

# U.S. Energy Corp. Reports Third Quarter 2014 Highlights and Selected Financial Results

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RIVERTON, Wyo., Nov. 10, 2014 (GLOBE NEWSWIRE) -- [U.S. Energy Corp.](#) (Nasdaq Capital Market: "USEG") (the "Company"), today reported its third quarter 2014 highlights and selected financial results for the quarter ended September 30, 2014 and provided an operations update.

## Selected Highlights for the Three and Nine Months Ended September 30, 2014

### *Three Months Ended September 30, 2014*

- Produced a quarterly Company record 142,484 barrels of oil equivalent ("BOE") or 1,549 barrels of oil equivalent per day ("BOE/D"), an increase of 22% compared to the second quarter of 2014 and a 40% increase when compared to the third quarter of 2013.
- The Company recorded a net loss after taxes during the quarter of \$63,000, or \$0.00 per share basic and diluted, as compared to a net loss after taxes of \$834,000, or \$0.03 per share basic and diluted, during the same period of 2013.
- Adjusted Net Loss, a non-GAAP measure that excludes non-recurring items and mark-to-market gains and losses on derivative instruments, was \$136,000 during the three months ended September 30, 2014, or \$0.00 per basic and diluted share. Adjusted Net Loss was \$66,000 for the third quarter of 2013, or \$0.00 per basic and diluted share. Please refer to the reconciliation in this release for additional information about this measure.
- Oil and gas operations generated operating income of \$2.3 million during the quarter ended September 30, 2014 as compared to operating income of \$2.5 million during the quarter ended September 30, 2013.
- The Company recognized \$9.9 million in revenues during the three months ended September 30, 2014 as compared to \$8.6 million during the same period of the prior year. The \$1.3 million increase in revenue is primarily due to higher oil and gas sales volumes in the third quarter of 2014 when compared to the same period in 2013.
- At September 30, 2014, we had \$4.4 million in cash and cash equivalents. Our working capital (current assets minus current liabilities) was \$5.7 million.
- Earnings before interest, income taxes, depreciation, depletion and amortization, accretion of discount on asset retirement obligations, non-cash impairments, unrealized derivative gains and losses and non-cash compensation expense ("Modified EBITDAX"), was \$4.6 million for the three months ended September 30, 2014, an increase of 33% compared to a Modified EBITDAX of \$3.5 million for the three months ended September 30, 2013. Modified EBITDAX is a non-GAAP financial measure. Please refer to the reconciliation in this release for additional information about this measure.

### *Nine Months Ended September 30, 2014*

- Produced a Company record 364,076 BOE, or an average of 1,334 BOE/D for the nine months ended September 30, 2014. This production represents an increase of 21% compared to the same period in 2013.
- The Company recorded net income after taxes of \$243,000, or \$0.01 per share basic and diluted, as compared to a net loss after taxes of \$6.2 million, or \$0.22 per share basic and diluted, during the same period in 2013.
- Adjusted Net Income was \$581,000 during the nine months ended September 30, 2014, or \$0.02 per basic and diluted share. Adjusted Net Income was \$725,000 for the nine months ending September 30, 2013, or \$0.03 per basic and diluted share.
- Oil and gas operations generated operating income of \$8.2 million during the nine months ended September 30, 2014 compared to operating income of \$6.3 million during the nine months ended September 30, 2013, excluding the \$5.8 million non-cash impairment charge taken on our oil and gas properties during the nine months ended September 30, 2013.

- The Company recognized \$27.3 million in revenues during the nine months ended September 30, 2014 as compared to \$24.4 million during the same period in 2013. The \$2.9 million increase in revenue is primarily due to higher oil and gas sales volumes in the first nine months of 2014 as compared to the first nine months of 2013.
- We received an average of \$3.0 million per month from our producing wells during the first nine months of 2014 with an average operating cost of \$588,000 per month (including work over costs) and production taxes of \$255,000, for average net cash flows of \$2.2 million per month from oil and gas production before non-cash depletion expense.
- Modified EBITDAX was \$12.9 million for the nine months ended September 30, 2014, an increase of 12% compared to a Modified EBITDAX of \$11.6 million for the nine months ended September 30, 2013.

### *2014 Capital Budget*

Under our \$30.2 million capital expenditures budget for 2014, we have spent approximately \$22.3 million to fund our 2014 oil and gas drilling programs through September 30, 2014. The remaining \$7.9 million is currently budgeted to be spent on exploration, development and acquisition initiatives in South Texas and in the Williston Basin of North Dakota.\*

### **Operations Update**

As of September 30, 2014 the Company has participation interests in 130 gross (19.63 net) producing wells primarily located in South Texas and the Williston Basin of North Dakota.

### **South Texas**

The Company currently participates in drilling programs with three operators in Zavala and Dimmit Counties, Texas which are prospective for the Buda Limestone and other formations. We currently participate in approximately 35,221 gross (9,130 net) acres in the region. As of September 30, 2014, the Company has participation interests in 33 gross (8.89 net) producing wells in these prospects primarily targeting the Buda Limestone formation. During the quarter ended September 30, 2014, the Company produced approximately 799 net BOE/D (61% oil) from this region, which represents a 332% increase when compared to Q3 2013's average of 185 net BOE/D (78% oil) and a 49% increase when sequentially compared to Q2 2014's average daily production of 538 net BOE/D (61% oil) from the region. The quarter to quarter increase is not necessarily indicative of future results as each prospect remains in an early stage of delineation.

### *Booth Tortuga (30% working interest / ~22.5% net revenue interest)*

- The Beeler Unit F #19H well was spud June 10, 2014. The well averaged 1,198 BOE/D during the first 30 days of production (~73% oil).
- The Beeler Unit C #20H well was spud July 3, 2014. The well averaged 835 BOE/D during the first 30 days of production (~65% oil).
- The Beeler Unit H 26H well was spud September 12, 2014. The well is currently in the early flow back stage.
- The Beeler Unit J 24H well was spud October 24, 2014. The operator of the well (Contango Oil & Gas Company) has proposed coring and testing the Eagle Ford formation before completing the well. Results of the coring are yet to be determined.
- The Beeler #22H is currently scheduled to be drilled late in the fourth quarter of 2014.

### *AMI Election*

Under an Area of Mutual Interest Election, the Company acquired a 7.5% working interest in an additional 800 gross (~60 net) acres in the Booth-Tortuga prospect. This acreage is operated by a private Texas-based company which has drilled two wells in the leasehold to date. The acreage block lies between the Beeler Unit D #16H and the Beeler Unit A #9H well locations and the well results are as follows:

- The Bruce Weaver #2H well was spud June 6, 2014. The well averaged 731 BOE/D during the first 30 days of production (76% oil).

- The Bruce Weaver #1 RE (re-entry) well was spud August 8, 2014. The well averaged 688 BOE/D during the first 30 days of production (82% oil).

### Q2 Dimmit County Acquisition

On May 7, 2014, the Company entered into a Participation Agreement with U.S. Enercorp., a private South Texas-based oil and gas company to acquire 33% of its interest in approximately 12,100 gross (3,384 net) acres in Dimmit County, Texas.

### Carrizo Creek & South McKnight Prospects (~33.3% working interest / ~22.5% net revenue interest)

- The S. McKnight #1305H well, targeting the Buda Limestone formation, was spud on May 5, 2014 and was drilled to a measured depth of approximately 11,297 feet including an approximate 5,000 foot lateral. The well was fracture stimulated during the first week of August 2014 with 17 stages. The well had an early peak initial production rate of 279 BOE/D (57% oil). During the first 30 days of production the well averaged approximately 132 BOE/D (24% oil).
- The Berry #1H well, targeting the Buda Limestone formation, was spud on June 23, 2014. The well was drilled to a measured depth of approximately 11,000 feet, including an approximate 4,600 foot lateral. The well had an early peak initial production rate of 470 BOE/D (61% oil). During the first 30 days of production the well averaged approximately 199 BOE/D (44% oil).
- The S. McKnight 1317HB well, targeting the Eagle Ford formation, was spud on September 28, 2014. The well was drilled to a measured depth of approximately 11,038 feet including an approximate 6,022 foot lateral. The well is scheduled to be fracture stimulated in mid-November 2014 with 20 stages.

### Williston Basin, North Dakota

The Company participates in drilling programs with numerous operators in the Williston Basin of North Dakota. We participate in approximately 74,280 gross (2,939 net) acres in Williams, McKenzie and Mountrail Counties, North Dakota. At September 30, 2014, the Company participated in 94 gross (10.18 net) Bakken and Three Forks formation wells. During the quarter ended September 30, 2014, the Company produced approximately 666 net BOE/D (87% oil) from this region, which represents a 20% decrease when compared to Q3 2013's average of 837 net BOE/D (88% oil) and a slight increase when sequentially compared to Q2 2014's average daily production of 660 net BOE/D (88% oil) from the region. The year over year production decrease is primarily due to normal production declines and the divestiture of certain Williston Basin assets during that time.

The following table summarizes current activity under our Williston Basin drilling programs.

Well Name	Operator	Formation	Spud Date	Working Interest	Net Revenue Interest	Status
Talon 3-9-4H	<a href="#">Emerald Oil Inc.</a>	Bakken	3/7/2014	0.34%	0.27%	Producing
Sluggar 3-16-21H	<a href="#">Emerald Oil Inc.</a>	Bakken	6/5/2014	0.37%	0.28%	Producing
Sluggar 5-16-21H	<a href="#">Emerald Oil Inc.</a>	Bakken	3/9/2014	0.37%	0.28%	Completing pending
Talon 5-9-4H	<a href="#">Emerald Oil Inc.</a>	Bakken	4/23/2014	0.34%	0.27%	Completion pending
Talon 6-9-4H	<a href="#">Emerald Oil Inc.</a>	Three Forks	7/21/2014	0.34%	0.28%	Completion pending
Sluggar 6-16-21H	<a href="#">Emerald Oil Inc.</a>	Bakken	8/17/2014	0.37%	0.28%	Completion pending
Talon 7-9-4H	<a href="#">Emerald Oil Inc.</a>	Bakken	9/13/2014	0.34%	0.28%	Completion pending
Sluggar 7-16-21H	<a href="#">Emerald Oil Inc.</a>	Bakken	10/10/2014	0.37%	0.28%	Completion pending
			Average:	0.36%	0.28%	

### CEO Statement

"During the quarter we continued to drill and delineate our prospects in South Texas, which resulted in increased production for the quarter primarily due to encouraging production results from four Buda Limestone wells in the Booth-Tortuga prospect. Yet, while we have realized promising results from some wells in South Texas, we are still in the early stages of delineation and understanding at both prospects in this region," stated Keith G. Larsen, CEO of [U.S. Energy Corp.](#) "Our results have been somewhat variable at

Booth-Tortuga to date and our initial results at South McKnight have been mixed as well. Future results in the region are yet to be determined, but we remain optimistic about the overall potential in the region," he added.

Mr. Larsen continued, "In the Carrizo Creek and South McKnight prospects the first two Buda Limestone formation test wells have produced marginal economic results thus far, prompting the operator to propose a third test well targeting the Eagle Ford formation. This well is scheduled to be fracture stimulated in the coming weeks and we are looking forward to evaluating the results in order to determine further development potential. We have targeted South Texas as a region of interest due to the potential to exploit multiple hydrocarbon bearing formations that exist in this region. At times it may require the drilling of a number of wells to determine the right zone or zones to exploit. Looking forward, we will continue to monitor both programs and well-by-well economics in the current price environment as we proceed through the fourth quarter of 2014 and beyond. We remain well positioned to continue to fund our drilling commitments through cash flow from operations if continued development is the appropriate course of action. In the meantime, we continue to remain focused on finding accretive acquisitions and believe that we will see favorable opportunities in the current commodity price environment."

## Financial Highlights

The following table sets forth selected financial information for the three and nine months ended September 30, 2014 and 2013. This information is derived from the unaudited financial statements included in our Quarterly Report on Form 10-Q for the three months ended September 30, 2014, and should be read in conjunction with the Form 10-Q and the financial statements contained therein, including the notes to the financial statements.

U.S. ENERGY CORP.

SELECTED FINANCIAL DATA

(Unaudited)

(Amounts in thousands, except per share amounts)

	September 30, December 31,			
	2014	2013		
Balance Sheets:				
Cash and cash equivalents	\$ 4,363	\$ 5,855		
Current assets	\$ 11,541	\$ 13,161		
Current liabilities	\$ 5,842	\$ 7,191		
Working capital	\$ 5,699	\$ 5,970		
Total assets	\$ 125,511	\$ 126,801		
Long-term obligations	\$ 10,190	\$ 10,553		
Shareholders' equity	\$ 109,479	\$ 109,057		
Shares Outstanding	27,905,940	27,735,878		
	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Statements of Operations:				
Operating revenues	\$ 9,928	\$ 8,582	\$ 27,312	\$ 24,376
Income (loss) from operations	\$ (681)	\$ 403	\$ 715	\$ (5,572)
Other income & expenses	\$ 618	\$ (1,109)	\$ (472)	\$ (897)
Discontinued operations, net of taxes	\$ --	\$ (128)	\$ --	\$ 310
Net income (loss)	\$ (63)	\$ (834)	\$ 243	\$ (6,159)
Net income (loss) per share				
Basic and diluted	\$ --	\$ (0.03)	\$ 0.01	\$ (0.22)
Weighted average shares outstanding				
Basic	27,899,505	27,682,602	27,808,231	27,677,382

Diluted 27,899,505 27,682,602 28,200,388 27,677,382

### Non-GAAP Financial Measures

#### Modified EBITDAX

In addition to reporting net income (loss) as defined under GAAP, in this release we also present net earnings before interest, income taxes, depreciation, depletion, and amortization, accretion of discount on asset retirement obligations, non-cash impairments, unrealized derivative gains and losses and non-cash compensation expense ("Modified EBITDAX"), which is a non-GAAP performance measure. Modified EBITDAX excludes certain items that the Company believes affect the comparability of operating results and can exclude items that are generally one-time or whose timing and/or amount cannot be reasonably estimated. Modified EBITDAX is a non-GAAP measure that is presented because the Company believes that it provides useful additional information to investors as a performance measure. We believe that Modified EBITDAX is useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies in the energy industry. Our management uses Modified EBITDAX to manage our business, including preparation of our annual operating budget and financial projections. Modified EBITDAX does not represent, and should not be considered an alternative to, GAAP measurements such as net income (loss) (its most directly comparable GAAP measure) or as a measure of liquidity, and our calculations thereof may not be comparable to similarly titled measures reported by other companies. Our management does not view Modified EBITDAX in isolation and also uses other measurements, such as net income (loss) and revenues to measure operating performance. The following table provides a reconciliation of net income (loss) to Modified EBITDAX for the periods presented:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$ (63)	\$ (834)	\$ 243	\$ (6,159)
Impairment of oil and natural gas properties	--	--	--	5,828
Accretion of asset retirement obligation	10	10	29	28
Non-cash compensation expense	692	151	1,013	400
Unrealized (gain) loss on commodity derivatives	(780)	768	(369)	1,056
Interest expense	69	115	314	340
Depreciation, depletion and amortization	4,689	3,272	11,702	10,086
Modified EBITDAX (Non-GAAP)	\$ 4,618	\$ 3,480	\$ 12,933	\$ 11,580

#### Adjusted Net Income (Loss)

Adjusted Net Income (Loss) is another supplemental non-GAAP financial measure that is used by management and external users of the Company's condensed consolidated financial statements. The Company defines Adjusted Net Income as net income after adjusting for the impact of certain non-recurring items, changes in the fair value of derivative instruments, impairments of oil and gas properties, and certain non-recurring charges to the reported net income (loss) as defined under GAAP set forth in the table below.

The following table provides a reconciliation of net income (loss) (GAAP) to Adjusted Net Income (Loss) (non-GAAP):

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$ (63)	\$ (834)	\$ 243	\$ (6,159)
Impairment of oil and natural gas properties	--	--	--	5,828
Change in fair value of derivative instruments	(780)	768	(369)	1,056
Non-recurring retirement expense	707	--	707	--
Adjusted net income (loss)	\$ (136)	\$ (66)	\$ 581	\$ 725

Adjusted earning per share:

Basic and diluted	\$ (0.00)	\$ (0.00)	\$ 0.02	\$ 0.03
Weighted average shares outstanding				
Basic	27,899,505	27,682,602	27,808,231	27,677,382
Diluted	27,899,505	27,682,602	28,200,388	27,677,382

## About U.S. Energy Corp.

[U.S. Energy Corp.](#) is a natural resource exploration and development company with oil and gas assets located primarily in North Dakota and South Texas. The Company is headquartered in Riverton, Wyoming and trades on the NASDAQ Capital Market under the symbol "USEG".

\* Actual capital expenditures for each regional drilling program are contingent upon timing, well costs and success. If our drilling initiatives in any program are not initially successful, or do not progress as projected, funds allocated for those drilling programs may be allocated to other drilling and/or acquisitions in due course. The projected number of gross and net wells could vary in each of these cases.

To view the Company's Financial Statements and Management's Discussion and Analysis, please see the Company's 10-Q for the three and nine months ended September 30, 2014, which is available at [www.sec.gov](http://www.sec.gov) and [www.usnrg.com](http://www.usnrg.com).

The [U.S. Energy Corp.](#) logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=5043>

### **Disclosure Regarding Forward-Looking Statement**

*This news release includes statements which may constitute "forward-looking" statements, usually containing the words "will," "anticipates," "believe," "estimate," "project," "expect," "target," "goal," or similar expressions. Forward looking statements in this release relate to, among other things, U.S. Energy's expected future production and capital expenditures and projects (including projects to be pursued with its industry partners), its drilling and fracing of wells with industry partners and potential additional drilling opportunities, its ownership interests in those wells and the oil and natural gas targets or goals for the wells.. There is no assurance that any of the wells referenced in this press release will be economic. Initial and current production results from a well are not necessarily indicative of its longer-term performance. The forward-looking statements are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, dry holes and other unsuccessful development activities, higher than expected expenses or decline rates from production wells, future trends in commodity and/or mineral prices, the availability of capital, competitive factors, and other risks described in the Company's filings with the SEC (including, without limitation, the Form 10-K for the year ended December 31, 2013 and the Form 10-Q for the quarter ended September 30, 2014) all of which are incorporated herein by reference. By making these forward-looking statements, the Company undertakes no obligation to update these statements for revision or changes after the date of this release.*

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