PV-10 proved reserves as of October 31, 2024 were **$49.8 million**. With a current market cap of $44 million USEG is trading at 88% of proved reserves. If the company were to sell at the value of its proved oil & gas reserves, that would create a stock price of **$1.78**. In addition, we believe recent M&A transaction values based on proven reserves have been at multiples of the SEC PV-10 value.

The company reported $6.9 million in helium related unproven resources as of 9/30/24 which is essentially the acquisition costs and other incurred costs to date for the helium operations. We believe an independent third party will be able to provide an estimate of proven helium reserves at some point in the 1st quarter of 2025.

On a forward looking basis assuming the helium extraction efforts are successful and create $8.0-$10.0 of annual industrial gas EBITDA, we can look at industrial gas peer valuations. Using a peer group including APD, LIN and AIQUY, the average peer EV/EBITDA multiple is approximately 16x. Applying that multiple to the range of estimates for USEG's industrial gas business would create a stock price in the **$4.50- $5.70** range. We don't incorporate that range into our target price at this time, but we are demonstrating the potential upside for USEG if the helium business is successful over time.

KEY INVESTMENT POINTS



Source: usnrg.com

- U.S. Energy (NASDAQ: USEG) is an established energy company historically focused on the acquisition and development of oil and natural gas producing properties in the United States.
- On June 26, 2024, the company made a transformative acquisition of 140,000 acres in Northwestern Montana with the goal of producing and marketing industrial gases, including helium, along with the development of carbon sequestration capabilities across the asset base.
- U.S. Energy is positioned to develop carbon sequestration initiatives across the asset base, leading to increased economics while commercially diversifying the project.

- Although U.S. Energy will retain a portion of its oil & gas properties for the foreseeable future while opportunistically divesting non-core properties, the company's future operations will focus on the production of helium and other industrial gases.

- Third party engineering reports show large scale helium, CO2, and other resources at the acquired properties, while offset operators and analogous fields confirm the presence and viability of helium as well.

- On October 31, 2024, the company announced the successful completion of its first helium well in Montana. The data showed high quality helium concentrations of approximately 1.5% in Nitrogen based formations which appears to make the well economically viable.

- The global demand for helium is estimated to be around 6 billion cubic feet (Bcf) annually, with China importing 1.0 Bcf per year. Annual demand is expected to increase from approximately 6.0 Bcf to 8.7 Bcf by 2030.

- The use of helium is diverse and growing and end markets include manufacturing, aerospace & defense, healthcare & life sciences, and general industrial.

- The company's 2024 SEC PV-10 proved oil & gas reserves as of October 31, 2024 totaled **$49.8** million.

- For the first nine months of 2024, the company generated $16.4 million in revenues and $3.1 million in adjusted EBITDA.

- The company currently has no debt, approximately $1.15 million in cash, and $20.0 million in availability on its bank line of credit.

- We believe USEG stock is worth **$3.00** based on a conservative discounted cash flow (DCF) calculation and peer multiple comparisons.



Source: usnrg.com

OVERVIEW



Source: usnrg.com

U.S. Energy (NASDAQ: USEG) is an independent energy company historically focused on the acquisition and development of oil and natural gas producing properties in the continental United States. In June 2024, the company acquired acreage in Montana with the goal of extracting and selling helium and other industrial gas products, which will be the primary business focus going forward.

Principal energy and industrial gas (including helium) properties and operations are located in the Rockies region (Montana and Wyoming), the Mid-Continent (Oklahoma, East Texas), and the Gulf Coast.

The company has historically explored for and produced oil and natural gas through a non-operator business model, however, during 2020 the company acquired operated properties in North Dakota, New Mexico, Wyoming and the Texas Gulf Coast. In 2022, the company acquired certain oil and gas properties from three separate sellers, representing a diversified portfolio of primarily operated, producing, oil-weighted assets located across the Rockies, West Texas, Eagle Ford, and Mid-Continent regions. During the 4th quarter of 2023, the company divested substantially all of its non-operated properties. In the 3rd quarter of 2024, the company divested the remainder of its South Texas assets and subsequently paid off all outstanding debt.

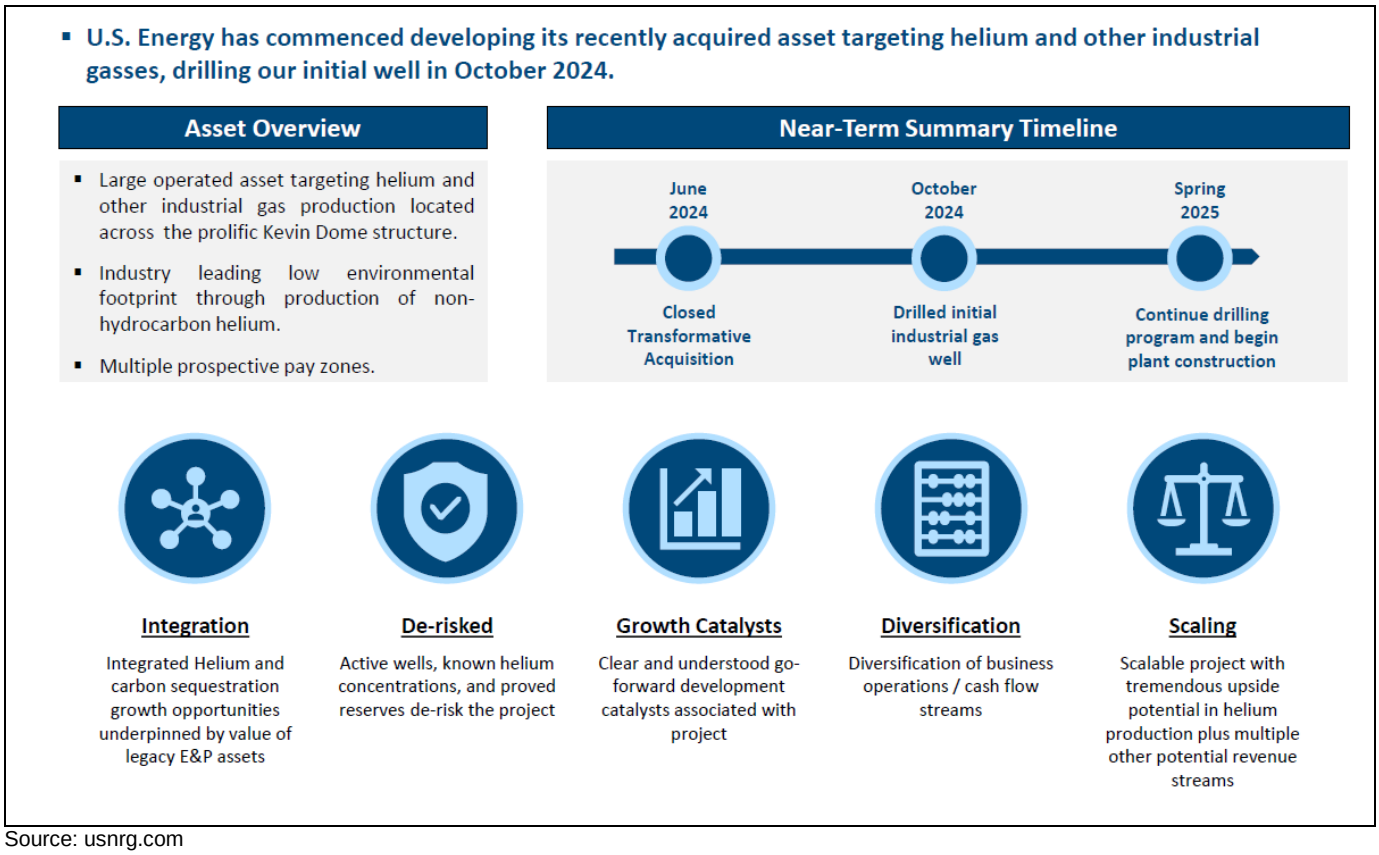
The company's business strategy is to enhance the value of acquired operated assets through evaluation of selected properties with the goal of increasing production and reserves. The company plans to deploy capital in a conservative and strategic manner and pursue value-enhancing transactions. The company also continuously evaluates strategic alternative opportunities that it believes will enhance stockholder value.

After the transformative June 2024 acquisition of 140,000 acres in Northwestern Montana with the goal of producing and marketing helium gas, the company will focus on producing industrial gases in the region and advancing its existing carbon sequestration opportunities. Third party engineering studies show substantial helium and CO2 resources while other operators and analogous fields confirm the presence and viability of helium as well. The use of helium is diverse and growing and end markets include manufacturing, aerospace & defense, healthcare, life sciences, and general industrial.

U.S. Energy will retain its oil & gas properties for the foreseeable future which are capable of producing $2.0-$3.0 million in EBITDA annually depending on prevailing commodity prices.

ACQUISITION OF HELIUM PROPERTIES

On June 26, 2024, U.S. Energy entered into a purchase and sale agreement with Wavetech Helium. Under the terms of this agreement, the company acquired 82.5% of Wavetech's rights under a farmout agreement for approximately 140,000 net acres located across the Kevin Dome geological structure in Toole County, Montana.



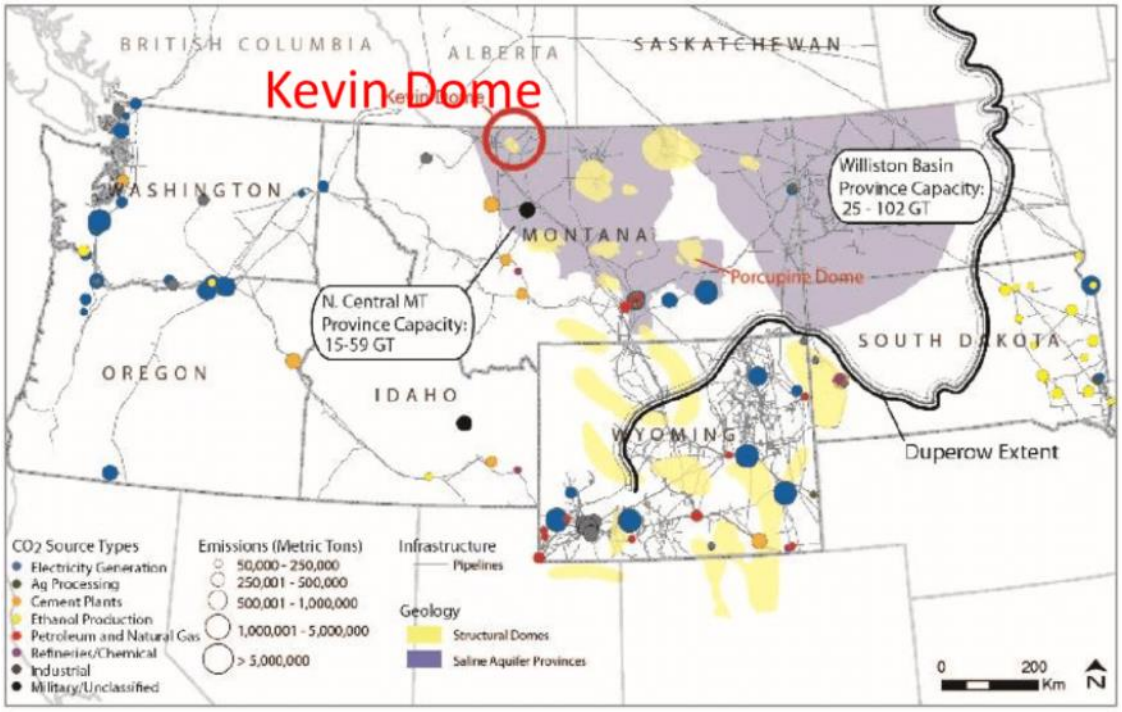
Source: usnrg.com

The assigned rights vest upon the drilling of two wells on the property. The company paid Wavetech $2.0 million in cash and 2.6 million shares of USEG restricted common stock, valued at $2.7 million on June 26, 2024. U.S. Energy is to be responsible for 100% of capital costs, including costs related to project exploration, appraisal, development drilling and completion until $20 million has been incurred related to Wavetech's 17.5% interest. Wavetech is still responsible for their 17.5% share of the operating expenses of the wells. Acquisition, exploration and development costs related to the helium acreage are accounted for under the full cost method of accounting in a separate cost center from the company's domestic oil and gas activities.

PROPERTIES

Helium & Industrial Gases

The company's helium producing properties encompasses 140,000 acres in Northwest Montana stretching across the Kevin Dome geological structure. Kevin Dome covers 750 square miles and contains naturally occurring CO2, Helium, Nitrogen and other gases that have been trapped in place for millions of years.



Source: usnrg.com

The company's position across the Kevin Dome structure in Northwest Montana is supported by a contingent and prospective resource report prepared by a third-party engineering firm. When considering both contingent and prospective resources, at the mid-point of estimates, it is believed there could be 37 Bcf of helium resources.

Although the near-term focus is on extracting helium, the company plans on marketing nitrogen and CO2 as well as developing the area into a regional carbon sequestration hub. The global nitrogen market is approximately 43 million tons and is expected to grow at a CAGR of over 5.0%. Nitrogen is crucial across many industries including fertilizer production, manufacturing, packaging and the food & beverage industry. Carbon capture and utilization is a growing industry and uses include fertilizer production, beverage industry, enhanced oil recovery, synthetic fuels and aggregates. The company continues to make progress on carbon sequestration initiatives and has begun the planning and engineering phase of its owned infrastructure to both sequester and monetize carbon.

Contingent Resources

	Discovered Gas initially in Place (Bcf)			Remaining Helium Resource (Bcf)		
Formation	1c (Low)	2c (Best)	3c (High)	1c (Low)	2c (Best)	3c (High)
Middle Duperow:	1,293.0	1,947.0	2,904.0	8.1	16.8	31.5
Lower Duperow:	428.2	806.4	1,459.0	2.9	6.9	14.8
Totals:	**1,721.2**	**2,753.4**	**4,363.0**	**10.9**	**23.7**	**46.3**

Prospective Resources

	Undiscovered Gas initially in Place (Bcf)			Remaining Helium Resource (Bcf)		
Formation	1u (Low)	2u (Best)	3u (High)	1u (Low)	2u (Best)	3u (High)
Souris River:	428.4	995.3	20.7	3.3	9.1	21.7
Flathead:	114.1	282.6	701.7	1.6	4.2	10.8
Totals:	**542.5**	**1,277.9**	**722.4**	**4.9**	**13.3**	**32.5**

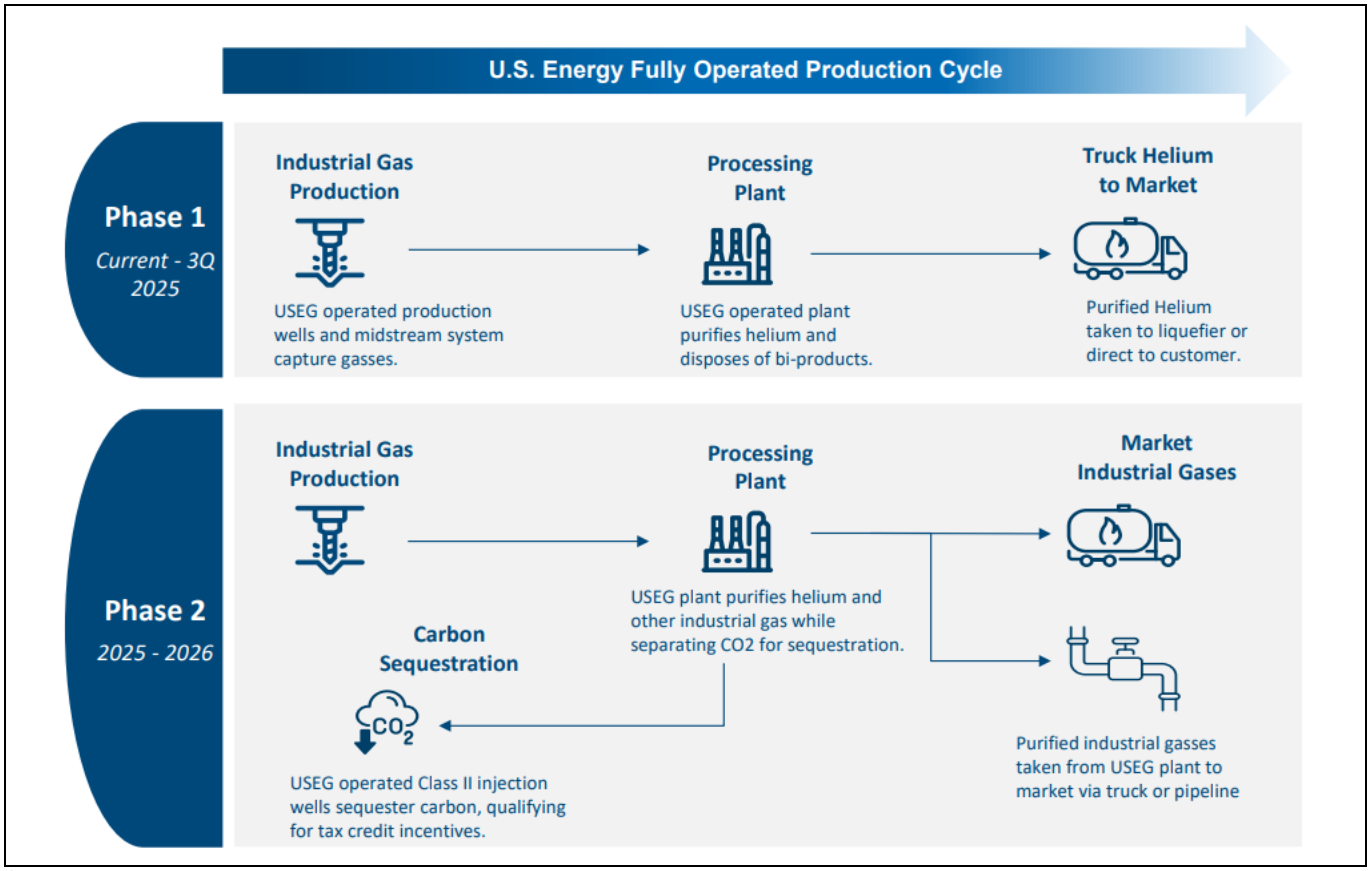
(1) Gross volumes in the ground before applying any commercial or economic parameters

(2) Discovered Gas Initially in Place is raw gas volumes, predominately CO2 and nitrogen, before applying helium content

Source: usnrg.com

The company drilled its first helium well in the 4th quarter of 2024 and plans on drilling one additional well in the 1st quarter of 2025 and one more in the 2nd quarter of 2025. If necessary, the company can also drill a fourth or fifth well in the 2nd and 3rd quarters of 2025. The initial cost per well was approximately $1.5 million with the cost expected to drop to the $1.0-$1.1 million range for the next three wells. These conventional wells are typically drilled to a depth of 3,000-5,000 feet where the industrial gases are deposited. The company will target and test several pay zones which it believes to be economic, including multiple Duperow, Souris River, and Flathead formations.

On October 31, 2024, the company announced it had completed the 1st helium well and preliminary results showed positive results in Nitrogen based formations. Independent lab results confirm high-quality, non-hydrocarbon-based helium with concentrations up to approximately 1.5%. This is at the high range of company expectations. The results validate the company's expansion into industrial gases and potential value of these Montana properties. In addition, additional helium was also discovered in CO2-based formations, which positions the company to leverage these assets into future carbon sequestration initiatives. This could eventually lead to this area evolving into a major regional carbon sequestration hub.



Source: usnrg.com

U.S. Energy will now conduct extended pressure flow tests across multiple zones to further its analysis and further validate the economic viability of this multi-zone resource. This can potentially establish how many successful wells are needed to economically operate the processing plant (see below)

CEO Ryan Smith stated, *"I am pleased to report a significant milestone for U.S. Energy with this major helium discovery as part of our industrial gas development strategy around our newly acquired assets in Montana. The independent analysis not only validates our geologic model and the high potential of the asset but also enables us to move forward confidently toward full-cycle program completion, expected in 2025. The expertise of our newly expanded operational team, with extensive experience in similar projects, was evident throughout, resulting in efficient, on-target, and under budget drilling operations.*

With our debt-free position, strong balance sheet, robust asset base, and solid cash flow from legacy operations, U.S. Energy has the financial flexibility to accelerate our program's development in an economically sound way while enhancing shareholder value."



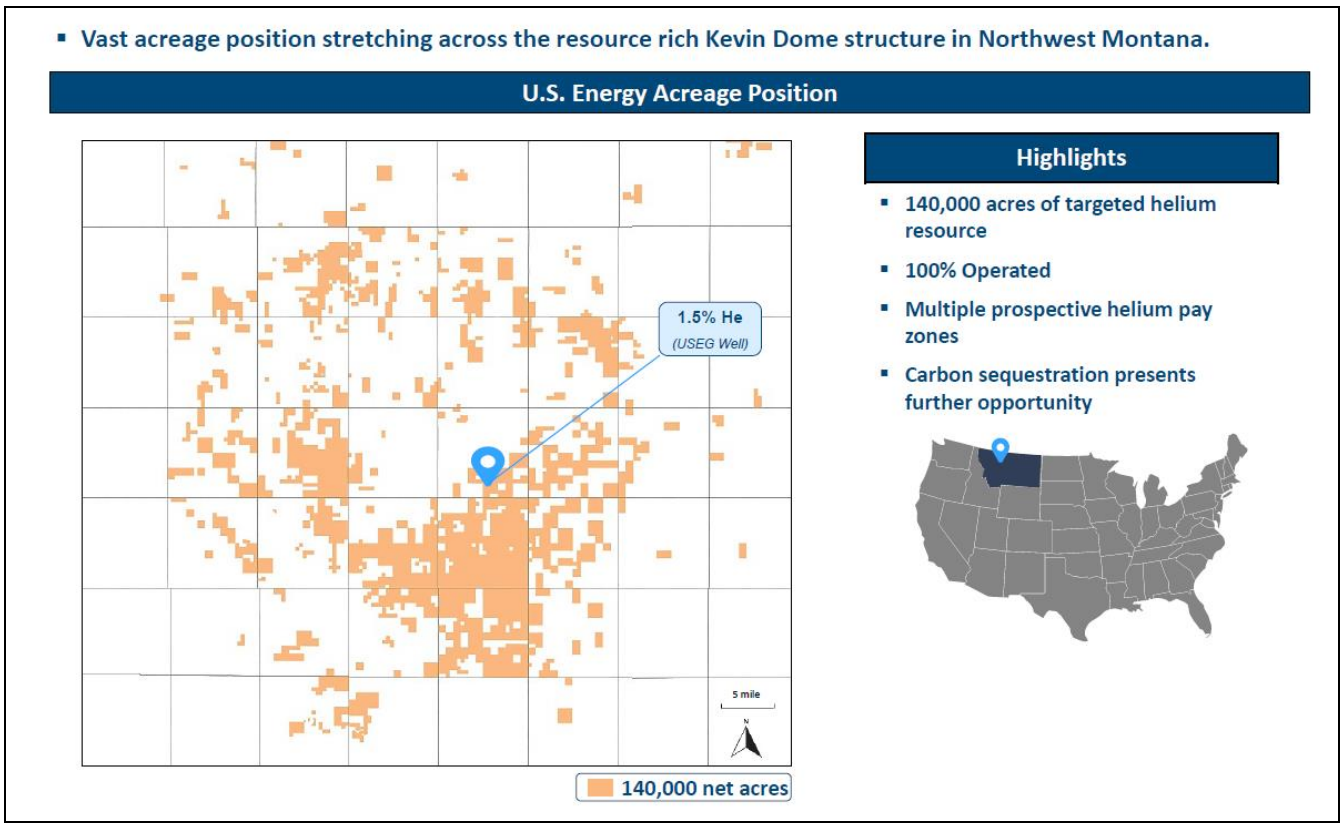
Source: U.S. Energy

After the successful completion of the first helium well, the company will begin development on a helium processing plant capable of producing purified gaseous helium. The pure gaseous helium will then be transported via truck to a nearby liquefication facility. Helium is liquified in a process similar to LNG for easier transportation and storage. Liquid helium products also appeal to a larger market, including end-users who require the low temperatures of liquid helium. Helium can also be economically shipped regionally as a gas in high-pressure tube trailers, although transportation costs for helium gas are higher than for liquid helium.

The company's nitrogen-based plant development cost is expected to be in the range of $6.0-$7.0 million and will be funded by free cash flow and existing liquidity availability, or the opportunistic monetization of legacy, non-core oil and gas assets. The plant capacity is expected to process 8,000 Mcf of gas per day.

The company projects the helium recovery rate for their wells will range from 0.5% to 1.5% of total gas produced. Using 1.0% as the realized recovery rate, the plant at full capacity can produce 80 Mcf of helium per day. With current contract helium prices per Mcf in the $450-$650 range, U.S. Energy could generate substantial levels of revenues from its industrial gas operations when operating at full capacity.

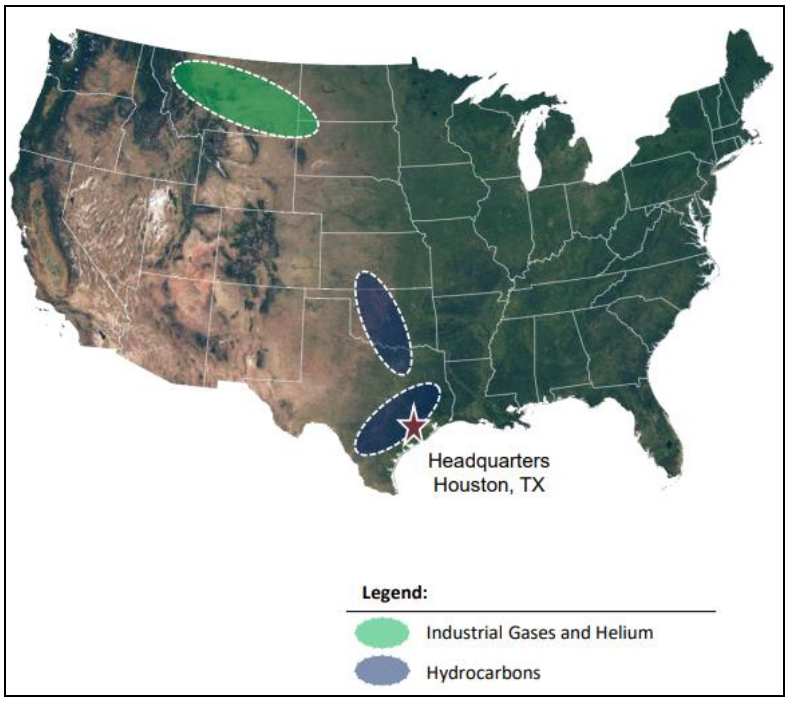
With the successful results of its first helium well, and the completion of the processing plant in the fall of 2025, we believe the company could potentially generate helium revenues early in the 4th quarter of 2025.



Source: usnrg.com

Oil & Gas Properties

The company's legacy oil and gas properties and operations are in the Rockies region (Montana and Wyoming), the Mid-Continent region (Oklahoma, East Texas), and the Gulf Coast region.



Source: usnrg.com

The company's 2024 SEC proved reserves as of July 1, 2024, as prepared by an independent third-party reserve engineer, were 3.5 Mboe and comprised of 62% oil. The total derived PV-10 value was approximately **$50.9 million**. At the end of the 3rd quarter, the SEC PV-10 value was approximately **$52.0** million. Taking into account the divestiture of the Kansas properties, the SEC PV-10 value of the oil & gas properties was **$49.8** million as of October 31, 2024.

Proved Reserves				
	Overview			PV-10 ($mm) (1)
Classification	Oil (Mbo)	Gas (Mmcf)	Total (Mboe)	
Proved Developed Producing:	2,543	6,533	3,542	$50.9
Total Proved Reserves:	**2,543**	**6,533**	**3,542**	**$ 50.9**

(1) Gross volumes in the ground before applying any commercial or economic parameters.
(2) Discovered Gas Initially in Place is raw gas volumes, predominately CO2 and nitrogen, before applying helium content.
Source: usnrg.com

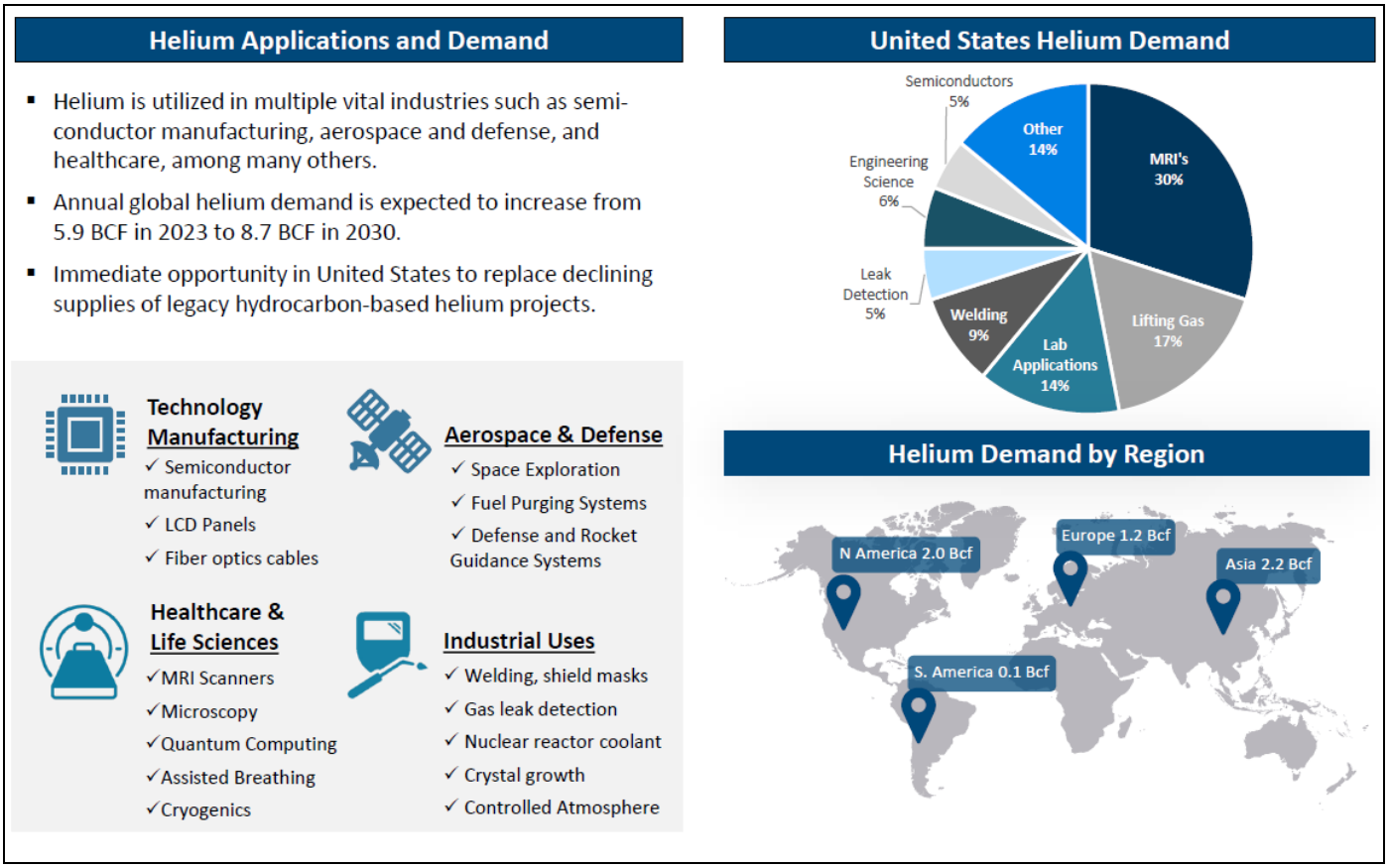
On August 5, 2024, the company announced that it had closed on the accretive sale of oil & gas assets located in South Texas. The transaction was previously announced on July 9, 2024. The company received new cash proceeds of approximately $5.2 million. Proceeds are expected to be used to fund development of U.S. Energy's helium assets and to repay outstanding debt. Divested assets averaged approximately 155 barrels of oil equivalent per day (85% oil) from January-March 2024, or 13% of U.S. Energy's total production over the same period. The transaction closed on July 31, 2024.

HELIUM INDUSTRY & INDUSTRIAL GAS MARKETS

Helium (He) is a colorless, odorless, non-toxic, inert gas with many commercial and industrial applications. Its boiling point is the lowest of all the elements, and it does not have a melting point at standard pressures. Helium's distinctive combination of physical and chemical characteristics makes it a highly valued commodity with numerous applications in important fields of industry and technology.

Helium is produced by the long-time, slow radioactive decay of elements within ancient continental crust and released when this ancient crust is broken up by large plate tectonic forces. There is no way of manufacturing helium artificially, nor can it be commercially derived from the atmosphere. Helium gets entrapped and mixes with the natural gas or other industrial gases found under layers beneath the earth's surface. Helium is then extracted from the ground with wells drilled to release it, similar to the natural gas drilling process. Traditionally, helium is extracted from natural gas wells, however the wells that U.S. Energy will be drilling will extract the helium from other industrial gases such as nitrogen and carbon dioxide.

The amount of helium gas that can be found in a natural gas or nitrogen/CO2 well varies from negligible to 4.0% by its volume. The company projects the helium recovery rate for their wells will range from 0.5% to 1.5%. The total extracted gases containing helium undergoes a process of cryogenic distillation to obtain the helium particles. Once separated from the other gases, helium goes through another process of refining after which it is brought to various levels of purity ranging from 97.5% to 99.9999%. As a highly valued product, liquid helium can be transported through ISO containers mounted onto trucks with no pipeline infrastructure needed.



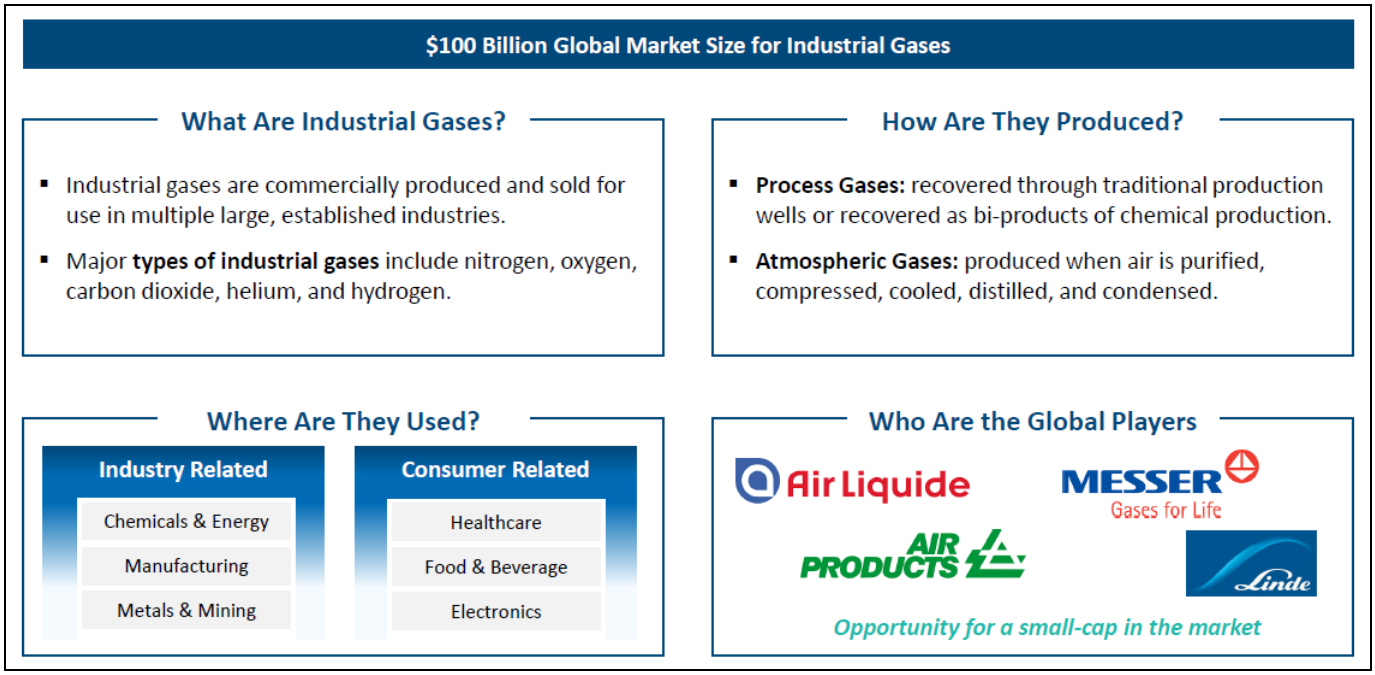
Source: usnrg.com

Global demand for helium is estimated to be around 6.0 billion cubic feet (Bcf) annually, with China importing 1.0 Bcf per year. Annual demand is expected to increase from approximately 6.0 Bcf to 8.7 Bcf by 2030.

The current global market for bulk liquid helium is worth over $2.8 billion with the import price to China now exceeding $450 per thousand cubic feet (mcf) in 2022. Market growth is based on sustained demand growth driven by the growing need for helium due to its high-value, high-tech uses.
There has been an ongoing supply crisis of helium since the closure of the US federal reserve in 2019.

Applications include:

- Manufacturing – semiconductors, LCD panels, fiber optics
- Aerospace & Defense – space exploration, fuel purging systems, rocket guidance systems
- Healthcare & Life Sciences – MRI scanners, microscopy, quantum computing, assisted breathing, cryogenics
- Industrial – welding masks, gas leak detection, nuclear reactor coolant, crystal growth, controlled atmosphere.



Source: usnrg.com

OIL & GAS INDUSTRY

The North American oil & gas market generated total revenues of $1,666 billion in 2022 which was a compound annual growth rate (CAGR) of 10.2% between 2017 and 2022. The market is expected to grow to $2,068 billion by 2027. Market consumption volume increased by a CAGR of 1.2% between 2017 and 2022, reaching a total of 15.1 billion BoE in 2022.

The U.S. has been the global leader in crude oil production since 2018. In 2022, five states accounted for more than 70% of total crude oil production:

- **Texas:** Over 1.8 billion barrels of crude oil produced (42.4% of the U.S. total)
- **New Mexico:** Over 574 million barrels of crude oil (13.2%)
- **North Dakota:** Over 386 million barrels of crude oil (8.9%)
- **Alaska:** Over 159 million barrels of crude oil (3.7%)
- **Colorado:** Over 157 million barrels of crude oil (3.6%)

New levels of electricity demand from data centers and crypto mining have created a bullish case for natural gas in North American. Natural gas provides more annual share of US electricity generation than any other source at about 40%. As power plants compete for fuel sources, natural gas prices have the potential to grow over time.

The oil and natural gas industry is affected by many external factors that oil companies cannot generally control. Government regulations in the areas of taxation, energy, climate change and the environment can have a significant impact on operations and profitability.

Significant factors that may impact oil prices currently and in future periods include the ongoing war between Russia and Ukraine, above average levels of inflation or interest rates, ongoing conflicts in the Middle East, attacks on merchant vessels in the Red Sea, and demand in Asian and European markets. Another significant factor is the extent to which members of the Organization of the Petroleum Exporting Countries (OPEC) and other oil exporting nations manage oil supply through export quotas.

Natural gas prices are generally determined by North American supply and demand and are also affected by imports and exports of liquefied natural gas. Weather also has a significant impact on demand for natural gas since natural gas is a primary heating source.

All of the company's production is marketed by industry partners and is sold to competing buyers, including large oil refining companies and independent marketers. Substantially all of the production is sold based on pricing agreements based on prevailing commodity prices.

MANAGEMENT

Ryan Smith
President, Chief Executive Officer and Director

Mr. Smith has served as the Company's Chief Executive Officer and President since December 2019. Mr. Smith joined the Company in January 2017 and served as Chief Financial Officer from that time through June 2023. Prior to U.S. Energy, Mr. Smith served as Emerald Oil Inc.'s Chief Financial Officer from September 2014 to January 2017 and Vice President of Capital Markets and Strategy from July 2013 to September 2014. Prior to joining Emerald, Mr. Smith was a Vice President in Canaccord Genuity's Investment Banking Group focused solely on the energy sector. Mr. Smith joined Canaccord Genuity in 2008 and was responsible for the execution of public and private financing engagements along with mergers and acquisitions advisory services. Prior to joining Canaccord Genuity, Mr. Smith was an Analyst in the Wells Fargo Energy Group, working solely with upstream and midstream oil and gas companies. Mr. Smith holds a Bachelor of Business Administration degree in Finance from Texas A&M University.

Mark Zajac
Chief Financial Officer

Mr. Zajac began his public accounting career in 1994 with Arthur Andersen and later joined KPMG where he was a partner and national industry leader for many years prior to his retirement. Mr. Zajac's career includes serving a variety of public and private companies throughout the energy value chain, including exploration and production, master limited partnerships, trading and marketing, independent power sectors and Special Purpose Acquisition Companies as well as extensive experience with securities and exchange offerings, mergers and acquisitions and global accounts. These experiences have exposed him to a wide variety of business experiences including PCAOB requirements, IPOs, emerging accounting and industry views, internal control effectiveness assessments, security offerings and various rules and regulations of the Securities and Exchange Commission. Mr. Zajac earned his Bachelor of Business Administration and Master of Business Administration, from Texas Tech University. He is a licensed Texas Certified Public Accountant.

Tug Eiden
Vice President of Production and Commercial Development

Mr. Eiden has served as the Company's VP of Production and Commercial Development since October 2024. Prior to U.S. Energy, Mr. Eiden served in executive roles at multiple private ventures focused on the acquisition of E&P companies within the Rocky Mountain region. Prior to this, Mr. Eiden was a corporate advisor at Anadarko Petroleum where he was focused on the development strategies of Anadarko's domestic and international unconventional asset portfolio. He is a licensed PE and holds a Bachelor of Science in Petroleum Engineering from Montana Technological University and a Master of Business Administration from Southern Methodist University.

Kip Ferguson
Vice President of Exploration and Business Development

Mr. Ferguson has served as Exploration and Business Development team lead since January 2022. He brings over thirty-five years of executive management experience in public and private corporations encompassing energy evaluation, drilling & completion operations, acquisitions & divestitures and project management for both fossil fuels and green sustainability programs. Mr. Ferguson served as EVP of Magnum Hunter Corp. and President of the Eagle Ford division building it into a $1 billion asset and property using successful development strategies with technical evaluations, optimization and efficiencies. Mr. Ferguson has managed large oil and gas reserve evaluations that follow Securities Exchange Commission guidelines for public company disclosures. Mr. Ferguson received a Bachelor of Science degree in Geology from The University of Texas at Austin.

Jakob Hulcy
Vice President of Operations

Mr. Hulcy has most recently served as the Company's Vice President of Operations and has been with the company since January 2022. Prior to U.S. Energy, Mr. Hulcy served at H2O Midstream, LLC. from 2020 to 2022 and at Delaware Energy Services as the Senior Facilities Engineer from 2018 to 2020, managing pipelines, facility designs and construction, as well as daily operations. Prior to his time in the midstream sector, he served various operational engineering roles from 2012 to 2018 at Murex Petroleum Corporation with a primary focus on unconventional Bakken wells. Mr. Hulcy earned his B.S. in Petroleum Engineering from Texas Tech University.

Mason McGuire
Vice President of Finance and Strategy

Mr. McGuire has most recently served the company's Vice President of Finance and has been with the company since April of 2022 and is largely responsible for acquisition and divestiture diligence and corporate finance related functions. Prior to joining U.S. Energy, he served as a Consultant at Opportune LLP in their Restructuring and Complex Financial Reporting group. While at Opportune, his efforts were focused on transactional due diligence and in- and out-of-court restructuring advisory services to a variety of public and private clients primarily within the upstream and oilfield service space. Mr. McGuire earned his B.A. in Finance and Energy Management from the University of Oklahoma.

RISKS

- The company has written down and may in the future be forced to further write down, material portions of its assets due to low oil and natural gas prices. The full cost method of accounting is used for oil and gas acquisition, exploration, development and production activities. Under the full cost method, all costs associated with the acquisition, exploration, and development of oil and natural gas properties are capitalized and accumulated in a country-wide cost center.

- The company's operations are subject to disruption from natural or human causes beyond its control, including risks from hurricanes, severe storms, floods, lightning strikes, heat waves, severe weather, wildfires, ambient temperature increases, sea level rise, war, accidents, civil unrest, political events, fires, earthquakes, system failures, cyber threats, terrorist acts and epidemic or pandemic diseases which could result in suspension of operations or harm to people or the natural environment.

- The future value and resources associated with helium development are unknown and the company may never realize the value of any resources. No reserves have been assigned in connection with

helium property interests to date, given their early stage of development. The future value of the company may be dependent on the success of helium drilling and development activities.

- The helium, oil and natural gas operations are subject to environmental, legislative and regulatory initiatives that can materially adversely affect the timing and cost of operations and the demand for helium, crude oil, natural gas, and NGLs. The company's operations are subject to stringent and complex federal, state and local laws and regulations relating to the protection of human health and safety, the environment and natural resources.

- The company has never had any helium producing properties and these newly acquired properties may not result in profitable helium production. The company's helium interests are exploration stage only at this point. Even with application of best science, there is no assurance that commercial quantities of helium will be discovered at any of the company's properties, nor is there any assurance that these exploration or development programs will yield any positive results.

- The company may need to raise additional capital to complete future potential acquisitions and will be required to raise additional funds through public or private debt or equity financing to fund operations and complete workovers and acquire assets. Adequate funds may not be available when needed or may not be available on favorable terms.

INSIDER TRADING AND OWNERSHIP

The following table shows the beneficial ownership of common stock as of April 12, 2024 and based on a total of 27,065,645 shares outstanding. The table excludes the 2,600,000 shares issued as part of the Wavetech acquisition.

Title of Class	Name of Beneficial Owner	Position with Company	Beneficial Ownership	Percent of Shares Beneficially Owned
Common	Ryan L. Smith	CEO and Director	885,514(1)	3.3%
Common	James W. Denny III	Director	163,913(2)	*%
Common	Randall D. Keys	Director	198,913(3)	*%
Common	D. Stephen Slack	Director	168,913(4)	*%
Common	John A. Weinzierl	Chairman	8,396,284(5)	31.0%
Common	Duane H. King	Director	2,176,312(6)	8.0%
Common	Joshua L. Batchelor	Director	6,939,437(7)	25.6%
Common	Mark L. Zajac	CFO	280,000(8)	1.0%
Common	**Directors and executive officers as a group (8 persons)**		**19,209,286**	**70.9%**
Greater than 5% Stockholders				
Common	John Alfred Weinzierl 2020 Trust	>5% Stockholder	3,124,893(9)	12.3%
Common	Katla Energy Holdings LLC	>5% Stockholder	4,853,565(10)	19.2%
Common	King Oil & Gas Company, Inc.	>5% Stockholder	2,027,399(11)	8.0%
Common	Banner Oil & Gas, LLC	>5% Stockholder	5,668,121(12)	22.4%

Source: U.S. Energy SEC filings

SUMMARY

We believe U.S. Energy has the potential to generate substantial levels of free cash flow over a mid-to-long-term time frame as the company's foray into industrial gases becomes successful. The company's diversification across traditional oil & gas cash flow and industrial gas projects should help reduce the inherent cyclicality in the hydrocarbon markets.

With the successful results of its first helium well in the books, and the completion of the processing plant in the summer of 2025, we believe the company could potentially generate helium revenues early in the 4th quarter of 2025 and calendar year 2026 could show full cycle helium revenue generation in the $12.0-$14.0 million range.

The company's current stock price does not likely reflect that potential level of profitable growth going forward and does not reflect the value of proven reserves in the oil & gas business and potential industrial gas resources. We believe the stock to be undervalued at this time, particularly when compared to competitors.

We believe multiple valuation methods support our DCF valuation which provides a target price of **$3.00** per share.



Source: usnrg.com

PROJECTED INCOME STATEMENT

Income Statement	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
Net Sales	**44,542**	**32,316**	**21,105**	**22,306**	**31,229**
Growth	*569.0%*	*-27.4%*	*-34.7%*	*5.7%*	*40.0%*
Operating Expenses	**17,240**	**15,811**	**12,595**	**11,639**	**15,983**
%	*38.7%*	*48.9%*	*59.7%*	*52.2%*	*51.2%*
Production Taxes	**3,010**	**2,107**	**1,300**	**1,445**	**1,992**
% of sales	*6.8%*	*6.5%*	*6.2%*	*6.5%*	*6.4%*
Depreciation, Depletion, Amortization	**9,607**	**11,235**	**8,627**	**9,921**	**10,913**
% of sales	*21.6%*	*34.8%*	*40.9%*	*44.5%*	*34.9%*
Impairments	**0**	**26,680**	**6,843**	**0**	**0**
% of sales	*0.0%*	*82.6%*	*32.4%*	*0.0%*	*0.0%*
SG&A Expenses	**11,157**	**11,523**	**8,799**	**7,479**	**6,731**
% of sales	*25.0%*	*35.7%*	*41.7%*	*33.5%*	*21.6%*
Operating Income	**3,528**	**(35,040)**	**(17,059)**	**(8,178)**	**(4,390)**
Margin	*7.9%*	*-108.4%*	*-80.8%*	*-36.7%*	*-14.1%*
Adjusted EBITDA	**16,152**	**5,168**	**(441)**	**2,317**	**7,109**
Margin	*36.3%*	*16.0%*	*-2.1%*	*10.4%*	*22.8%*
Other Expenses/(Income)	**5,850**	**(2,907)**	**(1,289)**	**(1,000)**	**(159)**
%	*13.1%*	*-9.0%*	*-6.1%*	*-4.5%*	*-0.5%*
EBIT	**(2,322)**	**(32,133)**	**(15,770)**	**(7,178)**	**(4,232)**
%	*-5.2%*	*-99.4%*	*-74.7%*	*-32.2%*	*-13.6%*
Total Interest Exp (net)	**544**	**1,114**	**344**	**473**	**473**
%	*1.2%*	*3.4%*	*1.6%*	*2.1%*	*1.5%*
Net Profit Before Tax	**(2,866)**	**(33,247)**	**(16,114)**	**(7,651)**	**(4,704)**
%	*-6.4%*	*-102.9%*	*-76.4%*	*-34.3%*	*-15.1%*
Income Tax	**(1,893)**	**(891)**	**(106)**	**(1,530)**	**(941)**
% Effective Rate	*66.1%*	*2.7%*	*0.7%*	*20.0%*	*20.0%*
% Cash Tax Rate	*66.1%*	*2.7%*	*0.7%*	*20.0%*	*20.0%*
Minority Interests or Preferred Stock	**0**	**0**	**0**	**0**	**0**
Net Profit	**(973)**	**(32,356)**	**(16,008)**	**(6,121)**	**(3,763)**
%	*-2.2%*	*-100.1%*	*-75.9%*	*-27.4%*	*-12.1%*
Non-recurring income (expense)		26,680	6,843		
Average Diluted Shares Outstanding	24,668	25,322	25,880	27,965	27,965
Reported FD EPS		(1.28)	(0.62)		
Zacks EPS	**(0.04)**	**(0.25)**	**(0.36)**	**(0.22)**	**(0.13)**

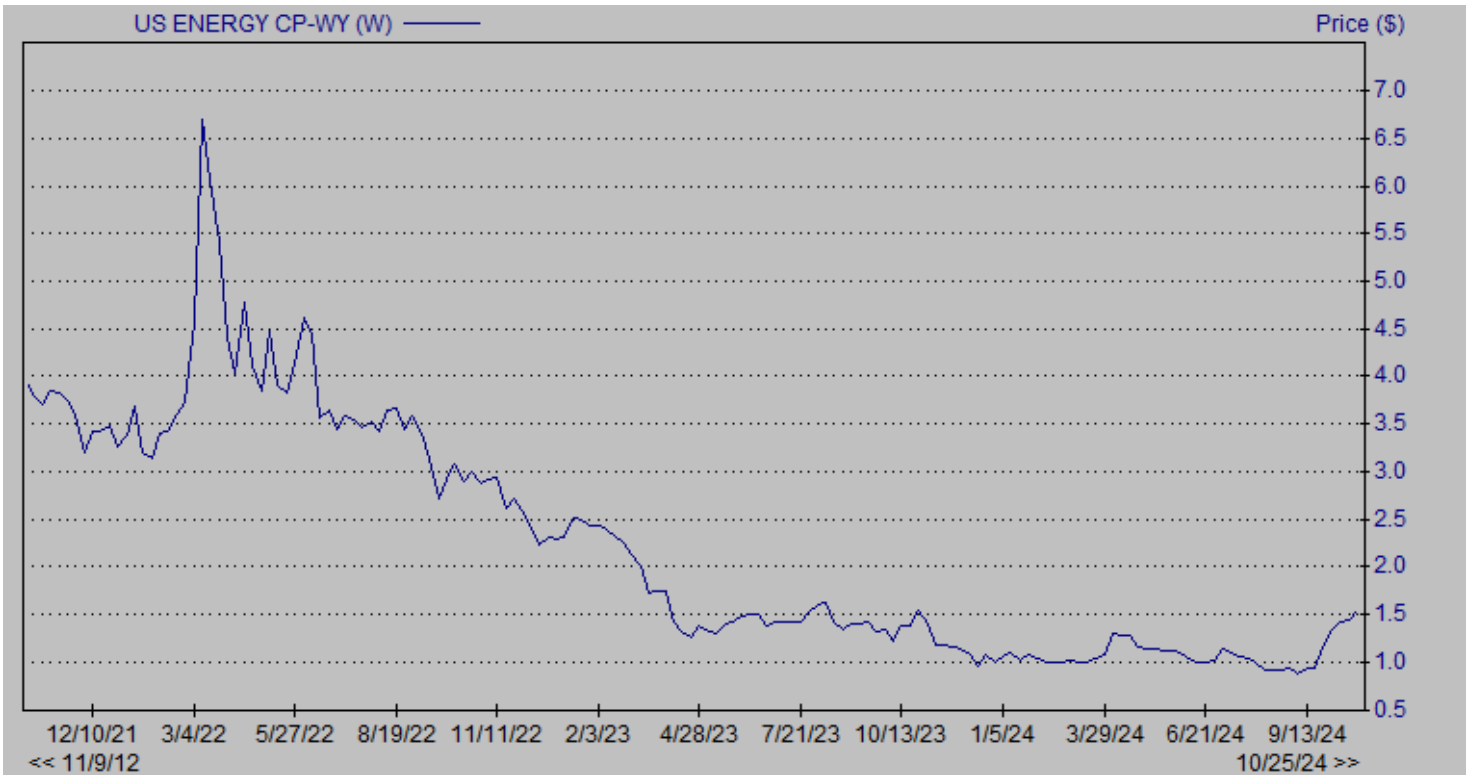
Source: Zacks analyst
Zacks EBITDA may not match USEG EBITDA

PROJECTED QUARTERLY INCOME STATEMENT

Income Statement	Q1/24A	Q2/24A	Q3/24A	Q4/24E
Net Sales	**5,391**	**6,046**	**4,957**	**4,711**
Growth	*N/A*	*N/A*	*N/A*	*N/A*
Operating Expenses	**3,250**	**3,139**	**3,103**	**3,103**
%	*60.3%*	*51.9%*	*62.6%*	*65.9%*
Production Taxes	**343**	**367**	**298**	**292**
% of sales	*6.4%*	*6.1%*	*6.0%*	*6.2%*
Depreciation, Depletion, Amortization	**2,195**	**2,165**	**2,032**	**2,235**
% of sales	*40.7%*	*35.8%*	*41.0%*	*47.5%*
Impairments	**5,419**	**0**	**1,424**	**0**
% of sales	*100.5%*	*0.0%*	*28.7%*	*0.0%*
SG&A Expenses	**2,206**	**2,091**	**2,252**	**2,250**
% of sales	*40.9%*	*34.6%*	*45.4%*	*47.8%*
Operating Income	**(8,022)**	**(1,716)**	**(4,152)**	**(3,169)**
%	*-2338.8%*	*-467.6%*	*-1393.3%*	*-1085.3%*
Adjusted EBITDA	**(208)**	**925**	**(54)**	**(651)**
%	*-3.9%*	*15.3%*	*-1.1%*	*-13.8%*
Other Expenses/(Income)	**1,377**	**131**	**(1,978)**	**(819)**
%	*25.5%*	*2.2%*	*-39.9%*	*-17.4%*
EBIT	**(9,399)**	**(1,847)**	**(2,174)**	**(2,350)**
%	*-174.3%*	*-30.5%*	*-43.9%*	*-49.9%*
Total Interest Exp. (net)	**120**	**131**	**93**	**0**
%	*2.2%*	*2.2%*	*1.9%*	*0.0%*
Net Profit Before Tax	**(9,519)**	**(1,978)**	**(2,267)**	**(2,350)**
%	*-176.6%*	*-32.7%*	*-45.7%*	*-49.9%*
Income Tax	**18**	**(4)**	**(20)**	**(100)**
% Effect Rate	*-0.2%*	*0.2%*	*0.9%*	*4.3%*
Minority Interest & Preferred Stock	**0**	**0**	**0**	**0**
Net Profit	**(9,537)**	**(1,974)**	**(2,247)**	**(2,250)**
%	*-176.9%*	*-32.6%*	*-45.3%*	*-47.8%*
Non-recurring income (expense)	5,419		1,056	
Shares Outst.	25,388	25,453	28,052	27,965
Reported FD EPS	**(0.38)**		**(0.08)**	
Zacks EPS	**(0.16)**	**(0.08)**	**(0.04)**	**(0.08)**

Source: Zacks analyst
Zacks EBITDA may not match USEG EBITDA

HISTORICAL STOCK PRICE



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