

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended **September 30, 2023**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number **000-06814**



(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

83-0205516

(I.R.S. Employer
Identification No.)

1616 S. Voss Road, Suite 725 , Houston , Texas

(Address of principal executive offices)

77057

(Zip Code)

(346) 509-8734

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01	USEG	NASDAQ Stock Market LLC (Nasdaq Capital Market)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The registrant had 25,506,570 shares of its common stock, par value \$0.01 per share, outstanding as of November 13, 2023.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report" or "Form 10-Q"), including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains "forward-looking statements" within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts are forward-looking statements.

Examples of forward-looking statements in this Report include:

- planned capital expenditures for oil and natural gas exploration and environmental compliance;
- potential drilling locations and available spacing units, and possible changes in spacing rules;
- cash expected to be available for capital expenditures and to satisfy other obligations;
- recovered volumes and values of oil and natural gas approximating third-party estimates;
- anticipated changes in oil and natural gas production;
- drilling and completion activities and opportunities;
- timing of drilling additional wells and performing other exploration and development projects;
- expected spacing and the number of wells to be drilled with our oil and natural gas industry partners;
- when payout-based milestones or similar thresholds will be reached for the purposes of our agreements with our partners;
- expected working and net revenue interests, and costs of wells, relating to the drilling programs with our partners;
- actual decline rates for producing wells;
- future cash flows, expenses and borrowings;
- pursuit of potential acquisition opportunities;
- economic downturns, wars and increased inflation and interest rates, and possible recessions caused thereby;
- the effects of global pandemics on our operations, properties, the market for oil and gas, and the demand for oil and gas;
- our expected financial position;
- our expected future overhead reductions;
- our ability to become an operator of oil and natural gas properties;
- our ability to raise additional financing and acquire attractive oil and natural gas properties; and
- other plans and objectives for future operations.

These forward-looking statements are identified by their use of terms and phrases such as "may," "expect," "estimate," "project," "plan," "believe," "intend," "achievable," "anticipate," "will," "continue," "potential," "should," "could," "up to," and similar terms and phrases. Though we believe that the expectations reflected in these statements are reasonable, they involve certain assumptions, risks and uncertainties. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, under and incorporated by reference in, "[Risk Factors](#)", below, the risks discussed in Part I, Item 1A, "[Risk Factors](#)" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and those discussed in other documents we file with the Securities and Exchange Commission (the "SEC" or the "Commission"). Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements above.

All forward-looking statements speak only at the date of the filing of this Report. We do not undertake any obligation to update or revise publicly any forward-looking statements except as required by law, including the securities laws of the United States and the rules and regulations of the SEC.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,974	\$ 4,411
Oil and natural gas sales receivable	3,486	3,193
Marketable equity securities	161	107
Commodity derivative asset -current	58	-
Other current assets	817	558
Real estate assets held for sale, net of selling costs	175	175
Total current assets	6,671	8,444
Oil and natural gas properties under full cost method:		
Unevaluated properties	-	1,584
Evaluated properties	203,375	203,144
Less accumulated depreciation, depletion and amortization	(103,919)	(96,725)
Net oil and natural gas properties	99,456	108,003
Property and equipment, net	964	651
Right-of-use asset	733	868
Commodity derivative asset-noncurrent	16	-
Other assets	317	354
Total assets	\$ 108,157	\$ 118,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,836	\$ 7,832
Accrued compensation and benefits	817	1,111
Commodity derivative liability-current	422	1,694
Asset retirement obligations-current	1,850	668
Current lease obligation	179	189
Total current liabilities	12,104	11,494
Credit facility	12,000	12,000
Asset retirement obligations- noncurrent	16,777	14,774
Long-term lease obligation, net of current portion	658	794
Deferred tax liability	446	898
Other noncurrent liabilities	-	6
Total liabilities	41,985	39,966
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, \$0.01 par value; 245,000,000 shares authorized; 25,506,570 and 25,023,812 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	255	250
Additional paid-in capital	218,245	216,690
Accumulated deficit	(152,328)	(138,586)
Total shareholders' equity	66,172	78,354
Total liabilities and shareholders' equity	\$ 108,157	\$ 118,320

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

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue:				
Oil	\$ 7,811	\$ 8,979	\$ 21,935	\$ 28,146
Natural gas and liquids	930	2,820	3,057	6,005
Total revenue	8,741	11,799	24,992	34,151
Operating expenses:				
Lease operating expenses	3,999	5,204	12,147	12,349
Gathering, transportation and treating	167	119	419	356
Production taxes	596	817	1,654	2,302
Depreciation, depletion, accretion and amortization	2,868	2,528	8,181	6,985
Impairment of oil and natural gas properties	6,495	-	6,495	-
General and administrative expenses	2,824	2,708	8,964	8,296
Total operating expenses	16,949	11,376	37,860	30,288
Operating income (loss)	(8,208)	423	(12,868)	3,863
Other income (expense):				
Commodity derivative gain (loss)	(504)	4,025	704	(4,944)
Interest expense	(306)	(187)	(864)	(295)
Other income (expense), net	68	(122)	46	(168)
Total other income (expense)	(742)	3,716	(114)	(5,407)
Net income (loss) before income taxes	\$ (8,950)	\$ 4,139	\$ (12,982)	\$ (1,544)
Income tax (expense) benefit	162	(29)	432	2,392
Net income (loss)	\$ (8,788)	\$ 4,110	\$ (12,550)	\$ 848
Basic weighted shares outstanding	25,428,874	24,390,193	25,265,662	24,548,385
Diluted weighted shares outstanding	25,428,874	24,682,476	25,265,662	24,891,148
Basic earnings (loss) per share	\$ (0.35)	\$ 0.16	\$ (0.50)	\$ 0.03
Diluted earnings (loss) per share	\$ (0.35)	\$ 0.16	\$ (0.50)	\$ 0.03

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

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(in thousands, except share amounts)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	
Balances, December 31, 2021	4,676,301	\$ 47	\$ 149,276	\$ (135,888)	\$ 13,435
Shares issued for acquired properties	19,905,736	199	64,495	-	64,694
Stock-based compensation	-	-	1,500	-	1,500
Shares issued upon vesting of restricted stock awards	373,500	4	(4)	-	-
Shares withheld to settle tax withholding obligations for restricted stock awards	(81,725)	(1)	(306)	-	(307)
Exercise of warrants	50,000	-	213	-	213
Net loss	-	-	-	(3,384)	(3,384)
Balances, March 31, 2022	24,923,812	\$ 249	\$ 215,174	\$ (139,272)	\$ 76,151
Cash dividends, \$0.0225 per share	-	-	-	(578)	(578)
Stock-based compensation	-	-	609	-	609
Net income	-	-	-	122	122
Balances, June 30, 2022	24,923,812	\$ 249	\$ 215,783	\$ (139,272)	\$ 76,304
Cash dividends, \$0.0225 per share	-	-	-	(578)	(578)
Shares issued upon vesting of restricted stock awards	100,000	1	(1)	-	-
Stock-based compensation	-	-	485	-	485
Net income	-	-	-	4,110	4,110
Balances, September 30, 2022	<u>25,023,812</u>	<u>\$ 250</u>	<u>\$ 216,267</u>	<u>\$ (136,196)</u>	<u>\$ 80,321</u>
Balances, December 31, 2022	25,023,812	\$ 250	\$ 216,690	\$ (138,586)	\$ 78,354
Stock-based compensation	-	-	727	-	727
Shares issued upon vesting of restricted stock awards	273,000	3	(3)	-	-
Shares withheld to settle tax withholding obligations for restricted stock awards	(62,140)	(1)	(149)	-	(150)
Cash dividends \$0.0225 per share	-	-	-	(596)	(596)
Net loss	-	-	-	(1,247)	(1,247)
Balances, March 31, 2023	25,234,672	\$ 252	\$ 217,265	\$ (140,429)	\$ 77,088
Stock-based compensation	-	-	607	-	607
Cash dividends, \$0.0225 per share	-	-	-	(596)	(596)
Share repurchases	(163,300)	(1)	(240)	-	(241)
Net loss	-	-	-	(2,515)	(2,515)
Balances, June 30, 2023	25,071,372	\$ 251	\$ 217,632	\$ (143,540)	\$ 74,343
Stock-based compensation	-	-	617	-	617
Shares issued upon vesting of restricted stock awards	435,198	4	(4)	-	-
Net loss	-	-	-	(8,788)	(8,788)
Balances, September 30, 2023	<u>25,506,570</u>	<u>\$ 255</u>	<u>\$ 218,245</u>	<u>\$ (152,328)</u>	<u>\$ 66,172</u>

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

U.S. ENERGY CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(in thousands)

	2023	2022
Cash flows from operating activities:		
Net income (loss)	\$ (12,550)	\$ 848
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion, accretion, and amortization	8,181	6,985
Impairment of oil and natural gas properties	6,495	-
Deferred income taxes	(452)	(2,460)
Total commodity derivative (gains) losses, net	(704)	4,944
Commodity derivative settlements paid	(642)	(6,099)
Loss on marketable equity securities	(54)	85
Impairment and loss on real estate held for sale	-	75
Amortization of debt issuance costs	37	32
Stock-based compensation	1,951	2,594
Right of use asset amortization	135	140
Changes in operating assets and liabilities:	-	-
Oil and natural gas sales receivable	(292)	(3,587)
Other assets	395	320
Accounts payable and accrued liabilities	1,047	5,456
Accrued compensation and benefits	(294)	(479)
Payments on operating lease liability	(145)	(68)
Payments on asset retirement obligations	(131)	(289)
Net cash provided by operating activities	\$ 2,977	\$ 8,497
Cash flows from investing activities:		
Acquisition of proved properties	\$ -	\$ (12,610)
Oil and natural gas capital expenditures	(2,878)	(5,369)
Property and equipment expenditures	(487)	(379)
Proceeds from sale of oil and gas properties	-	1,250
Net cash used in investing activities	\$ (3,365)	\$ (17,108)
Cash flows from financing activities:		
Borrowings on credit facility	\$ 500	\$ 15,200
Repayment of debt	(500)	(6,047)
Payment of fees for credit facility	-	(207)
Repayments of insurance premium finance note payable	(465)	(396)
Exercise of warrant	-	195
Shares withheld to settle tax withholding obligations for restricted stock awards	(151)	(307)
Dividends paid	(1,192)	(1,156)
Repurchases of common stock	(241)	-
Net cash used in financing activities	\$ (2,049)	\$ 7,282
Net decrease in cash and equivalents	(2,437)	(1,329)
Cash and equivalents, beginning of period	4,411	4,422
Cash and equivalents, end of period	\$ 1,974	\$ 3,093

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements. Please see *Note-15- Supplemental Disclosures of Cash Flow Information*.

U.S. ENERGY CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

U.S. Energy Corp. (collectively with its wholly-owned subsidiaries, Energy One LLC ("Energy One") and New Horizon Resources LLC ("New Horizon Resources"), referred to as the "Company" in these notes to unaudited condensed consolidated financial statements) is incorporated in the State of Delaware. The Company's principal business activities are focused on the acquisition and development of onshore oil and natural gas properties in the United States, which the Company considers a single operating segment. Our principal properties and operations are in the Rockies region (Montana, Wyoming and North Dakota), the Mid-Continent (Oklahoma, Kansas and North and East Texas), and the West Texas, South Texas, and Gulf Coast regions.

Basis of Presentation

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

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on April 13, 2023. Our financial condition as of September 30, 2023, and operating results for the three and nine months ended September 30, 2023, are not necessarily indicative of the financial condition and results of operations that may be expected for any future interim period or for the year ending December 31, 2023.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the fair value of oil and gas properties acquired, oil and natural gas reserves that are used in the calculation of depreciation, depletion, amortization, and impairment of the carrying value of evaluated oil and natural gas properties; realizability of unevaluated properties; production and commodity price estimates used to record accrued oil and natural gas sales receivables; future prices of commodities used in the valuation of commodity derivative contracts; and the cost and timing of future asset retirement obligations. The Company evaluates its estimates on an on-going basis and bases its estimates on historical experience and on various other assumptions the Company believes to be reasonable. Due to inherent uncertainties, including the future prices of oil and natural gas, these estimates could change in the near term and such changes could be material.

Recently Adopted Accounting Standards

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13 to Topic 326, *Financial Instruments-Credit Losses*, as amended by other related ASUs that provided targeted improvements. The standard changes the impairment model for trade receivables and other financial assets measured at amortized cost. This ASU requires the use of a new forward-looking "expected loss" model compared to the previous "incurred loss" model, resulting in accelerated recognition of credit losses. This ASU primarily applies to the Company's accounts receivable balances, of which the majority are received within a short-term period of one to three months. The Company monitors the credit quality of its counterparties through review of collections, credit ratings, and other analyses. The Company develops its estimated allowance for credit losses primarily using an aging method and analyses of historical loss rates as well as consideration of current and future conditions that could impact its counterparties' credit quality and liquidity. The adoption and implementation of this ASU did not have a material impact on the Company's financial statements.

Principles of Consolidation

The accompanying financial statements have been prepared in conformity with GAAP and include the accounts of U.S. Energy Corp. and its wholly-owned subsidiaries Energy One and New Horizon Resources. U.S. Energy Corp. accounts for its share of oil and gas exploration and production activities, in which it has a direct working interest, by reporting its proportionate share of assets, liabilities, revenues, costs, and cash flows within the relevant lines on the balance sheets, statements of operations, and statements of cash flows. All inter-company balances and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts are reclassified to conform to the current year presentation.

Historically, the Company included gathering, transportation, and treating costs within lease operating expense on the condensed consolidated statement of operations. Effective July 1, 2023, the Company began classifying gathering, treating, and transportation costs in a separate line item, titled Gathering, transportation, and treating, on the condensed consolidated statement of operations and recast prior period results for this reclassification. This reclassification had no impact on the Company's net income, earnings per share, cash flows, or financial position. The Company revised historical periods to reflect this change in presentation.

2. ACQUISITIONS

January 2022 Acquisition

On January 5, 2022 (the "Closing Date"), the Company closed the acquisitions (the "Acquisition") contemplated by three separate Purchase and Sale Agreements (the "Purchase Agreements" and the "Closing"), entered into by the Company on October 4, 2021, with each of (a) Lubbock Energy Partners LLC ("Lubbock"); (b) Banner Oil & Gas, LLC, Woodford Petroleum, LLC and Llano Energy LLC (collectively, "Banner"), and (c) Synergy Offshore LLC ("Synergy", and collectively with Lubbock and Banner, the "Sellers"). Pursuant to the Purchase Agreements, the Company acquired certain oil and gas properties from the Sellers, representing a diversified portfolio of primarily operated, producing, oil-weighted assets located across the Rockies, West Texas, Eagle Ford, and Mid-Continent. The acquisition also included certain wells, contracts, technical data, records, personal property and hydrocarbons associated with the acquired assets (collectively with the oil and gas properties acquired, the "Acquired Assets").

The Company accounted for the acquisition of the Acquired Assets as an asset acquisition. The purchase price for the Acquired Assets was (a) \$ 125,000 in cash and 6,568,828 shares of our common stock, as to Lubbock; (b) \$ 1,000,000 in cash, the assumption of \$ 3.3 million of debt, and 6,790,524 shares of common stock, as well as the novation of certain hedges which had a mark to market loss of approximately \$ 3.1 million as of the Closing Date, as to Banner; and (c) \$ 125,000 in cash and 6,546,384 shares of common stock, as to Synergy. The aggregate purchase price under all the Purchase Agreements was \$ 66.4 million, representing \$ 1.25 million in cash, the value of 19,905,736 shares of our common stock on the Closing Date of \$ 64.7 million and purchase price adjustments of \$ 0.5 million. In addition, we assumed various liabilities, including the repayment of \$ 3.3 million in debt, as well as a derivative liability from the novation of the hedges discussed above of \$ 3.1 million, suspense accounts and asset retirement obligations.

	Amount (in thousands)
Amounts incurred as of the Closing Date:	
Cash	\$ 1,250
Value of 19,905,736 shares issued	64,694
Purchase price adjustments	487
Transaction costs	1,267
Total consideration paid	67,698
Debt assumed	3,347
Commodity derivative liabilities assumed	3,152
Suspense accounts assumed	1,276
Employee obligations assumed	100
Asset retirement obligations assumed	9,614
Deferred tax liabilities	2,819
Total liabilities assumed	20,308
Total consideration paid and liabilities assumed	<u>\$ 88,006</u>
Allocation to acquired assets:	
Proved oil and gas properties (1)	87,672
Vehicles	165
Deposit account	169
Total allocation to acquired assets	<u>\$ 88,006</u>

- (1) Included in the above purchase price adjustments is settlement for oil in temporary storage in tank batteries at the leases. The Company does not separately account for oil in temporary storage until the oil is sold and title transfers to the purchaser. Consistent with the Company's accounting policy and reporting of similar transactions this amount was recorded within Evaluated Properties on the Company's condensed consolidated balance sheet.

Liberty County, Texas Acquisition

On May 3, 2022, the Company acquired certain operated oil and gas producing properties in Liberty County, Texas, adjacent to its existing assets in the area, for \$ 1.0 million in an all-cash transaction. The effective date of the transaction was April 1, 2022. The assets include approximately 1,022 acres, which are 100% held by production, a gas pipeline and associated infrastructure. In addition, the Company assumed suspense accounts of \$ 0.2 million and asset retirement obligations of \$ 0.5 million. The Company accounted for the acquisition as an asset acquisition.

East Texas Acquisition

On July 27, 2022, the Company closed a purchase and sale agreement for the acquisition of properties from ETXENERGY, LLC ("ETXENERGY"). The properties are located in Henderson and Anderson Counties, Texas (the "East Texas Assets"). The properties consist of approximately 16,600 net acres, all of which are held by production and certain wells and gathering systems. The initial purchase price for the East Texas Assets was \$ 11.9 million in cash. The effective date of the acquisition of the East Texas Assets was June 1, 2022. The Company accounted for the acquisition as an asset acquisition.

	Amount (in thousands)
Amounts incurred as of the closing date:	
Cash	\$ 11,875
Purchase price adjustments	(1,048)
Transaction costs	63
Total consideration paid	<u>10,890</u>
Suspense accounts assumed	380
Asset retirement obligations assumed	1,689
Total liabilities assumed	<u>2,069</u>
Total consideration paid and liabilities assumed	<u>\$ 12,959</u>
Allocation to acquired assets:	
Proved oil and gas properties	<u>\$ 12,959</u>

3. REVENUE RECOGNITION

The Company's operated oil production is sold at the delivery point specified in the contract. The Company collects an agreed-upon index price, net of pricing differentials. The purchaser takes custody, title and risk of loss of the oil at the delivery point; therefore, control passes at the delivery point. The Company does not separately account for oil in temporary storage at the site of production prior to its transfer to the purchaser. The Company recognizes revenue at the net price received when control transfers to the purchaser. Natural gas and natural gas liquid ("NGL") are sold at the lease location, which is generally when control of the natural gas and NGL transfers to the purchaser, and revenue is recognized as the amount received from the purchaser.

The Company does not disclose the values of unsatisfied performance obligations under its contracts with customers as it applies the practical exemption in accordance with Accounting Standards Codification (ASC) 606. The exemption applies to variable consideration that is recognized as control of the product is transferred to the customer. Since each unit of product represents a separate performance obligation, future volumes are wholly unsatisfied, and disclosure of the transaction price allocated to the remaining performance obligations is not required.

The Company reports revenue as its proportionate share of the gross amount received from the purchasers before taking into account gathering, transportation, and treating costs. Production taxes and gathering, transportation, and treating costs are reported separately on the accompanying condensed consolidated statements of operations.

The Company's non-operated revenues are derived from its interest in the sales of oil and natural gas production. The sales of oil and natural gas are made under contracts that operators of the wells have negotiated with third-party customers. Oil and natural gas production is typically sold at delivery points to various purchasers under contract terms that are common in the oil and natural gas industry. Regardless of the contract type, the terms of these contracts compensate the well operators for the value of the oil and natural gas at specified prices, and then the well operators remit payment to the Company for its share in the value of the oil and natural gas sold. Variances between the Company's estimated revenue and actual payments are recorded in the month the payment is received; however, differences have been, and are expected to be, insignificant. Accordingly, the variable consideration is not constrained. As a non-operator of its oil and natural gas properties, the Company records its share of the revenues and expenses based upon the information provided by the operators within the revenue statements.

The Company disaggregates revenues from its share of revenue from the sale of oil and natural gas and liquids by region. The Company's revenues in its Rockies, West Texas, South Texas, and Gulf Coast, and Mid-Continent regions for the three and nine months ended September 30, 2023 and 2022, are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Revenue:				
<i>Rockies</i>				
Oil	\$ 3,106	\$ 3,407	\$ 7,914	\$ 11,385
Natural gas and liquids	44	343	260	879
Total	<u>\$ 3,150</u>	<u>\$ 3,750</u>	<u>\$ 8,174</u>	<u>\$ 12,264</u>
<i>West Texas, South Texas, and Gulf Coast</i>				
Oil	\$ 3,138	\$ 3,918	\$ 9,116	\$ 12,522
Natural gas and liquids	103	454	424	1,134
Total	<u>\$ 3,241</u>	<u>\$ 4,372</u>	<u>\$ 9,540</u>	<u>\$ 13,656</u>
<i>Mid-Continent</i>				
Oil	\$ 1,567	\$ 1,654	\$ 4,905	\$ 4,239
Natural gas and liquids	783	2,023	2,373	3,992
Total	<u>\$ 2,350</u>	<u>\$ 3,677</u>	<u>\$ 7,278</u>	<u>\$ 8,231</u>
Combined Total	<u>\$ 8,741</u>	<u>\$ 11,799</u>	<u>\$ 24,992</u>	<u>\$ 34,151</u>

Significant concentrations of credit risk

The Company has exposure to credit risk in the event of non-payment of oil and natural gas receivables by purchasers of its operated oil and natural gas properties and the joint interest operators of the Company's non-operated oil and natural gas properties. The following table presents the purchasers that accounted for 10% or more of the Company's total oil and natural gas revenue for at least one of the periods presented:

	Nine Months Ended September 30,	
	2023	2022
Purchaser A	23%	24%
Purchaser B	19%	21%

4. LEASES

The Company's operating lease right-of-use assets and lease liabilities are recognized at their discounted present value under the following captions in the condensed consolidated balance sheets at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Right-of-use assets	\$ 733	\$ 868
Lease liabilities		
Current lease obligation	\$ 179	\$ 189
Long-term lease obligation	658	794
Total lease liabilities	<u>\$ 837</u>	<u>\$ 983</u>

The Company recognizes lease expense on a straight-line basis excluding short-term and variable lease payments, which are recognized as incurred. Short-term lease cost represents payments for office leases with original terms less than one year. Beginning in March 2020, the Company subleased its Denver, Colorado office and recognized sublease income as a reduction of rent expense. The term of the sublease was through the term of the Company's Denver office lease, which terminated on January 31, 2023. Following are the amounts recognized as components of rental expense for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Operating lease cost	\$ 49	\$ 77	\$ 162	\$ 177
Short-term lease cost	312	2	731	6
Sublease income	-	(21)	-	(54)
Total lease costs	<u>\$ 361</u>	<u>\$ 58</u>	<u>\$ 893</u>	<u>\$ 129</u>

The Company's Houston office operating lease does not contain implicit interest rates that can be readily determined; therefore, the Company used the incremental borrowing rates in effect at the time the Company entered into the leases.

	As of September 30,	
	2023	2022
	(in thousands)	
Weighted average lease term (years)	4.2	5.0
Weighted average discount rate	4.25%	4.47%

Maturity of operating lease liabilities with terms of one year or more as of September 30, 2023 are presented in the following table:

	September 30, 2023
	(in thousands)
2023	\$ 52
2024	213
2025	218
2026	224
2027	210
Total lease payments	\$ 917
Less: imputed interest	(80)
Total lease liability	<u>\$ 837</u>

5. OIL AND NATURAL GAS PRODUCTION ACTIVITIES

Divestitures

During the nine months ended September 30, 2023 there were no divestitures of oil and gas properties. During the nine months ended September 30, 2022, the Company divested of the Wildhorse Waterflood Unit in Osage County, Oklahoma, which was part of the Acquired Assets acquired on January 5, 2022. Net proceeds from the sale of the Wildhorse Waterflood Unit were \$ 1.2 million. In addition, in December 2022, the Company sold its approximately 30% interest in two non-operated wells in Zavala County, Texas and associated acreage of approximately 4,500 acres for \$ 1.1 million. The proceeds from divestitures are recorded as reductions in the full cost pool.

Unevaluated Properties

As of September 30, 2023, the Company re-evaluated its use of capital relative to its portfolio and strategic initiatives and determined that it no longer intends to fund development activities required to develop its unevaluated acreage. Therefore, it impaired the \$ 1.6 million book value of unevaluated properties by transferring them into evaluated properties subject to depletion and the full cost pool ceiling test as of September 30, 2023.

Ceiling Test and Impairment

The reserves used in the ceiling test incorporate assumptions regarding pricing and discount rates over which management has no influence in the determination of present value. In the calculation of the ceiling test as of September 30, 2023, the Company used \$ 78.53 per barrel for oil and \$ 3.43 per one million British Thermal Units (MMbtu) for natural gas (as further adjusted for property, specific gravity, quality, local markets and distance from markets) to compute the future cash flows of the Company's producing properties. The discount factor used was 10 %.

The Company recorded a \$ 6.5 million ceiling test write-down of its oil and gas properties during the three and nine months ended September 30, 2023, primarily due to a reduction in the value of proved oil and natural gas reserves as a result of a decrease in crude oil and natural gas prices. In addition, asset retirement obligation cost and life revisions and the transfer of unevaluated properties into the full cost pool increased the net book value of our oil and gas properties subject to the ceiling test.

6. DEBT

On January 5, 2022, the Company entered into a four-year credit agreement ("Credit Agreement") with FirstBank Southwest ("FirstBank") as administrative agent for one or more lenders (the "Lenders"), which provided for a revolving line of credit with an initial borrowing base of \$ 15 million, and a maximum credit amount of \$ 100 million. Borrowings under the Credit Agreement are collateralized by a first priority, perfected lien and security interests on substantially all assets of the Company (subject to permitted liens and other customary exceptions). On July 26, 2022, the Company, in anticipation of the closing of the ETXENERGY East Texas acquisition entered into a letter agreement with FirstBank whereby it increased the borrowing base under the Credit Agreement from \$ 15 million to \$ 20 million.

Under the Credit Agreement, revolving loans may be borrowed, repaid and re-borrowed until January 5, 2026, when all outstanding amounts must be repaid. Interest on the outstanding amounts under the Credit Agreement will accrue at an interest rate equal to the greater of (i) the prime rate in effect on such day, and (ii) the Federal Funds rate in effect on such day (as determined in the Credit Agreement) plus 0.50 %, and an applicable margin that ranges between 0.25 % to 1.25 % depending on utilization of the amount of the borrowing base (the "Applicable Margin"). Interest expense recognized on the Credit Agreement and the weighted average interest rates for the three and nine months ended September 30, 2023 and 2022 are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Interest expense	\$ 288	\$ 170	\$ 807	\$ 248
Weighted average interest rate	9.1%	6.3%	8.8%	5.1%

The Credit Agreement contains various restrictive covenants and compliance requirements, which include: (i) maintenance of certain financial ratios, as defined in the Credit Agreement tested quarterly, that limit the Company's ratio of total debt to EBITDAX (as defined in the Credit Agreement) to 3:1 and require its ratio of consolidated current assets to consolidated current liabilities (as each is described in the Credit Agreement) to remain at 1:1 or higher; (ii) restrictions on making restricted payments as defined in the Credit Agreement, including the payment of cash dividends and repurchases of equity interests (subject to certain limited rights to make restricted payments as long as no event of default has occurred, or would result from the restricted payment, certain financial ratios are met and the borrowing availability after giving pro forma effect to any borrowing to be made on the date of the restricted payment is greater than, or equal to, 20% of the then existing borrowing base); (iii) limits on the incurrence of additional indebtedness; (iv) a prohibition on the entry into commodity swap contracts exceeding a specified percentage of our expected production; and (v) restrictions on the disposition of assets. As of September 30, 2023, the borrowing base was \$ 20 million, and the Company was in compliance with all financial covenants related to the Credit Agreement.

The amount outstanding on the Credit Agreement as of September 30, 2023 and December 31, 2022, was \$ 12.0 million.

7. COMMODITY DERIVATIVES

The Company's results of operations and cash flows are affected by changes in market prices for crude oil and natural gas. To manage a portion of its exposure to price volatility from producing crude oil and natural gas, the Company may enter into commodity derivative contracts to protect against price declines in future periods. The Company does not enter into derivative contracts for speculative purposes. The Company does not currently apply hedge accounting. Accordingly, changes in the fair value of the derivative contracts are recorded in the condensed consolidated statements of operations and are included as a non-cash adjustment to net income in the operating activities section in the condensed consolidated statement of cash flows.

On January 5, 2022, the Company and NextEra Energy Marketing LLC ("NextEra") entered into an International Swap Dealers Association, Inc. Master Agreement and Schedule (the "Master Agreement"), facilitating the Company to enter into derivative contracts to manage the risk associated with its business relating to commodity prices. The Company's obligations to NextEra under the Master Agreement are secured by liens and security interests which also secure the loans under the Credit Agreement on a pari passu and pro rata basis with the principal of such loans. The structure of the derivative contracts may include swaps, caps, floors, collars, locks, forwards and options.

The Company's entry into and the obligations of the Company under the Master Agreement were required conditions to the January 2022 acquisition closing, pursuant to which the Company was required to assume and novate certain hedges which had a mark to market loss of approximately \$ 3.1 million as of the Closing Date. In addition, on January 12, 2022, the Company entered into additional NYMEX WTI crude oil commodity derivative contracts with NextEra for 2022 and 2023 production. On September, 12, 2023, the Company entered into crude oil swap agreements with EDF Trading, agreeing to pay fixed prices and receive the monthly average NYMEX WTI prices for the month of settlement. As of September 30, 2023, the Company had commodity derivative contracts outstanding through the fourth quarter of 2024 as summarized in the tables below:

Commodity/ Index/ Maturity Period	Quantity Crude oil	Collars Weighted Average Prices		Quantity Crude oil	Weighted Average
	(Bbls)(1)	Floors	Ceilings	(Bbls)(1)	Price
NYMEX WTI					
Crude Oil 2023 Contracts:					
Fourth quarter 2023	51,200	\$ 60.00	\$ 81.04	18,000	\$ 86.64
Total 2023	51,200	\$ 60.00	\$ 81.04	18,000	\$ 86.64
Crude Oil 2024 Contracts:					
First quarter 2024				53,300	\$ 84.07
Second quarter 2024				48,600	\$ 81.76
Third quarter 2024				45,000	\$ 79.80
Fourth quarter 2024				40,720	\$ 78.15
Total 2024				187,620	\$ 81.16

(1) "Bbl" refers to one stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons.

The following table details the fair value of commodity derivative contracts recorded in the accompanying balance sheets by category:

	September 30, 2023	December 31, 2022
	(in thousands)	
Derivative assets:		
Current assets	\$ 58	\$ -
Non-current assets	16	-
Total derivative assets	\$ 74	\$ -
Derivative liabilities:		
Current liabilities	\$ 422	\$ 1,694
Total derivative liabilities	\$ 422	\$ 1,694

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As of September 30, 2023, all commodity derivative contracts held by the Company were subject to master netting arrangements with its counterparty. The terms of the Company's derivative agreements provide for the offsetting of amounts payable or receivable between it and the counterparty for contracts that settle on the same date. The Company's agreements also provide that in the event of an early termination, the counterparty has the right to offset amounts owed or owing under that and any other agreement. The Company's accounting policy is to offset positions when we have a right of offset or master netting arrangement. See *Note 13-Fair Value Measurements* for disclosure of the fair value of derivative assets and liabilities on a gross and net basis.

The following table summarizes the commodity components of the derivative settlement gain (loss) as well as the components of the net derivative (gain) loss line-item presentation in the accompanying condensed consolidated statement of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Derivative settlement gains (losses):				
Oil contracts	\$ (148)	\$ (1,291)	\$ (614)	\$ (5,428)
Gas contracts	-	(321)	(28)	(671)
Total derivative settlement gains (losses)	\$ (148)	\$ (1,612)	\$ (642)	\$ (6,099)
Total net derivative gains (losses):				
Oil contracts	\$ (504)	\$ 4,338	\$ 644	\$ (4,026)
Gas contracts	-	(313)	60	(918)
Total net derivative gains (losses)	\$ (504)	\$ 4,025	\$ 704	\$ (4,944)

8. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is subject to litigation and claims arising in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, the anticipated results of any pending litigation and claims are not expected to have a material effect on the results of operations, the financial position, or the cash flows of the Company.

9. SHAREHOLDERS' EQUITY

At September 30, 2023, the Company had 25,506,570 shares of common stock outstanding and 245,000,000 authorized. In addition, as of September 30, 2023, the Company had 5,000,000 authorized but unissued shares of preferred stock. During the nine months ended September 30, 2023, the Company paid \$ 241 thousand to repurchase 163,300 shares of common stock as part of a share repurchase plan. On January 5, 2022, the Company issued 19,905,736 shares of common stock in connection with the acquisition of the Acquired Assets.

Stock Options Plans

From time to time, the Company may grant stock options under its incentive plan covering shares of common stock to employees of the Company. Stock options, when exercised, are settled through the payment of the exercise price in exchange for new shares of stock underlying the option. These awards typically expire ten years from the grant date.

For the three and nine months ended September 30, 2023 and 2022, there was no compensation expense related to stock options. As of September 30, 2022, all stock options had vested. No stock options were granted or exercised during the three or nine months ended September 30, 2023 or 2022. Stock options for the purchase of 4,946 shares of common stock expired during the nine months ended September 30, 2022. The stock options had de minimis intrinsic values for the periods reported. Presented below is information for stock options outstanding and exercisable as of September 30, 2023, and December 31, 2022:

	September 30, 2023		December 31, 2022	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Stock options outstanding and exercisable	23,176	\$ 38.92	28,122	\$ 54.03

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The following table summarizes information for stock options outstanding and for stock options exercisable at September 30, 2023:

Number of Shares	Options Outstanding				Options Exercisable	
	Exercise Price Range		Weighted Average Exercise Price	Remaining Contractual Term (years)	Number of Shares	Weighted Average Exercise Price
	Low	High				
16,500	\$ 7.20	\$ 11.60	\$ 10.00	4.0	16,500	\$ 10.00
5,676	90.00	90.00	90.00	1.3	5,676	90.00
1,000	226.20	226.20	226.20	1.0	1,000	226.20
23,176	\$ 7.20	\$ 226.20	\$ 38.92	3.2	23,176	\$ 38.92

Restricted Stock

The Company grants restricted stock under its incentive plan covering shares of common stock to employees and directors of the Company. In January 2023, 796,434 restricted stock awards were granted to employees and directors from the 2021 Equity Incentive Plan and 2022 Equity Incentive Plan. In addition, in June 2023, per the terms of his employment agreement 100,000 restricted stock shares were issued to the Company's new Chief Financial Officer, and in August 2023, 40,000 restricted stock shares were issued to the Company's new non-executive Controller. The restricted stock awards are time-based awards and are amortized ratably over the requisite two-year service period. Restricted stock vests ratably on each anniversary following the grant date provided the grantee is employed on the vesting date. Forfeitures of restricted stock awards are recognized as they occur. Restricted stock granted to employees, when vested, may be settled through the net issuance of shares, reduced by the number of shares required to pay withholding taxes. Non-vested shares of restricted stock are not included in common shares outstanding until vesting has occurred.

The following table presents the changes in non-vested, time-based restricted stock awards to all employees and directors for the nine months ended September 30, 2023:

	Shares	Weighted-Avg. Grant Date Fair Value Per Share
Non-vested restricted stock as of December 31, 2022	687,000	\$ 3.79
Granted	936,434	2.18
Vested	(544,198)	3.30
Modifications (accelerated vesting)	(164,000)	2.85
Forfeited	(60,000)	2.30
Non-vested restricted stock as of September 30, 2023	855,236	\$ 2.63

For the three and nine months ended September 30, 2023, the Company recognized \$ 0.6 million and \$ 2.0 million, respectively, of stock compensation expense related to restricted stock grants. For the three and nine months ended September 30, 2022, the Company recognized \$ 0.5 million and \$ 2.6 million, respectively, of stock compensation expense related to restricted stock grants. Total compensation cost related to non-vested time-based awards not yet recognized in the Company's condensed consolidated statements of operations as of September 30, 2023 was \$ 0.9 million. This cost is expected to be recognized over a weighted average period of 1.6 years.

Dividends

On February 23, 2023 and May 30, 2023, the Company paid a quarterly cash dividends of \$ 0.0225 per share of common stock outstanding to stockholders of record at the close of business on February 10, 2023 and May 19, 2023, respectively.

For the nine months ended September 30, 2023 and 2022, the Company paid dividends of \$ 1.2 million and \$ 1.2 million, respectively. As an update to the existing shareholder returns program, on August 9, 2023, the Board of Directors suspended the Company's dividend payment program, with the associated future capital resources expected to be allocated towards the Company's share repurchase program and repayments of our credit facility's outstanding balance.

Share Repurchase Program

On April 26, 2023, the Board of Directors of the Company authorized and approved a share repurchase program for up to \$ 5.0 million of the currently outstanding shares of the Company's common stock. Subject to any future extensions, the repurchase program is scheduled to expire on the earlier of June 30, 2024, or when a maximum of \$ 5.0 million of the Company's common stock has been repurchased, or when the program is discontinued by the Company.

Under the stock repurchase program, shares are repurchased from time to time in the open market or through negotiated transactions at prevailing market prices, or by other means in accordance with federal securities laws. Repurchases are made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. The repurchase program is funded using the Company's working capital. The repurchased shares are cancelled and therefore will not be held in treasury or reissued.

During the nine months ended September 30, 2023, the Company paid \$ 0.2 million for the repurchase of 163,300 shares at a weighted average price of \$ 1.48 per share. There were no share repurchases during the three months ended September 30, 2023.

10. ASSET RETIREMENT OBLIGATIONS

The Company has asset retirement obligations ("ARO") associated with the future plugging and abandonment of proved properties. Initially, the fair value of a liability for an ARO is recorded in the period in which the ARO is incurred with a corresponding increase in the carrying amount of the related asset. The liability is accreted to its present value each period and the capitalized cost is depleted over the life of the related asset. If the liability is settled for an amount other than the recorded amount, an adjustment to the full-cost pool is recognized. The Company had no assets that are restricted for the purpose of settling ARO.

The Company recorded \$ 9.6 million of ARO related to the assets acquired in the January 5, 2022 acquisition, \$ 0.5 million of ARO related to the assets acquired in the May 3, 2022 acquisition of Liberty County, Texas assets and \$ 1.7 million of ARO related to the assets acquired in the July 27, 2022 acquisition. See Note 2- *Acquisitions*.

In the fair value calculation for the ARO there are numerous assumptions and judgments, including the ultimate retirement cost, inflation factors, credit-adjusted risk-free discount rates, timing of retirement and changes in legal, regulatory, environmental, and political environments. To the extent future revisions to assumptions and judgments impact the present value of the existing ARO, a corresponding adjustment is made to the oil and natural gas property balance.

The following is a reconciliation of the changes in the Company's liabilities for asset retirement obligations as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Balance, beginning of year	\$ 15,442	\$ 1,461
Acquired or incurred	10	11,811
Cost and life revisions	2,494	1,825
Plugged	(131)	(407)
Sold	-	(189)
Accretion	812	941
Balance, end of period	<u>\$ 18,627</u>	<u>\$ 15,442</u>

11. INCOME TAXES

The Company's tax provision or benefit from income taxes for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any. Each quarter the Company updates its estimate of the annual effective tax rate and makes a year-to-date adjustment to the provision. The Company's effective tax rate was approximately 3 % and 155 % for the nine months ended September 30, 2023 and 2022, respectively. The primary difference in the Company's effective tax rate and the statutory rate for the nine months ended September 30, 2023 related to the movement in the valuation allowance against the Company's net deferred tax assets.

The Company's income tax benefit for the nine months ended September 30, 2022 includes a discrete income tax benefit of \$ 2.4 million related to the release of a portion of the Company's previously established valuation allowance to offset deferred tax liabilities arising from the January 5, 2022 transaction.

Deferred taxes are recognized for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets, liabilities, net operating losses and tax credit carry-forwards. We review our deferred tax assets ("DTAs") and valuation allowance on a quarterly basis. As part of our review, we consider positive and negative evidence, including cumulative results in recent years. The January 5, 2022 transaction triggered an Internal Revenue Code ("IRC") Section 382 ownership change, and therefore placed additional limitations on the Company's pre-transaction net operating loss ("NOL") and other tax attributes. As such, the Company is projecting that as of December 31, 2023 it will not have sufficient DTAs available to offset the expected future taxable income that will be generated by the realization of the Company's deferred tax liabilities.

The Company recognizes, measures, and discloses uncertain tax positions whereby tax positions must meet a "more-likely-than-not" threshold to be recognized. During the nine months ended September 30, 2023 and 2022, no adjustments were recognized for uncertain tax positions.

12. INCOME (LOSS) PER SHARE

Basic net income (loss) per common share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the respective period. Diluted net income (loss) per common share is calculated by dividing adjusted net income (loss) by the diluted weighted average number of common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for this calculation consist of stock options and unvested shares of restricted common stock, which are measured using the treasury stock method. When the Company recognizes a net loss, as was the case for the three and nine months ended September 30, 2023, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of dilutive net loss per common share.

The following table sets forth the calculation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands except per share data)			
Net income (loss)	\$ (8,788)	\$ 4,110	\$ (12,550)	\$ 848
Less: undistributed earnings allocated to participating securities	-	(101)	-	-
Undistributed earnings (losses) attributable to common shareholders	\$ (8,788)	\$ 4,009	\$ (12,550)	\$ 848
Basic weighted average common shares outstanding	25,429	24,390	25,266	24,548
Dilutive effect of potentially dilutive securities	-	292	-	343
Diluted weighted average common shares outstanding	25,429	24,682	25,266	24,891
Basic net income (loss) per share	\$ (0.35)	\$ 0.16	\$ (0.50)	\$ 0.03
Diluted net income (loss) per share	\$ (0.35)	\$ 0.16	\$ (0.50)	\$ 0.03

For the three and nine months ended September 30, 2023 and 2022, potentially dilutive securities excluded from the calculation of weighted average shares because they were anti-dilutive are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Stock options	23	28	23	28
Unvested shares of restricted stock	855	-	855	-
Total	878	28	878	28

13. FAIR VALUE MEASUREMENTS

The Company's fair value measurements are estimated pursuant to a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, giving highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability, and may affect the valuation of the assets and liabilities and their placement within the hierarchy level. The three levels of inputs that may be used to measure fair value are defined as:

Level 1 - Quoted prices for identical assets and liabilities traded in active exchange markets.

Level 2 - Observable inputs other than Level 1 that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or other observable inputs that can be corroborated by observable market data.

Level 3 - Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

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

Recurring Fair Value Measurements

Commodity Derivative Instruments

The Company measures the fair value of commodity derivative contracts using an income valuation technique based on the contract price of the underlying positions, crude oil and natural gas forward curves, discount rates, and Company or counterparty non-performance risk. The fixed-price swaps and collar derivative contracts are included in Level 2. The fair value of commodity derivative contracts and their presentation in our unaudited condensed consolidated balance sheet as of September 30, 2023 and December 31, 2022 are presented below:

As of September 30, 2023												
	Quoted Prices		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Total Fair Value	Effect of Netting	Net Fair Value Presented in the				
	in Active Markets for Identical Assets (Level 1)							Unaudited Condensed Consolidated Balance Sheet				
	(in thousands)											
Assets												
Current:												
Commodity derivatives	\$	-	\$	102	\$	-	\$	102	\$	(44)	\$	58
Non-Current:												
Commodity derivatives	\$	-	\$	16	\$	-	\$	16	\$	-	\$	16
Liabilities												
Current:												
Commodity derivatives	\$	-	\$	(466)	\$	-	\$	(466)	\$	44	\$	(422)
Net derivative instruments	\$	-	\$	(348)	\$	-	\$	(348)	\$	-	\$	(348)

As of December 31, 2022

	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Fair Value		Effect of Netting		Net Fair Value Presented in the Unaudited Condensed Consolidated Balance Sheet	
Assets													
Current:													
Commodity derivatives	\$	-	\$	488	\$	-	\$	488	\$	(488)	\$	-	\$
Liabilities													
Current:													
Commodity derivatives	\$	-	\$	(2,182)	\$	-	\$	(2,182)	\$	488	\$	(1,694)	\$
Net derivative instruments	\$	-	\$	(1,694)	\$	-	\$	(1,694)	\$	-	\$	(1,694)	\$

Marketable Equity Securities

We measure the fair value of marketable equity securities based on quoted market prices obtained from independent pricing services. The Company has an investment in the marketable equity securities of Anfield Energy ("Anfield"), which it acquired as consideration for sales of certain mining operations. Anfield is traded in an active market under the trading symbol AEC:TSXV and has been classified as Level 1.

	September 30, 2023		December 31, 2022	
Current assets:				
Marketable equity securities				
Number of shares owned	2,421,180		2,421,180	
Quoted market price	\$	0.06665	\$	0.04429
Fair value of marketable equity securities	\$	161,381	\$	107,234

Credit Facility

The Company's credit facility approximates fair value because the interest rate is variable and reflective of market rates.

Other Financial Instruments

The carrying value of financial instruments included in current assets and current liabilities approximate fair value due to the short-term nature of those instruments.

Nonrecurring Fair Value Measurements

Asset Retirement Obligations

The Company measures the fair value of asset retirement obligations as of the date a well is acquired, the date a well begins drilling, or the date the Company revises its ARO assumptions. The Company's estimated asset retirement obligations are based on historical experience in plugging and abandoning wells, estimated economic lives, estimated plugging and abandonment costs and federal and state regulatory requirements, all unobservable inputs, and therefore, are designated as Level 3 within the valuation hierarchy. The liability is discounted using the credit-adjusted risk-free rate estimated at the time the liability is incurred or revised upwards. The credit adjusted risk-free rate used to discount the Company's plugging and abandonment liabilities range from 7.30 % to 19.00 %. See *Note 10-Asset Retirement Obligations*.

Other Assets and Liabilities

The Company evaluates the fair value on a non-recurring basis of properties acquired in asset acquisitions using inputs that are not observable in the market and are therefore designated as Level 3 inputs within the fair value hierarchy. The Company evaluated the fair value of its January 2022 asset acquisition based on discounted future cash flows using estimated production at estimated prices based on NYMEX strip pricing adjusted for differentials, operating costs, production taxes and development costs, all discounted at 10 %. This evaluation resulted in an estimate of fair value of \$ 87.7 million. The Company has also valued asset acquisitions using a multiple of expected cash flows based on comparable transactions. For the asset acquisition of East Texas assets that was completed on July 27, 2022, the Company used a cash flow multiple of approximately 1.75 times estimated cash flows of \$ 7.3 million.

The Company evaluates the fair value on a non-recurring basis of its 13.84 -acre land parcel in Riverton, Wyoming, which is currently listed for sale and classified as held for sale, when circumstances indicate that the value has been impaired. At September 30, 2023, the Company estimated the fair value of its real estate assets based on a market approach with comparison to recent comparable sales, all Level 3 inputs within the fair value hierarchy.

14. OTHER CURRENT ASSETS AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Other Current Assets

The following table presents the components of other current assets as of the dates indicated:

	September 30, 2023	December 31, 2022
	(in thousands)	
Prepaid expenses	\$ 365	\$ 138
Joint interest billings receivable	309	332
Income tax receivable	104	50
Other	39	38
Total other current assets	<u>\$ 817</u>	<u>\$ 558</u>

Accounts Payable and Accrued Liabilities

The following table presents the components of accounts payable and accrued liabilities as of the dates indicated:

	September 30, 2023	December 31, 2022
	(in thousands)	
Accounts payable	\$ 2,540	\$ 2,566
Operating expense and oil and gas property accruals	1,357	1,378
Royalties in suspense	4,430	3,503
Production taxes payable	244	319
Insurance premium financing	244	54
Other	21	12
Total accounts payable and accrued expenses	<u>\$ 8,836</u>	<u>\$ 7,832</u>

15. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Cash paid for interest	\$ (832)	\$ (259)
Cash paid for income taxes	\$ (74)	\$ -
Investing activities:		
Change in capital expenditure accruals	\$ (240)	\$ 244
Change in accrual for acquisition costs	-	(546)
Common stock issued for acquisition of properties	-	64,694
Assumption of commodity derivative liability in acquisition of properties	-	3,152
Assumption of debt in acquisition of properties	-	3,347
Assumption of suspense accounts in acquisition of properties	-	1,619
Addition of operating lease liability and right of use asset	-	953
Asset retirement obligations	2,504	11,889
Financing activities:		
Financing of insurance premiums with note payable	\$ 654	\$ 588

16. SUBSEQUENT EVENTS

Under the full-cost method of accounting, the net book value of proved oil and gas properties, less related deferred income taxes, may not exceed a calculated "ceiling." The ceiling limitation is the estimated after-tax future net cash flows from proved oil and gas reserves. Estimated future net cash flows are calculated using the unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months, adjusted for location and quality differentials, held flat for the life of the production (except where prices are defined by contractual arrangements), less estimated operating costs, production taxes and future development costs, all discounted at 10 percent per annum. Future cash outflows associated with settling accrued asset retirement obligations are excluded from the calculation.

As described in *Note 5 - Oil and Natural Gas Production Activities – Ceiling Test and Impairment*, the Company recorded a \$ 6.5 million ceiling test write-down of its oil and gas properties during the three and nine months ended September 30, 2023. We expect to record an additional write-down of our oil and gas properties in the fourth quarter of 2023 due to lower commodity prices used in the calculation of the ceiling test as higher fourth quarter 2022 commodity prices will be removed from the ceiling test calculation and replaced with what we expect to be lower fourth quarter 2023 commodity prices. Depending on actual commodity prices, estimated price differentials, lease operating costs, revisions to reserve estimates, and the amount and timing of capital expenditures, the write-down could be approximately \$ 3 million to \$ 4 million in the fourth quarter of 2023.

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

Introduction

This information should be read in conjunction with the interim unaudited financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited financial statements and notes thereto and "[Management's Discussion and Analysis of Financial Condition and Results of Operations](#)" contained in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on April 13, 2023 (the "[Annual Report](#)").

Certain abbreviations and oil and gas industry terms used throughout this Report are described and defined in greater detail under "[Glossary of Oil and Natural Gas Terms](#)" on page 4 of our Annual Report.

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our unaudited condensed consolidated financial statements included above under "[Part I - Financial Information](#)" – "[Item 1. Financial Statements](#)".

In this Quarterly Report on Form 10-Q, we may rely on and refer to information regarding the industries in which we operate in general from market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, we have not independently verified any of it, and we have not commissioned any such information.

See also "[Cautionary Statement About "Forward-Looking Statements"](#)" above.

Unless the context requires otherwise, references to the "[Company](#)," "[we](#)," "[us](#)," "[our](#)," "[U.S. Energy](#)", and "[U.S. Energy Corp.](#)" refer specifically to U.S. Energy Corp. and its consolidated subsidiaries.

In addition, unless the context otherwise requires and for the purposes of this report only:

- "Bbl" refers to one stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons;
- "BOE" refers to barrels of oil equivalent, determined using the ratio of one Bbl of crude oil, condensate or natural gas liquids, to six Mcf of natural gas;
- "Bopd" refers to barrels of oil per day;
- "Mcf" refers to a thousand cubic feet of natural gas;
- "Mcf_e" means 1,000 cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids;
- "NGL" refers to natural gas liquids;
- "Exchange Act" refers to the Securities Exchange Act of 1934, as amended;
- "SEC" or the "Commission" refers to the United States Securities and Exchange Commission;
- "Securities Act" refers to the Securities Act of 1933, as amended; and
- "WTI" means West Texas Intermediate.

Where You Can Find Other Information

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC like us at <https://www.sec.gov> (our filings can be found at <https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000101594>) and on the “Investors – SEC Filings” page of our website at <https://usnrg.com>. Copies of documents filed by us with the SEC are also available from us without charge, upon oral or written request to our Secretary, who can be contacted at the address and telephone number set forth on the cover page of this Report.

Summary of The Information Contained in Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying unaudited condensed consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- **General Overview.** A general overview of the Company and our operations.
- **Recent Developments.** Discussion of recent developments affecting the Company and our operations.
- **Plan of Operations and Strategy.** Discussion of our strategy moving forward and how we plan to seek to increase stockholder value.
- **Critical Accounting Policies and Estimates.** Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- **Results of Operations.** An analysis of our financial results comparing the three and nine months ended September 30, 2023 and 2022.
- **Liquidity and Capital Resources.** A discussion of our financial condition, including descriptions of balance sheet information and cash flows.

General Overview

U.S. Energy Corp. was incorporated in the State of Wyoming on January 26, 1966, and reincorporated to Delaware effective on August 3, 2022. We are an independent energy company focused on the acquisition and development of oil and natural gas producing properties in the continental United States. Our principal properties and operations are in the Rockies region (Montana, Wyoming and North Dakota), the Mid-Continent region (Oklahoma, Kansas, and North and East Texas), and the West Texas, South Texas, and Gulf Coast region.

We have historically explored for and produced oil and natural gas through a non-operator business model, however, during 2020 we acquired operated properties in North Dakota, New Mexico, Wyoming, and the Texas Gulf Coast, and on January 5, 2022, we closed the acquisitions of 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, South Texas, and Mid-Continent regions.

Our business strategy is to enhance the value of our acquired operated assets through evaluation of selected properties with the goal of increasing production and reserves. We plan to deploy our capital in a conservative and strategic manner and pursue value-enhancing transactions. We also continuously evaluate strategic alternative opportunities that we believe will enhance stockholder value.

Global commodity and financial markets continue to be subject to heightened levels of uncertainty and volatility as a result of inflation, disruptions resulting from recent bank failures, and the ongoing conflict between Russia and Ukraine and associated economic and trade sanctions on Russia, and the ongoing conflict in the Middle East. These circumstances have driven commodity price volatility and have contributed to increased service provider costs as well as other costs and a rise in interest rates and could have further industry-specific impacts that may require us to adjust our business plan.

Material Developments

Acquisitions

On January 5, 2022, we closed the acquisitions of assets from three separate Purchase and Sale Agreements entered into by the Company on October 4, 2021, with (i) Lubbock Energy Partners LLC, (ii) Banner Oil & Gas, LLC, Woodford Petroleum, LLC and Llano Energy LLC (collectively, “Banner”), and (iii) Synergy Offshore LLC for approximately \$66.4 million. The acquisition had an effective date of January 1, 2022. The purchase price included payment of \$1.25 million in cash and issuance of 19,905,736 shares of our common stock, valued at \$64.7 million. In addition, we assumed Banner's debt of approximately \$3.3 million and derivative positions, which were in a loss position of \$3.1 million. The assets acquired include certain oil and gas properties representing a diversified portfolio of primarily operated, producing, oil-weighted assets located across the Rockies, West Texas, South Texas, and Mid-Continent. The acquisition also included certain wells, contracts, technical data, records, personal property and hydrocarbons associated with the acquired assets.

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On May 3, 2022, the Company acquired certain operated oil and gas producing properties in Liberty County, Texas, adjacent to its existing assets in the area, for \$1.0 million in an all-cash transaction. The effective date of the transaction was April 1, 2022. The assets include approximately 1,022 acres, which are 100% held by production, a gas pipeline and associated infrastructure. In addition, the Company assumed suspense accounts of \$0.2 million and asset retirement obligations of \$0.5 million. The Company accounted for the acquisition as an asset acquisition.

On June 29, 2022, the Company entered into a Purchase and Sale Agreement (the “PSA”) with ETXENERGY, LLC (the “Seller”). Pursuant to the PSA, we agreed to acquire all of the Seller's rights to, and interest in, certain operated producing properties totaling approximately 16,600 net acres, located in Henderson and Anderson Counties, Texas, adjacent to the Company's existing assets in the area. Substantially all of the acreage is developed and/or held by production. The acquisition also included certain wells, pipelines, contracts, technical data, records, personal property and hydrocarbons associated with the Properties, including two pipeline gathering systems and related infrastructure (collectively with the oil and gas properties to be acquired, the “ETXEnergy Assets”). The PSA closed on July 27, 2022, at which time we acquired the ETXEnergy Assets in consideration for the purchase price of \$11.875 million in cash, less purchase price adjustments. The effective date of the acquisition was June 1, 2022.

On July 26, 2022, in anticipation of the closing of the PSA, we entered into a letter agreement with FirstBank whereby we increased our borrowing base under the Credit Agreement from \$15 million to \$20 million, and paid the administrative agent an upfront fee of \$32,500 in connection with such increase (the “Borrowing Base Increase”).

Dividends

On February 23, 2023 and May 30, 2023, the Company paid a quarterly cash dividends of \$0.0225 per share of common stock outstanding to stockholders of record at the close of business on February 10, 2023 and May 19, 2023, respectively. Total dividends paid during the nine months ended September 30, 2023 were \$1.2 million. The Board of Directors suspended the Company's dividend payment policy on August 9, 2023, with the associated capital resources going towards the Company's share repurchase program and repayments of our credit facility's outstanding balance.

Stock Repurchase Program

On April 26, 2023, the Board of Directors of the Company authorized and approved a share repurchase program for up to \$5.0 million of the currently outstanding shares of the Company's common stock. Subject to any future extensions, the repurchase program is scheduled to expire on the earlier of June 30, 2024, when a maximum of \$5.0 million of the Company's common stock has been repurchased, or when the program is discontinued by the Company.

Under the stock repurchase program, shares may be repurchased from time to time in the open market or through negotiated transactions at prevailing market prices, or by other means in accordance with federal securities laws. Repurchases will be made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. The repurchase program will be funded using the Company's working capital.

During the nine months ended September 30, 2023, the Company paid \$241 thousand for the repurchase of 163,300 shares at a weighted average price of \$1.48 per share. There were no share repurchases during the three months ended September 30, 2023.

Full-Cost Method Ceiling Test

The reserves used in the ceiling test incorporate assumptions regarding pricing and discount rates over which management has no influence in the determination of present value. In the calculation of the ceiling test as of September 30, 2023, the Company used \$78.53 per barrel for oil and \$3.43 per one million British Thermal Units (MMBtu) for natural gas (as further adjusted for property, specific gravity, quality, local markets and distance from markets) to compute the future cash flows of the Company's producing properties. The discount factor used was 10%.

The Company recorded a \$6.5 million ceiling test write-down of its oil and gas properties during the three and nine months ended September 30, 2023, primarily due to a reduction in the value of proved oil and natural gas reserves as a result of a decrease in crude oil and natural gas prices. In addition, asset retirement obligation cost and life revisions and transfers of unevaluated properties into the full cost pool increased the net book value of our oil and gas properties subject to the ceiling test.

Depending on actual commodity prices, estimated price differentials, lease operating costs, revisions to reserve estimates, and the amount and timing of capital expenditures, additional write-downs of \$3 million to \$4 million could be incurred in the fourth quarter of 2023.

Plan of Operations and Strategy

Continuing through the end of 2023 and beyond, we intend to seek additional opportunities in the oil and natural gas sector, including but not limited to further acquisition of assets, participation with current and new industry partners in their exploration and development projects, acquisition of existing companies, and the purchase of oil and natural gas producing assets. In addition, we plan to grow production by performing workovers on operated idle wells acquired in 2022 to return them to production.

Key elements of our business strategy include:

- *Deploy our Capital in a Conservative and Strategic Manner and Review Opportunities to Bolster our Liquidity* . In the current industry environment, maintaining liquidity is critical. Therefore, we plan to be highly selective in the projects we evaluate and plan to review opportunities to bolster our liquidity and financial position through various means.
- *Evaluate and Pursue Value-Enhancing Transactions* . We continuously evaluate strategic alternative opportunities that we believe will enhance shareholder value.

Critical Accounting Policies and Estimates

The preparation of our unaudited condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires us to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. A summary of our significant accounting policies is detailed in *Part II, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2022 Annual Report on Form 10-K filed with the SEC on April 13, 2023.

Recently Adopted Accounting Standards

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13 to Topic 326, *Financial Instruments-Credit Losses*. See Note 1 in the accompanying notes to unaudited condensed consolidated financial statements included in Part 1, Item 1 for additional discussion of the impact of the adoption of this ASU on our financial statements and disclosures.

Results of Operations

Comparison of our Statements of Operations for the Three Months Ended September 30, 2023 and 2022

For the three months ended September 30, 2023, we recorded a net loss of \$8.8 million, which was primarily due to oil and natural gas property impairment expense of \$6.5 million from reduced commodity prices used in the full cost pool ceiling test as well as increased asset retirement costs from cost and life revisions and transfers of unevaluated properties into the full cost pool. Lower commodity prices and production also resulted in reduced revenue for the period. For the three months ended September 30, 2022, we recorded net income of \$4.1 million. In the following sections we discuss our revenue, operating expenses and other income (expense) for the three months ended September 30, 2023, compared to the three months ended September 30, 2022.

Revenue. Presented below is a comparison of our oil and gas sales, production quantities and average sales prices for the three months ended September 30, 2023 and 2022:

	Three months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands except average prices and production quantities)			
Revenue:				
Oil	\$ 7,811	\$ 8,979	\$ (1,168)	(13)%
Natural gas and liquids	930	2,820	(1,890)	(67)%
Total revenue	<u>\$ 8,741</u>	<u>\$ 11,799</u>	<u>\$ (3,058)</u>	<u>(26)%</u>
Production quantities:				
Oil (Bbls)	100,071	95,429	4,642	5%
Natural gas and liquids (Mcf)	311,654	394,659	(83,005)	(21)%
BOE	152,013	161,206	(9,193)	(6)%
BOE/Day	1,652	1,752	(100)	(6)%
Average sales prices:				
Oil (Bbls)	\$ 78.05	\$ 94.09	\$ (16.04)	(17)%
Natural gas and liquids (Mcf)	\$ 2.98	\$ 7.15	\$ (4.16)	(58)%
BOE	\$ 57.50	\$ 73.19	\$ (15.69)	(21)%

The decrease in our oil and gas revenue of \$3.1 million for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, was primarily due to a decrease in commodity pricing of 21% on a per BOE basis, as well as a decrease of 6% in production quantities on a per BOE basis. For the three months ended September 30, 2023, we produced 152,013 BOE, or an average of 1,652 BOE per day, as compared to 161,206 BOE or an average of 1,752 BOE per day during the comparable period in 2022. The decrease in our production quantities relates to shut-ins due to lightning strikes and fires in the Mid-Content region. The Company is evaluating the damage and if cost effective, some production may be brought back online, though we do not expect a full recovery to historical pre-fire levels. During the three months ended September 30, 2023, our production was 66% oil and 34% natural gas and liquids compared to 59% oil and 41% natural gas and liquids produced during the three months ended September 30, 2022.

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Oil and Gas Production Costs. Presented below is a comparison of our oil and gas production costs for the three months ended September 30, 2023 and 2022:

	Three months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands)			
Lease operating expenses	\$ 3,999	\$ 5,204	\$ (1,205)	(23)%
Gathering, transportation and treating	\$ 167	\$ 119	\$ 48	40%
Production taxes	\$ 596	\$ 817	\$ (221)	(27)%
Total	\$ 4,762	\$ 6,140	\$ (1,378)	(22)%
Lease operating expense per BOE	\$ 26.31	\$ 32.28	\$ (5.97)	(19)%
Gathering, transportation and treating per BOE	\$ 1.10	\$ 0.74	\$ 0.36	49%

For the three months ended September 30, 2023, lease operating expenses were \$4.0 million or \$26.31 per BOE, a decrease of \$1.2 million when compared to the \$5.2 million or \$32.28 per BOE for the three months ended September 30, 2022. The decrease in lease operating expense was due to a reduction in well workover activity in 2023 when compared to 2022. The decrease on a per BOE basis is the result of increased efficiency from the integration of assets acquired in 2022.

For the three months ended September 30, 2023, gathering, transportation, and treating costs were \$167 thousand, an increase of \$48 thousand, or 40%, compared to the comparable period of 2022. This increase was attributable to non-operated activities.

For the three months ended September 30, 2023, production taxes were \$596 thousand, a decrease of \$221 thousand, or 27%, compared to the comparable period of 2022. This decrease was attributable to the decrease in revenue of 26% discussed above as production taxes remained flat at 7% of revenue.

Depreciation, Depletion and Amortization. Our depreciation, depletion and amortization ("DD&A") was \$2.9 million and \$2.5 million for the three months ended September 30, 2023 and 2022, respectively. Our depletion rate was \$16.39 per BOE and \$13.84 per BOE for the three months ended September 30, 2023 and 2022, respectively. Our DD&A rate can fluctuate because of acquisitions, changes in drilling and completion costs, impairments, revisions in asset retirement obligation cost estimates or timing, divestitures, changes in the mix of our production, the underlying proved reserve volumes and estimated future development costs.

Impairment of oil and natural gas properties. Impairment of \$6.5 million was driven by reduced commodity prices used in the full cost pool ceiling test as well as increased asset retirement costs from cost and life revisions and transfers of unevaluated properties into the full cost pool.

General and Administrative Expenses. Presented below is a comparison of our general and administrative expenses for the three months ended September 30, 2023 and 2022:

	Three months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands)			
Compensation and benefits	\$ 1,410	\$ 1,198	\$ 212	18%
Stock-based compensation	617	485	132	27%
Professional fees, insurance and other	797	1,025	(228)	(22)%
Total general and administrative expenses	\$ 2,824	\$ 2,708	\$ 116	4%

General and administrative expenses increased by \$116 thousand during the three-month period ended September 30, 2023, as compared to the prior year period. The increase was primarily attributable to the severance package awarded to our former Chief Operating Officer, offset by a decrease in professional fees, insurance, and other.

Other Income (Expense). Presented below is a comparison of our other income (expense) for the three months ended September 30, 2023 and 2022:

	Three months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands)			
Commodity derivative gain (loss)	\$ (504)	\$ 4,025	\$ (4,529)	(113)%
Interest (expense)	(306)	(187)	(119)	64%
Other income (expense), net	68	(122)	190	(156)%
Total other income (expense)	\$ (742)	\$ 3,716	\$ (4,458)	(120)%

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Commodity derivative gain (loss), net, is the result of changes in derivative fair values associated with fluctuations in forward price curves for the commodities underlying our outstanding derivative contracts and the monthly cash settlements of our derivative positions during the period. For the three months ended September 30, 2023, we recognized losses on commodity derivative contracts of \$0.5 million, primarily as the result of an increase in the mark-to-market liability of our outstanding commodity derivative contracts. See *Note 7 Commodity Derivatives* in the notes to the unaudited condensed consolidated financial statements.

Interest expense primarily represents the interest on our credit facility with FirstBank Southwest. The increase in interest expense is primarily driven by the increase in the interest rate. As of September 30, 2023, we had borrowed \$12.0 million on the credit facility as compared to \$12.5 million borrowed as of September 30, 2022. The average interest rate increased to 9.1% per annum for the three months ended September 30, 2023, as compared to 6.3% per annum for the three months ended September 30, 2022. See *Note 6 Debt* in the notes to the unaudited condensed consolidated financial statements.

Other income (expense), net is primarily impacted from changes in the fair value of our investment in Anfield Energy. We recognized a gain of \$70 thousand on this investment for the three months ended September 30, 2023, but recognized a loss of \$44 thousand for the comparable period of 2022. Held for sale losses recognized on our real estate assets also impact other income (expense). We had no losses recognized on our real estate assets held for sale for the three months ended September 30, 2023, but recognized a loss of \$75 thousand for the comparable period of 2022.

Comparison of our Statements of Operations for the Nine Months Ended September 30, 2023 and 2022

For the nine months ended September 30, 2023, we recorded a net loss of \$12.6 million, which was primarily due to oil and natural gas property impairment expense of \$6.5 million from reduced commodity prices used in the full cost pool ceiling test as well as increased asset retirement costs from cost and life revisions and transfers of unevaluated properties into the full cost pool. Lower commodity prices also resulted in reduced revenue for the period. For the nine months ended September 30, 2022, we recorded net income of \$0.9 million.

Revenue. Presented below is a comparison of our oil and gas sales, production quantities and average sales prices for the nine months ended September 30, 2023 and 2022:

	Nine months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands except average prices and production quantities)			
Revenue:				
Oil	\$ 21,935	\$ 28,146	\$ (6,211)	(22)%
Natural gas and liquids	3,057	6,005	(2,948)	(49)%
Total revenue	\$ 24,992	\$ 34,151	\$ (9,159)	(27)%
Production quantities:				
Oil (Bbls)	306,282	294,095	12,187	4%
Natural gas and liquids (Mcf)	1,076,104	900,310	175,794	20%
BOE	485,633	444,147	41,486	9%
BOE/Day	1,779	1,627	152	9%
Average sales prices:				
Oil (Bbls)	\$ 71.62	\$ 95.70	\$ (24.09)	(25)%
Natural gas and liquids (Mcf)	\$ 2.84	\$ 6.67	\$ (3.83)	(57)%
BOE	\$ 51.46	\$ 76.89	\$ (25.43)	(33)%

The decrease in our oil and gas revenue of \$9.2 million for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, was due primarily to a decrease in commodity prices. Our realized price on a BOE basis decreased 33% from the prior year period. Partially offsetting the decrease in revenues from declines in commodity prices was an increase in the volumes we produced during the period. For the nine months ended September 30, 2023, we produced 485,633 BOE, or an average of 1,779 BOE per day, as compared to 444,147 BOE or 1,627 BOE per day, during the comparable period in 2022. Our oil production was up 4% and our natural gas and liquids production was up 20% compared to the prior year period. The increase in the volumes of natural gas and liquids produced is primarily due to the acquisition of our East Texas assets in July 2022 with relatively more natural gas production. See *Note 2 – Acquisitions*. The production mix shifted to become slightly less oil weighted in 2023 when compared to 2022. Our BOE production mix was 63% oil and 37% natural gas and liquids during the nine months ended September 30, 2023 compared to 66% oil and 34% natural gas and liquids in the comparable period of 2022.

Oil and Gas Production Costs. Presented below is a comparison of our oil and gas production costs for the nine months ended September 30, 2023 and 2022:

	Nine months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands)			
Lease operating expenses	\$ 12,147	\$ 12,349	\$ (202)	(2)%
Gathering, transportation and treating	\$ 419	\$ 356	\$ 63	18%
Production taxes	\$ 1,654	\$ 2,302	\$ (648)	(28)%
Total	\$ 14,220	\$ 15,007	\$ (787)	(5)%
Lease operating expense per BOE	\$ 25.01	\$ 27.80	\$ (2.79)	(10)%
Gathering, transportation and treating per BOE	\$ 0.86	\$ 0.80	\$ 0.06	8%

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For the nine months ended September 30, 2023, lease operating expenses were \$12.1 million or \$25.01 per BOE, a decrease of \$0.2 million when compared to the \$12.3 million or \$27.80 per BOE for the nine months ended September 30, 2022. Lease operating expense per BOE decreased as a result of increased efficiency from the integration of assets acquired in 2022.

For the nine months ended September 30, 2023, gathering, transportation, and treating costs were \$419 thousand, an increase of \$63 thousand, or 18%, compared to the comparable period of 2022. This increase was primarily driven by the increase in natural gas production for the period.

For the nine months ended September 30, 2023, production taxes were \$1.7 million, a decrease of \$0.6 million, or 28%, compared to the comparable period of 2022. This decrease was primarily attributable to the decrease in revenue of 27% discussed above as production taxes remained flat at 7% of revenue.

Depreciation, Depletion and Amortization. Our DD&A rate for the nine months ended September 30, 2023, was \$14.74 per BOE, compared to \$13.94 per BOE for the nine months ended September 30, 2022. Our DD&A rate can fluctuate because of acquisitions, changes in drilling and completion costs, impairments, revisions in asset retirement obligation cost estimates or timing, divestitures, changes in the mix of our production, the underlying proved reserve volumes and estimated future development costs to develop reserves.

Impairment of oil and natural gas properties . Impairment of \$6.5 million was driven by reduced commodity prices used in the full cost pool ceiling test as well as increased asset retirement costs from cost and life revisions and transfers of unevaluated properties into the full cost pool.

General and Administrative Expenses. Presented below is a comparison of our general and administrative expenses for the nine months ended September 30, 2023 and 2022:

	Nine months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands)			
Compensation and benefits	\$ 3,927	\$ 3,017	\$ 910	30%
Stock-based compensation	1,951	2,594	(643)	(25)%
Professional fees, insurance and other	3,086	2,685	401	15%
Total general and administrative expenses	\$ 8,964	\$ 8,296	\$ 668	8%

General and administrative expenses increased by \$0.7 million during the nine-month period ended September 30, 2023, as compared to the prior year period. The increase was primarily attributable to an increase in compensation and benefits of \$0.9 million due to the employees added in the last half of 2022 and the first half of 2023. Professional fees, insurance and other expenses increased \$0.4 million, primarily due to increased consulting, accounting, legal and insurance expenses related to the acquisition of properties in January 2022. Stock-based compensation decreased \$0.6 million due to the amortization of stock-based compensation awards granted to employees and directors in January 2022, which were in connection with new directors and officers appointed in connection with the January 2022 acquisition.

Other Income (Expense). Presented below is a comparison of our other income (expense) for the nine months ended September 30, 2023 and 2022:

	Nine months ended September 30,		Change	
	2023	2022	Amount	Percent
	(in thousands)			
Commodity derivative gain (loss)	\$ 704	\$ (4,944)	\$ 5,648	(114)%
Interest (expense)	(864)	(295)	(569)	193%
Other income (expense), net	46	(168)	214	(127)%
Total other income (expense)	\$ (114)	\$ (5,407)	\$ 5,293	(98)%

Commodity derivative gain (loss), net is the result of changes in derivative fair values associated with fluctuations in forward price curves for the commodities underlying our outstanding derivative contracts and the monthly cash settlements of our derivative positions during the period. For the nine months ended September 30, 2023, we recognized gains on commodity derivative contracts of \$0.7 million. See *Note 7 Commodity Derivatives* in the notes to the condensed consolidated financial statements.

Interest expense primarily represents the interest related to our credit facility with FirstBank Southwest. The increase in interest expense is primarily driven by the increase in the interest rate. We had \$12.0 million borrowed on the credit facility on September 30, 2023 and September 30, 2022. During the nine months ended September 30, 2023, the interest rate on the Credit Facility increased to an average of 8.8% per annum compared to the average rate during the nine months ended September 30, 2022 of 5.1% per annum. See *Note 6-Debt* in the notes to the condensed consolidated financial statements.

Other income (expense), net is primarily impacted from changes in the fair value of our investment in Anfield Energy. We recognized a gain of \$54 thousand on this investment for the nine months ended September 30, 2023, but recognized a loss of \$85 thousand for the comparable period of 2022. Held for sale losses recognized on our real estate assets also impact other income (expense). We had no losses recognized on our real estate assets held for sale for the nine months ended September 30, 2023, but recognized a loss of \$75 thousand for the comparable period of 2022.

Liquidity and Capital Resources

Based on the current commodity price environment, we believe we have sufficient liquidity and capital resources to execute our business plan while continuing to meet our current financial obligations. We continue to manage our commitments in order to maintain flexibility with regard to our activity level and capital expenditures.

We do not anticipate operating any drill rigs within the next 12 months or performing any developmental or exploratory drilling except on a limited basis in some of our non-operated properties. We will incur approximately \$0.2 million on lease commitments and approximately \$1.0 million on interest expense assuming no material changes to interest rates over the next 12 months. Our capital budget is typically comprised of return to production workovers, repairs and maintenance, plugging and abandonment costs, and similar activities to support our asset base. We view some of these investments as discretionary for which we can control both the timing and amount of these expenditures. Other activities, such as some repairs and maintenance and plugging activities, may be required from time to time by regulatory bodies. While we do not yet have an approved budget for 2024, we anticipate any such expenditures would be sourced primarily by operating cash flows. In the event that our operating cash flows are not sufficient to fund these expenditures, we have access to our credit facility and equity markets if such a need arises.

Sources of Cash

For the nine months ended September 30, 2023, we funded our capital expenditures with cash on hand and cash flows from operating activities. During the fourth quarter of 2023 and first quarter of 2024, if cash flows are not sufficient to fund our capital expenditures and operations, we may also use borrowings under our credit facility or raise funds through new equity offerings or from other sources of financing and re-evaluate our capital spend program as economic conditions warrant. Additionally, we may enter into carrying cost and sharing arrangements with third parties for certain development programs. All of our sources of liquidity can be affected by the changes in economic conditions, rising interest rate, changes in debt and equity markets, force majeure events, fluctuations in commodity prices, operating costs, tax law changes, and volumes produced, all of which would affect us and our industry.

We have no control over the market prices for oil and gas, although we may be able to influence the amount of our realized revenues from oil and gas through the use of commodity derivative contracts as part of our commodity price risk management program. Commodity derivative contracts may limit the prices we receive from our oil and gas sales if oil and gas prices rise substantially over the price established by the commodity derivative contract. See *Note 7- Commodity Derivatives* in Part I, Item 1 of this report for additional information about our oil and gas commodity derivative contracts currently in place and the timing of the settlement of those contracts.

Credit Agreement

On January 5, 2022, we entered into a four-year credit agreement with FirstBank Southwest as administrative agent, which provides for a revolving line of credit with a borrowing base of \$20 million, and a maximum credit amount of \$100 million (the "Credit Agreement"). Under the Credit Agreement, revolving loans may be borrowed, repaid and re-borrowed until January 5, 2026, when all outstanding amounts must be repaid. The Credit Agreement contains customary indemnification requirements, representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries. In addition, the Credit Agreement contains financial covenants, tested quarterly, that limit our ratio of total debt to EBITDAX (as defined in the Credit Agreement) to 3:1 and require our ratio of consolidated current assets to consolidated current liabilities (as each is described in the Credit Agreement) to remain at 1:1 or higher. We were in compliance with all financial covenants as of September 30, 2023. Please refer to *Note 6 - Debt* in Part I, Item 1 of this report for additional discussion.

The borrowing base is redetermined semi-annually, commencing on or about April 1 and October 1 of each year during the four-year term of the Credit agreement. At the April 2023 redetermination we reaffirmed the borrowing base. The next borrowing base redetermination is expected to be completed later in the fourth quarter of 2023. Our borrowing base can be adjusted as a result of changes in commodity prices, acquisitions or divestitures of proved properties, or financing activities, all as provided for in the Credit Agreement.

Cash flows provided by our operating activities, proceeds received from divestitures of properties, capital markets activities, and our capital expenditures, including acquisitions, all impact the amount we borrow under our revolving Credit Agreement. The amount outstanding on the Credit Agreement as of September 30, 2023, was \$12.0 million.

Uses of Cash

We use cash for the acquisition and development of oil and gas properties and for the payment of operating and general and administrative costs, settlements of commodity derivative contracts, debt obligations including interest, share repurchases, and dividends. Expenditures for the acquisition and development of oil and gas properties are the primary use of our capital resources. During the nine months ended September 30, 2023, we spent approximately \$3.4 million on capital expenditures.

The amount and allocation of our future capital expenditures will depend upon a number of factors, including our cash flows from operating, investing, and financing activities, our ability to execute our development program, and the number and size of acquisitions that we complete. In addition, the impact of oil and gas, prices on investment opportunities, the availability of capital, tax law changes, and the timing and results of our development activities may lead to changes in funding requirements for future development. We periodically review our capital expenditure budget to assess if changes are necessary based on current and projected cash flows, acquisition and divestiture activities, and other factors. Our 2023 capital program is expected to be less than \$4.5 million. We will continue to monitor the economic environment through the remainder of the year and adjust our activity level as warranted.

Cash Flows

The following table summarizes our cash flows for the nine months ended September 30, 2023 and 2022:

	Nine months ended September 30,		Change
	2023	2022	
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$ 2,977	\$ 8,497	\$ (5,520)
Investing activities	(3,365)	(17,108)	13,743
Financing activities	(2,049)	7,282	(9,331)

Operating Activities. Cash provided by operating activities for the nine months ended September 30, 2023 was \$3.0 million as compared to cash provided by operating activities of \$8.5 million for the comparable period in 2022. The decrease in cash provided by operating activities is mainly attributable to a reduction in cash receipts for revenues as a result of a decrease in the prices we received for our oil and natural gas production and an increase in cash based general and administrative expenses such as compensation and benefits and professional fees, insurance and other expenses. These reductions in operating cash flows were partially offset by decreases in cash paid to settle commodity derivative contracts.

Investing Activities. Cash used in investing activities for the nine months ended September 30, 2023, was \$3.4 million as compared to \$17.1 million for the comparable period in 2022. The primary use of cash in our investing activities for the nine months ended September 30, 2023, was the capital expenditures related to returning idle wells to production and improvements to our gathering system in East Texas. In 2022, For the nine months ended September 30, 2022 the primary use of cash in our investing activities was for the acquisition of the East Texas assets from ETXENERGY, LLC of \$10.9 million and capital expenditures related to returning idle wells to production on assets acquired during the period of \$5.2 million

Financing Activities. Cash used in financing activities for the nine months ended September 30, 2023, was \$2.1 million as compared to cash inflows from financing activities of \$7.3 million for the comparable period in 2022. The cash used in financing activities during the nine months ended September 30, 2023, was primarily attributable to cash dividends paid of \$0.2 million and principal payments on our insurance premium finance note payable of \$0.5 million. Cash inflows from financing activities during the nine months ended September 30, 2022, primarily related to borrowings under our credit facility of \$15.2 million, offset by repayments of on our credit facility of \$6.1 million, cash dividends paid of \$0.0 million, and payments of principal on our insurance premium finance note of \$0.4 million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We are required to maintain disclosure controls and procedures (as defined by Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As of September 30, 2023, our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on the results of the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls were not effective as of September 30, 2023 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Such determination was made in part on material weaknesses in our internal control over financial reporting as of December 31, 2022, as discussed below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on April 13, 2023, in connection with our assessment of the effectiveness of our internal control over financial reporting at the end of our last fiscal year, management identified the following material weaknesses in our internal control over financial reporting as of December 31, 2022 and is in the process of remediating such material weaknesses as of September 30, 2023:

- Third party information technology general controls ("ITGCs") related to our accounting system were not designed appropriately and reliance could not be placed on the processing integrity of the accounting system.

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- Certain control activities with a review component were not implemented and operating effectively for a sufficient portion of the period and did not include sufficient evidence of review procedures performed or formal approval by the reviewer.
- Certain business process controls were not implemented for a sufficient portion of the period and did not include sufficient evidence of operation.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

Except as disclosed below there were no changes in our internal control over financial reporting during the three months ended September 30, 2023, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

During the quarter ended September 30, 2023, we have made efforts to improve the documentation and evidence of review for control activities. We are not currently involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on April 13, 2023, under the heading "[Item 1A. Risk Factors](#)", except as discussed below, and investors should review the risks provided in the Annual Report, prior to making an investment in the Company. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the Annual Report, under "[Item 1A. Risk Factors](#)", and below, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

Our stock repurchases are discretionary and even if effected, they may not achieve the desired objectives.

On April 26, 2023, the Board of Directors of the Company authorized and approved a share repurchase program for up to \$5.0 million of the currently outstanding shares of the Company's common stock. Subject to any future extensions, the repurchase program is scheduled to expire on June 30, 2024. Under the stock repurchase program, shares may be repurchased from time to time in the open market or through negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. Repurchases will be made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. During the three months ended June 30, 2023, the Company paid \$241 thousand for the repurchase of 163,300 shares at a weighted average price of \$1.48 per share in open market transactions. The program does not obligate the Company to acquire a minimum amount of shares.

There can be no assurance that any repurchases pursuant to our stock repurchase program will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchase such shares. The amounts and timing of the repurchases may also be influenced by general market conditions, regulatory developments (including recent legislative actions which, subject to certain conditions, may impose an excise tax of 1% on our stock repurchases) and the prevailing price and trading volumes of our common stock. If our financial condition deteriorates or we decide to use our cash for other purposes, we may suspend repurchase activity at any time.

Our Board of Directors has determined to suspend our quarterly cash dividend.

On April 13, 2022, August 5, 2022, November 7, 2022, February 9, 2023 and May 18, 2023, the Company's Board of Directors approved the declaration and payment of quarterly cash dividends of \$0.0225 per share of common stock. Our Board of Directors, at its sole discretion, determines the amount of the quarterly dividends to be distributed to our shareholders, if any, based on consideration of a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including future acquisitions and divestitures. Consequently, our dividend levels may fluctuate. On August 9, 2023, the Board of Directors determined it appropriate to suspend dividend payments, with the associated future capital resources being allocated towards the Company's share repurchase program and repayments of the outstanding balance on our credit facility. The Board of Directors may or may not reinstate future dividend payments in the future, the amount and frequency of which will be determined at the sole discretion of the Board. To the extent that the dividend is not reinstated in the future, only appreciation of the price of our common stock, which may not occur, will provide a return to our stockholders.

We may enter into strategic transactions in the future which may result in a material change in our operations and/or a change of control.

In the future, we or our majority stockholders, may enter into transactions with, or undertake transactions with, parties seeking to merge and/or acquire us and/or our operations. While neither we, nor our majority stockholders have entered into any such agreements or understandings to date, in the event that we or our majority stockholders do enter into such a transaction or transactions in the future, it could result in a change in our business focus, the acquisition of significant amounts of our outstanding common stock, or a change in our majority stockholders. We and our majority stockholders have not entered into any agreements relating to any strategic transaction involving the Company as of the date of this filing and may never enter into such agreement(s) in the future. Any future strategic transaction involving the Company or its operations may have a material effect on our operations, cash flows, results of operations, prospects, plan of operations, the listing of our common stock on the Nasdaq Capital Market, our officers, directors and majority stockholders, and the value of our securities.

We have written down, and may in the future be forced to further write-down, material portions of our 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. This includes any internal costs that are directly related to development and exploration activities, but does not include any costs related to production, general corporate overhead, or similar activities. Proceeds received from disposals are credited against accumulated cost, except when the sale represents a significant disposal of reserves, in which case a gain or loss is recognized. The sum of net capitalized costs and estimated future development and dismantlement costs for each cost center is depleted on the equivalent unit-of-production method, based on proved oil and natural gas reserves. Excluded from amounts subject to depreciation, depletion, and amortization are costs associated with unevaluated properties.

Under the full cost method, net capitalized costs are limited to the lower of (a) unamortized cost reduced by the related net deferred tax liability and asset retirement obligations, and (b) the cost center ceiling. The cost center ceiling is defined as the sum of (i) estimated future net revenue, discounted at 10% per annum, from proved reserves, based on unescalated costs, adjusted for contract provisions, any financial derivatives qualifying as accounting hedges and asset retirement obligations, and unescalated oil and natural gas prices during the period, (ii) the cost of properties not being amortized, and (iii) the lower of cost or market value of unproved properties included in the cost being amortized, less income tax effects related to tax assets directly attributable to the natural gas and crude oil properties. If the net book value reduced by the related net deferred income tax liability and asset retirement obligations exceeds the cost center ceiling limitation, a non-cash impairment charge is required in the period in which the impairment occurs.

We perform a quarterly ceiling test for our only oil and natural gas cost center, which is the United States. During 2022 we did not record a ceiling test write-down. The ceiling test incorporates assumptions regarding pricing and discount rates over which we have no influence in the determination of present value. In arriving at the ceiling test for the year ended December 31, 2022, we used an average price applicable to our properties of \$93.67 per barrel for oil and \$6.36 per Mcfe for natural gas, based on average prices per barrel of oil and per Mcfe of natural gas at the first day of each month of the 12-month period prior to the end of the reporting period, to compute the future cash flows of each of the producing properties at that date.

In the calculation of the ceiling test as of September 30, 2023, the Company used \$78.53 per barrel for oil and \$3.43 per one million British Thermal Units (MMbtu) for natural gas (as further adjusted for property, specific gravity, quality, local markets and distance from markets) to compute the future cash flows of the Company's producing properties. The discount factor used was 10%.

The Company recorded a \$6.5 million ceiling test write-down of its oil and gas properties during the three and nine months ended September 30, 2023, primarily due to a reduction in the value of proved oil and natural gas reserves as a result of a decrease in crude oil and natural gas prices. In addition, asset retirement obligation cost and life revisions and transfers of unevaluated properties into the full cost pool increased the net book value of our oil and gas properties subject to the ceiling test.

Depending on actual commodity prices, estimated price differentials, lease operating costs, revisions to reserve estimates, and the amount and timing of capital expenditures, additional write-downs of \$3 million to \$4 million could be incurred in the fourth quarter of 2023.

Material future write-downs or impairments of our oil and gas properties may have a material adverse effect on our assets and/or our financial condition, either of which may cause the value of our securities to decline in value.

The conflicts in Ukraine and Israel and related price volatility and geopolitical instability could negatively impact our business .

In late February 2022, Russia launched significant military action against Ukraine. The sanctions announced by the United States and other countries against Russia and Belarus following Russia's invasion of Ukraine to date include restrictions on selling or importing goods, services, or technology in or from affected regions and travel bans and asset freezes impacting connected individuals and political, military, business, and financial organizations in Russia and Belarus. The United States and other countries could impose wider sanctions and take other actions should the conflict further escalate. Separately, in October 2023, Israel and certain Iranian-backed Palestinian forces began an armed conflict in Israel, the Gaza Strip, and surrounding areas, which threaten to extend into other Middle Eastern countries. These conflicts have caused, and could intensify, volatility in natural gas, oil and NGL prices. The extent and duration of the military actions, sanctions, and resulting market disruptions could be significant and could potentially have a substantial negative impact on the global economy and/or our business for an unknown period of time. We believe that the increase in crude oil prices during the first half of 2022 was partially due to the impact of the conflict between Russia and Ukraine on the global commodity and financial markets, and in response to economic and trade sanctions that certain countries have imposed on Russia. Any such volatility and disruptions may also magnify the impact of other risks described herein, and in our Annual Report on Form 10-K for the year ended December 31, 2022.

The Company's operations have in the past been, and could in the future be, disrupted by natural or human causes beyond its control.

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, other forms of 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 such as the COVID-19 pandemic, some of which may be impacted by climate change and any of which could result in suspension of operations or harm to people or the natural environment. For example, during the three months ended September 30, 2023, decreases in our production quantities compared to the three months ended September 30, 2022, related to temporary and indefinite shut-ins due to lightning strikes and fires in the Mid-Content region. Any of the above events could have a future material adverse effect on the Company's results of operations or financial condition.

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

Sales of Unregistered Securities

There have been no sales of unregistered securities during the quarter ended September 30, 2023, and from the period from October 1, 2023, to the filing date of this Report.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth share repurchase activity for the respective periods:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 1- July 31, 2023	—	\$ —	—	\$ 4,759,207
August 1 - August 31, 2023	—	\$ —	—	\$ 4,759,207
September 1 - September 30, 2023	—	\$ —	—	\$ 4,759,207
Total	—	\$ —	—	\$ 4,759,207

(1) On April 26, 2023, the Board of Directors of the Company authorized and approved a share repurchase program for up to \$5.0 million of the currently outstanding shares of the Company's common stock. Subject to any future extensions, the repurchase program is scheduled to expire on June 30, 2024, when a maximum of \$5.0 million of the Company's common stock has been repurchased, or when the program is discontinued by the Company. Under the stock repurchase program, shares may be repurchased from time to time in the open market or through negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. Repurchases are made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. The repurchase program is funded using the Company's working capital. The program does not obligate the Company to acquire a minimum amount of shares.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Clawback Policy. On November 8, 2023, the Board of Directors of the Company approved the adoption of a Policy for the Recovery of Erroneously Awarded Incentive Based Compensation (the "Clawback Policy"), with an effective date of October 2, 2023, in order to comply with the final clawback rules adopted by the Securities and Exchange Commission under Section 10D and Rule 10D-1 of the Securities Exchange Act of 1934, as amended ("Rule 10D-1"), and the listing standards, as set forth in the Nasdaq Listing Rule 5608 (the "Final Clawback Rules").

The Clawback Policy provides for the mandatory recovery of erroneously awarded incentive-based compensation from current and former executive officers as defined in Rule 10D-1 ("Covered Officers") of the Company in the event that the Company is required to prepare an accounting restatement, in accordance with the Final Clawback Rules. The recovery of such compensation applies regardless of whether a Covered Officer engaged in misconduct or otherwise caused or contributed to the requirement of an accounting restatement. Under the Clawback Policy, the Board of Directors may recoup from the Covered Officers erroneously awarded incentive compensation received within a lookback period of the three completed fiscal years preceding the date on which the Company is required to prepare an accounting restatement.

The foregoing summary of the Clawback Policy does not purport to be complete and is qualified in its entirety by reference to the full text of the Clawback Policy, a copy of which is attached hereto as Exhibit 10.2, to this Quarterly Report on Form 10-Q and incorporated herein by reference.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>	<u>Form</u>	<u>File No.</u>	<u>Exhibit</u>	<u>Filing Date</u>	<u>Filed / Furnished Herewith</u>
10.1†	Separation and Release Agreement, dated July 31, 2023, by and between U.S. Energy Corp. and Donald A. Kessel	8-K	000-06814	10.1	8/01/2023	
10.2†*	U.S. Energy Corp. Policy for the Recovery of Erroneously Awarded Incentive-Based Compensation					X
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002					X
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002					X
32.1♦	Certification of Chief Executive Officer under Rule 13a-14(b)					X
32.2♦	Certification of Chief Financial Officer under Rule 13a-14(b)					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH*	Inline XBRL Schema Document					X
101.CAL*	Inline XBRL Calculation Linkbase Document					X
101.DEF*	Inline XBRL Definition Linkbase Document					X
101.LAB*	Inline XBRL Label Linkbase Document					X
101.PRE*	Inline XBRL Presentation Linkbase Document					X
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set					X

* Filed herewith.

† Exhibit constitutes a management contract or compensatory plan or agreement.

♦ Furnished herewith.

SIGNATURES

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

U.S. ENERGY CORP.

Date: November 13, 2023

By: /s/ Ryan L. Smith
RYAN L. SMITH,
Chief Executive Officer (Principal Executive Officer)

Date: November 13, 2023

By: /s/ Mark L. Zajac
MARK L. ZAJAC,
Chief Financial Officer (Principal Financial and Accounting Officer)

**U.S. ENERGY CORP.
POLICY FOR THE RECOVERY OF
ERRONEOUSLY AWARDED INCENTIVE-BASED COMPENSATION**

Adopted by the Board of Directors on November 8, 2023

The Board of Directors (the "**Board**") of **U.S. Energy Corp.** (the "**Company**") believes that it is in the best interests of the Company and its stockholders to adopt this Policy for the Recovery of Erroneously Awarded Incentive-Based Compensation (the "**Policy**"), which provides for the recovery of certain incentive compensation in the event of an Accounting Restatement (as defined below).

This Policy is designed to comply with, and shall be interpreted to be consistent with, Section 10D of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), Rule 10D-1 promulgated under the Exchange Act (" **Rule 10D-1**") and Nasdaq Listing Rule 5608 (the " **Listing Standards**").

1. Administration

Except as specifically set forth herein, this Policy shall be administered by the Compensation Committee of the Board (if composed entirely of independent directors) or if so designated by the Board, a separate committee of the Board, consisting solely of independent directors, or in the absence of such a committee, a majority of the independent directors serving on the board (as applicable, the "**Administrator**"). The Administrator is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. Any determinations made by the Administrator shall be final and binding on all affected individuals and need not be uniform with respect to each individual covered by the Policy. In the administration of this Policy, the Administrator is authorized and directed to consult with the full Board or such other committees of the Board, such as the Audit Committee or the Compensation Committee, as may be necessary or appropriate as to matters within the scope of such other committee's responsibility and authority.

Subject to any limitation under applicable law, the Administrator may authorize and empower any officer or employee of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee).

2. Definitions

As used in this Policy, the following definitions shall apply:

- "**Accounting Restatement**" means an accounting restatement of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement).
- "**Administrator**" has the meaning set forth in Section 1 hereof.
- "**Applicable Period**" means the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, as well as any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year). The "date on which the Company is required to prepare an Accounting Restatement" is the earlier to occur of (a) the date the Board (or the Compensation Committee, if authorized by the Board) concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement or (b) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed.
- "**Covered Executives**" means the Company's current and former Executive Officers, as determined by the Administrator. For the avoidance of doubt, a Covered Executive may include a former Executive Officer that left the Company, retired, or transitioned to an employee role (including after serving as an Executive Officer in an interim capacity) during the Applicable Period.
- "**Erroneously Awarded Compensation**" has the meaning set forth in Section 5 of this Policy.
- "**Executive Officer**" means an executive officer as defined in Rule 10D-1(d) and the Listing Standards including, but not limited to, the Company's president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policymaking functions for the Company; and executive officers identified pursuant to Regulation S-K Item 401(b). For the purposes of such definition, Executive Officers of the Company's parent(s) or subsidiaries are deemed Executive Officers of the Company if they perform such policy making functions for the Company.
- A "**Financial Reporting Measure**" is any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure. Financial Reporting Measures include but are not limited to the following (and any measures derived from the following): Company stock price; total stockholder return ("**TSR**"); revenues; net income; operating income; profitability of one or more reportable segments; financial ratios (e.g., accounts receivable turnover and inventory turnover rates); earnings before interest, taxes, depreciation and amortization ("**EBITDA**"); funds from operations and adjusted funds from operations; liquidity measures (e.g., working capital, operating cash flow); return measures (e.g., return on invested capital, return on assets); earnings measures (e.g., earnings per share); any of such financial reporting measures relative to a peer group, where the Company's financial reporting measure is subject to an Accounting Restatement; and tax basis income. A Financial Reporting Measure need not be presented within the Company's financial statements or included in a filing with the Securities and Exchange Commission.

- **"Incentive-Based Compensation"** means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is **"received"** for purposes of this Policy in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period.

3. Covered Executives; Incentive-Based Compensation

This Policy applies to Incentive-Based Compensation received by a Covered Executive **(a)** after beginning services as a Covered Executive; **(b)** if that person served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation (whether or not such Covered Executive is serving at the time the Erroneously Awarded Compensation is required to be repaid to the Company); and **(c)** while the Company had a listed class of securities on a national securities exchange.

4. Required Recoupment of Erroneously Awarded Compensation in the Event of an Accounting Restatement

In the event the Company is required to prepare an Accounting Restatement, the Company shall promptly recoup the amount of any Erroneously Awarded Compensation received by any Covered Executive, as calculated pursuant to Section 5 hereof, during the Applicable Period.

5. Erroneously Awarded Compensation: Amount Subject to Recovery

The amount of **"Erroneously Awarded Compensation"** subject to recovery under the Policy, as determined by the Administrator, is the amount of Incentive-Based Compensation (calculated on a pre-tax basis and without regard to any taxes paid) received by the Covered Executive that exceeds the amount of Incentive-Based Compensation that would have been received by the Covered Executive had it been determined based on the restated amounts. For the avoidance of doubt Erroneously Awarded Compensation does not include any Incentive-Based Compensation received by a person (i) before such person began service in a position or capacity meeting the definition of an Executive Officer, (ii) who did not serve as an Executive Officer at any time during the performance period for that Incentive-Based Compensation, or (iii) during any period the Company did not have a class of its securities listed on a national securities exchange or a national securities association.

Erroneously Awarded Compensation shall be computed by the Administrator without regard to any taxes paid by the Covered Executive in respect of the Erroneously Awarded Compensation.

By way of example, with respect to any compensation plans or programs that take into account Incentive-Based Compensation, the amount of Erroneously Awarded Compensation subject to recovery hereunder includes, but is not limited to, the amount contributed to any notional account based on Erroneously Awarded Compensation and any earnings accrued to date on that notional amount.

For Incentive-Based Compensation based on stock price or TSR: **(a)** the Administrator shall determine the amount of Erroneously Awarded Compensation based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation was received; and **(b)** the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to The Nasdaq Stock Market ("**Nasdaq**").

6. Method of Recoupment

The Administrator shall determine, in its sole discretion, the timing and method for promptly recouping Erroneously Awarded Compensation hereunder, which may include without limitation **(a)** seeking reimbursement of all or part of any cash or equity-based award, **(b)** cancelling prior cash or equity-based awards, whether vested or unvested or paid or unpaid, **(c)** cancelling or offsetting against any planned future cash or equity-based awards, **(d)** forfeiture of deferred compensation, subject to compliance with Section 409A of the Internal Revenue Code and the regulations promulgated thereunder and **(e)** any other method authorized by applicable law or contract. Subject to compliance with any applicable law, the Administrator may affect recovery under this Policy from any amount otherwise payable to the Covered Executive, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Covered Executive.

The applicable Covered Executive shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding paragraph.

The Company is authorized and directed pursuant to this Policy to recoup Erroneously Awarded Compensation in compliance with this Policy unless the Administrator has determined that recovery would be impracticable solely for the following limited reasons, and subject to the following procedural and disclosure requirements:

- The direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Administrator must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover and provide that documentation to Nasdaq; or
- Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

To the extent that the Covered Executive has already reimbursed the Company for any Erroneously Awarded Compensation under any duplicative recovery obligations established by the Company or applicable law, it shall be appropriate for any such reimbursed amount to be credited to the amount of Erroneously Awarded Compensation that is subject to recovery under this Policy.

7. No Indemnification of Covered Executives; No Reimbursement; No Agreements Exempting or Waiving Recovery

Notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement with any Covered Executive that may be interpreted to the contrary, the Company shall not indemnify any Covered Executives against the loss of any Erroneously Awarded Compensation, including any payment or reimbursement for the cost of third-party insurance purchased by any Covered Executives to fund potential clawback obligations under this Policy.

Further, the Company shall not enter into any agreement that exempts any Incentive-Based Compensation that is granted, paid or awarded to a Covered Executive from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation, and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Policy).

8. Administrator Indemnification

Any members of the Administrator, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

9. Effective Date; Retroactive Application

This Policy shall be effective as of October 2, 2023 (the "**Effective Date**"). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Executives on or after the Effective Date, even if such Incentive-Based Compensation was approved, awarded, granted or paid to Covered Executives prior to the Effective Date. Without limiting the generality of Section 6 hereof, and subject to applicable law, the Administrator may affect recovery under this Policy from any amount of compensation approved, awarded, granted, payable or paid to the Covered Executive prior to, on or after the Effective Date.

This Policy will survive and continue notwithstanding any termination of a Covered Executive's employment with the Company and its affiliates.

10. Amendment; Termination

The Board may amend, modify, supplement, rescind or replace all or any portion of this Policy at any time and from time to time in its discretion, and shall amend this Policy as it deems necessary to comply with applicable law or any rules or standards adopted by a national securities exchange on which the Company's securities are listed. Notwithstanding anything in this Section 10 to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule or Nasdaq rule.

11. Severability

If any provision of this Policy is or becomes or is deemed to be invalid or unenforceable in any jurisdiction or as to any Covered Executive, such provision shall be construed or deemed amended to conform with applicable law.

This Policy shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to any conflicts of law principles thereof that would require the application of the laws of another jurisdiction.

12. Other Recoupment Rights; Company Claims

The Board intends that this Policy shall be applied to the fullest extent of the law. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company under applicable law or pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company.

Nothing contained in this Policy, and no recoupment or recovery as contemplated by this Policy, shall limit any claims, damages or other legal remedies the Company or any of its affiliates may have against a Covered Executive arising out of or resulting from any actions or omissions by the Covered Executive.

Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with a Covered Executive shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Covered Executive to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation or rule or pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangement.

13. Successors

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

14. Acknowledgment by Covered Executives; Condition to Eligibility for Incentive-Based Compensation

The Company will provide notice and seek acknowledgment of this Policy from each Covered Executive (in the form attached hereto), provided that the failure to provide such notice or obtain such acknowledgment will have no impact on the applicability or enforceability of this Policy.

After the Effective Date, the Company must be in receipt of a Covered Executive's acknowledgment as a condition to such Covered Executive's eligibility to receive Incentive-Based Compensation.

All Incentive-Based Compensation subject to this Policy will not be earned, even if already paid, until the Policy ceases to apply to such Incentive-Based Compensation and any other vesting conditions applicable to such Incentive-Based Compensation are satisfied.

15. Exhibit Filing Requirement

A copy of this Policy and any amendments thereto shall be posted on the Company's website and filed as an exhibit to the Company's annual report on Form 10-K.

16. Required Public Disclosures

The Company shall disclose the adoption and terms of this Policy in accordance with Item 402(w) of Regulation S-K in its Annual Report on Form 10-K and/or proxy statements.

Additionally, when an Accounting Restatement occurs, which resulted in Erroneously Awarded Compensation being awarded to Covered Executives, the Company shall, consistent with, and to the extent required by, Item 402(w) to Regulation S-K disclose in its next Annual Report on Form 10-K and/or proxy statement, actions taken to recover such Erroneously Awarded Compensation.

Similarly, if an Accounting Restatement occurs, and the Company concludes that recovery of Erroneously Awarded Compensation is not required pursuant to the terms of this Policy, the Company shall briefly explain why application of the Policy resulted in this conclusion in accordance with, and to the extent required by, Item 402(w) of Regulation S-K.

17. Prompt Notice

The Company's Chief Financial Officer (or the person performing a similar role if the Company does not then have a Chief Financial Officer), shall promptly notify the Administrator in writing upon becoming aware of any required Accounting Restatement.

[TO BE SIGNED BY THE COMPANY'S EXECUTIVE OFFICERS:]

Policy for the Recovery of Erroneously Awarded Incentive-Based Compensation Acknowledgment

I, the undersigned, agree and acknowledge that I am fully bound by, and subject to, all of the terms and conditions of U.S. Energy Corp.'s Policy for the Recovery of Erroneously Awarded Incentive-Based Compensation (as may be amended, restated, supplemented or otherwise modified from time to time, the "**Policy**"). In the event of any inconsistency between the Policy and the terms of any employment agreement to which I am a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern. In the event it is determined by the Administrator that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement. Any capitalized terms used in this Acknowledgment without definition shall have the meaning set forth in the Policy.

By: _____

[Name]

[Title]

Date _____

CERTIFICATION

I, Ryan L. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of U.S. Energy Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

By: /s/ Ryan L. Smith

Ryan L. Smith
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Mark L. Zajac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of U.S. Energy Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

By: /s/ Mark L. Zajac

Mark L. Zajac
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of U.S. Energy Corp. (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Ryan L. Smith, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company, at the dates and for the periods indicated.

Date: November 13, 2023

By: /s/ Ryan L. Smith

Ryan L. Smith
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q of U.S. Energy Corp. (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark L. Zajac, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company, at the dates and for the periods indicated.

Date: November 13, 2023

By: /s/ Mark L. Zajac

Mark L. Zajac
Chief Financial Officer
(Principal Financial and Accounting Officer)