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US ENERGY CORP  
Form 424B3  
June 21, 2004

U.S. ENERGY CORP.  
5,552,283 SHARES OF COMMON STOCK

This prospectus covers the offer and sale of up to 2,113,573 shares of common stock (\$0.01 par value) of U.S. Energy Corp. ("USE") by shareholders; up to 1,472,689 shares of common stock by holders of warrants and options on exercise thereof; up to 1,720,030 shares which may be issued on exchange of outstanding common stock, and preferred stock, in Rocky Mountain Gas, Inc. ("RMG"), a majority-owned subsidiary of USE) for common stock of USE; and up to 245,991 shares which may be issued on conversion of principal and interest on debt.

In this prospectus, "selling shareholder" or "selling shareholders" refers to Bourne Capital, LLC and five individuals who hold warrants to purchase stock in USE, all of whom also purchased stock in RMG which may be exchanged for stock in USE; 60 individuals and 12 entities which hold outstanding stock in USE; 48 individuals and 15 entities which hold warrants or options to purchase stock in USE; three institutional investors who purchased preferred stock in RMG which is convertible to USE stock, and warrants to purchase USE stock; two entities (two lenders on a mezzanine credit facility) which hold warrants to purchase to purchase stock in USE; and Tsunami Partners L.P., which holds debt convertible to USE stock and warrants to purchase stock. For information about the selling shareholders, and the transactions in which they acquired the various shares, options, warrants, and rights to exchange RMG stock for stock in the company, see "Selling Shareholders."

In this prospectus, "we," "company," and "USE" refer to U.S. Energy Corp. (and its subsidiaries unless otherwise specifically stated).

The selling shareholders may sell the shares from time to time in negotiated transactions, brokers' transactions or a combination of such methods of sale at market prices prevailing at the time of sale or at negotiated prices, or under rule 144. See "Plan of Distribution." Although we will receive proceeds if and to the extent options and warrants are exercised, we will not receive proceeds from sale of any of the shares offered by the selling shareholders.

USE is traded ("USEG") on the Nasdaq Small Cap Market (\$2.18 on June 18, 2004).

AN INVESTMENT IN THE SHARES OFFERED BY THIS PROSPECTUS IS SPECULATIVE AND SUBJECT TO RISK OF LOSS. SEE "RISK FACTORS" BEGINNING ON PAGE 8 AND THE TABLE OF CONTENTS ON PAGE 2.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS JUNE 18, 2004

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The following summarizes all material information found elsewhere in this prospectus. This summary is qualified by the more detailed information in this prospectus and the exhibits filed with the registration statement which contains this prospectus.

### THE COMPANY

U.S. Energy Corp. is a Wyoming corporation (formed in 1966) in the business of acquiring, exploring, developing and/or selling or leasing mineral properties. Our fiscal year ends December 31.

In 2003, almost all of our business activity was devoted to the coalbed methane ("CBM") business, which is conducted through Rocky Mountain Gas, Inc ("RMG") a subsidiary of the company.

In 2003, RMG transferred certain of its CBM assets including a producing, and several non-producing, CBM properties to Pinnacle Gas Resources, Inc. ("Pinnacle"), a newly-organized Delaware corporation. Other parties to this transaction included CCBM, Inc. and its parent company Carrizo Oil & Gas, Inc. ("CRZO") of Houston Texas; and seven affiliates of Credit Suisse First Boston Private Equity. As a result of the transaction, RMG became a 37.5% shareholder of Pinnacle; RMG accounts for its investment on the equity method. RMG recorded revenues from gas sales from mid-2002 until the transfer to Pinnacle was completed in mid-2003. See "Transaction with Pinnacle Gas Resources, Inc."

On January 30, 2004, RMG acquired producing and non-producing CBM properties located near Gillette, Wyoming, from Hi-Pro Production, LLC ("Hi-Pro"). These properties contain proven gas reserves. A portion of the purchase price was paid with a loan from institutional lenders under a \$25 million mezzanine lending facility, which was established in connection with the Hi-Pro purchase; additional loans will be available to acquire more CBM properties, subject to lenders' approval. In the first quarter of 2004, RMG raised \$1.8 million in working capital from institutional investors. See "Coal Bed Methane - Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC" and "RMG Equity Financing."

RMG's CBM properties are located in Wyoming and southeastern Montana (approximately 261,180 gross mineral acres, including properties under option, but not including acreage held by Pinnacle). A limited amount of exploratory drilling and testing was conducted on some of the non-producing properties in 2003, but in general, significant additional work is needed before we can determine if those properties contain gas reserves. No prediction is made when such determinations can be made.

In 2003, the company sold an indirect subsidiary (Canyon Resources) which owns commercial properties in Ticaboo, Utah. Canyon Resources was acquired in the 1990s from a utility as part of an acquisition of uranium properties and a uranium mill near Ticaboo, Utah. See "Oil And Gas, and Other Properties." The uranium properties and mill, presently inactive, have not been sold. See "Inactive Mining Properties - Uranium."

Historically, gas prices for production in the Powder River Basin (our area of activity) have been lower than national prices due to limited pipeline "takeaway capacity." This limitation was somewhat eased in late 2002 and 2003 by new pipeline construction and enlargement of existing lines, and may be further improved with more capacity in 2005. See "Gas Markets."

However, on both historical and seasonal bases, gas prices have been volatile. A return to low gas prices, particularly if aggravated by the negative price differential experienced by Powder River Basin

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producers, could adversely impact not only the economics of current production but also the economics of exploration projects as they move into production in the future.

USE and Crested originally were independent companies, with two common affiliates (John L. Larsen and Max T. Evans; Mr. Evans died in February 2002). In 1980, USE and Crested formed a joint venture ("USECC") to do business together (unless one or the other elected not to pursue an individual project). As a result of USE funding certain of Crested's obligations from time to time (due to Crested's lack of cash on hand), Crested subsequently paid a portion of this debt by issuing common stock to USE, Crested became a majority-owned subsidiary of USE in fiscal 1993. In fiscal 2001, Crested issued another 6,666,666 shares of its common stock to reduce Crested's debt owed to USE by \$3.0 million, which increased USE's ownership of Crested to 71.5%. All the operations of USE (and Crested) are in the United States.

In the first quarter 2004, USE obtained \$350,000 of equity funding from an accredited investor (100,000 restricted shares of common stock, three year warrants to purchase 50,000 shares at \$3.00 per share; and five year warrants to purchase 200,000 shares at \$3.00 per share). Proceeds will be used as working capital.

Principal executive offices of USE are located in the Glen L. Larsen building at 877 North 8th Street West, Riverton, Wyoming 82501, telephone 307-856-9271. RMG has a field office in Gillette, Wyoming.

Most of the company's operations are conducted through subsidiaries, the USECC Joint Venture with Crested, and jointly-owned subsidiaries of USE and Crested.

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The company's subsidiaries are:

Subsidiary -----	Percent Owned by USE* -----	Primary Business Conducted -----
Plateau Resources Ltd. Motel/real estate - sold	100.0%	Uranium (Utah) - inactive mill - shut
Rocky Mountain Gas, Inc.	88.5%	Coalbed methane - active
Energx, Ltd.	90.0%	Gas - inactive - shut down
Crested Corp.	71.5%	Uranium, gold and molybdenum properties (inactive and shut down), and exploratory activities on coalbed methane properties

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Sutter Gold Mining Company	78.5%	Gold (California) - inactive - being r
Four Nines Gold, Inc.	50.9%	Contract Drilling/Construction - inact
USECC Joint Venture	50.0%	Uranium (Wyoming, Utah), gold and molybdenum,** all inactive and shut do real estate management and coalbed met exploration
Yellowstone Fuels Corp.	35.9%	Uranium (Wyoming) - inactive - shut do
Pinnacle Gas Resources, Inc.	37.5%	CBM exploration and production - activ

\* Includes ownership of Crested Corp. in RMG and Sutter.

\*\* There are no plans to put the molybdenum property into production in the foreseeable future. See "Inactive Mining Properties - Molybdenum and Item 3, "Legal Proceedings".

Until September 11, 2000, USE, USECC and Kennecott Uranium Company ("Kennecott") owned the Green Mountain Mining Venture ("GMMV"), which held a large uranium deposit and uranium mill in Wyoming. On September 11, 2000, USE and Crested settled litigation with Kennecott involving the GMMV by selling their interest in the GMMV and its properties back to Kennecott for \$3,250,000, receiving a royalty interest in the uranium properties and miscellaneous equipment. The GMMV properties are shut down. Kennecott also assumed all reclamation obligations on the GMMV properties; reclamation obligations for an ion exchange facility located on properties outside the GMMV were not assumed by Kennecott, see "Sheep Mountain Partners - Properties" below. Other uranium properties and a uranium mill in southeast Utah are held by Plateau Resources Ltd., a wholly-owned subsidiary of USE. The Utah uranium properties are shut down.

Activities on the mineral properties held by Sutter Gold Mining Company ("SGMC") were shut down because the historical market price of gold did not permit raising the necessary capital to build a mill and put the properties into production. However, improved gold prices over the last 12 months have revived the capital markets, particularly in Canada. See "Sutter Gold Mining Company."

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In coalbed methane, we compete against many companies, some of which are much larger and better financed than the company. The principal area of competition is encountered in the financial ability to acquire good acreage positions and drill wells to explore coalbed methane potential, then, if warranted, drill production wells and install production equipment (gathering systems, compressors, etc.).

We own a royalty interest in a molybdenum property in Colorado; the property is owned by Phelps Dodge Corporation. We believe, at the present time, that Phelps Dodge does not have a plan to place the molybdenum property into production.

In the motel, real estate and airport operations area (significant as a percentage of revenues for 2003, but not our primary business focus), we own and manage an office building (where the company's headquarters are located), and

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small parcels of land, in Riverton, Wyoming, and a small amount of other land in Wyoming and Colorado. An indirect subsidiary (Canyon Resources), owned a townsite, motel, convenience store and other commercial facilities in Utah, which was sold in August 2003, thus greatly reducing activities in this commercial segment.

### THE OFFERING

Securities Outstanding	13,970,866 shares of common stock, \$0.01 par value.
Securities To Be Outstanding	17,409,576 shares, assuming options and warrants on 1,472,689 shares held by the selling shareholders were exercised as of the date of this prospectus; outstanding RMG common and preferred stock is exchanged for 1,720,030 shares of USE; and 245,991 shares are issued on conversion of principal and interest on restructured debt (1 share for each \$2.25 principal and interest). The actual number of USE shares issued in exchange for RMG stock will depend on the market price for USE stock at conversion dates. See "Description of Securities - Options, Warrant, Convertible Shares of RMG, and Convertible Debt" and "Selling Shareholders."
Securities Offered	5,552,283 shares owned or to be owned by the selling shareholders.
Use of Proceeds	We will not receive any proceeds from sale of shares by the selling shareholders, but we will receive up to \$4,966,400 in proceeds from exercise of the warrants and options, if they are exercised, which will be used for working capital.
Plan of Distribution	The offering is made by the selling shareholders named in this prospectus, to the extent they sell shares. Sales may be made in the open market or in private negotiated transactions, at fixed or negotiated prices. See "Plan of Distribution."
Risk Factors	An investment is subject to risk. See "Risk Factors."

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### RISK FACTORS

An investment in our common stock is speculative in nature and involves a high degree of risk. You should carefully consider the following risks and the

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other information in this prospectus before investing.

### RISK FACTORS INVOLVING THE COMPANY

LIMITED RESERVES AND PRODUCTION MAY SLOW DOWN EXPLORATION OF OTHER PROPERTIES. In June 2003, RMG transferred coalbed methane properties, including RMG's only producing wells at the time (the Bobcat property) to Pinnacle Gas Resources, Inc. ("Pinnacle") in exchange for an equity position in Pinnacle. In January, 2004, we acquired a producing field. See "Business - Transaction with Pinnacle Gas Resources, Inc." and "Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC."

No reserves have been established for any other properties, because we have not drilled and tested enough wells on the properties to determine if they contain economic reserves of coalbed methane. For some properties, we will have to establish at least some reserve parameters before gas transmission companies will build gas lines to our properties, and construction of lines will depend also on then-current and projected gas market prices. If we have the necessary capital, we may elect to build our own lines over to existing transmission lines near the properties in the Powder River Basin in Wyoming and Montana.

Due to permitting delays in Montana, we may not realize production from the Montana properties until mid-2005, or later. Other Wyoming properties could be in production in late 2004 - early 2005, but production might be delayed due to low market prices for gas. Low market prices could delay gas purchasers from building the lines necessary to move gas from our properties to the major gas transmission lines.

These factors may make it difficult to raise the amount of capital needed to further explore the coalbed methane production potential in our properties in a rapid manner. In the meantime, we have only limited working capital. See below.

VOLATILE GAS PRICES FOR POWDER RIVER BASIN PRODUCTION MAY HURT BUSINESS. Gas prices per Mcf (1,000 cubic feet) for Powder River Basin production (where RMG owns properties) averaged \$4.44, \$3.33 and \$2.13 for 2003, 2002 and 2001, but in those years the lowest prices were \$3.14, \$1.09 and \$1.05. The negative effect of price swings can be neutralized to some extent by fixed price contracts, but volatile prices make it difficult to pick the optimum price to fix; the fixed price could turn out to be lower than market over the life of the contract. And, even with stable prices, if a field's production declines significantly, the producer must buy gas in the open market to fill the contract.

Historically, Powder River Basin gas prices have been lower than national prices, due to the limited capacity of gas transmission lines to ship production to the mid-west and west coast markets. In 2003, this negative price differential was from 10% to 45% (and even more during the off season), although the differential decreased in the fourth quarter of 2003 and first quarter 2004, compared to prices in the fourth quarter 2002. Recent increases in this 'take away capacity,' and other pipelilne increases planned or under construction, may not eliminate the negative price differential or even significantly decrease it.

A return to sustained low gas prices nationwide (particularly as amplified for Powder River Basin products through the negative pricing differential) would impair our ability to raise capital for RMG and reduce revenues from production coming on line.



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WE MAY HAVE TO BEGIN TO CURTAIL OPERATIONS IF WE DON'T RAISE MORE CAPITAL BY AUGUST 2004. At December 31, 2003 (and March 31, 2004) we had working capital of \$3,281,700 (\$3,803,100) and an accumulated deficit of \$43,073,000 (\$44,848,000). Our current level of operations, including general and administrative overhead, mineral operations (primarily holding costs for the uranium and gold properties), and costs to comply with lease and permitting obligations for the coalbed properties, are estimated to cost \$8,262,000 for the twelve months ending December 31, 2004. If we do not realize cash from liquidating assets, or other sources, or if RMG spends more money on exploration than will be covered by current arrangements, additional equity financing may be necessary to sustain the company's current level of operations after the second quarter 2004. There are no current commitments for such future financing as may be necessary.

Approximately \$21 million under a lending facility is available to a wholly-owned subsidiary of RMG (RMG I) to buy and develop coalbed methane properties, but only if the lenders approve the properties to be acquired and the development plans for those properties. Loan proceeds can't be used for USE working capital or for RMG's operating expenses unrelated to the acquired properties, and until the loans are repaid, all revenues from acquired properties are dedicated to pay only RMG I's operating expenses related to the properties, and loan payments. In addition, failure to maintain financial ratios and minimum production levels required by the lenders could result in loss of the properties, as well as our investments in the properties in excess of the loans. See "Business - Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC."

Only the Hi - Pro properties are in production. Lack of production and established reserves on the other properties may make it difficult to raise capital for exploration and development, or to acquire properties which are not at the level of development required by the lenders.

WE ARE SUBJECT TO CERTAIN KINDS OF RISK WHICH ARE UNIQUE TO THE MINERALS BUSINESS. The exploration for and production of minerals is highly speculative and involves risks different from and in some instances greater than risks encountered by companies in other industries. Many exploration programs do not result in the discovery of mineralization and any mineralization discovered may not be of sufficient quantity or quality. Also, the mere discovery of promising mineralization may not warrant production, because the minerals (including methane gas) may be difficult or impossible to extract (produce) on a profitable basis.

Profitability of any mining and production we may conduct will involve a number of factors, including, but not limited to: The ability to obtain all required permits; costs of bringing the property into production; the construction of adequate production facilities; the availability and costs of financing; keeping ongoing costs of production at economic levels, and market prices for the metals or hydrocarbons to be produced staying above production costs. Our properties, or properties we might acquire in the future, may not contain deposits of minerals or coalbed methane gas that will be profitable to produce.

In addition, all forms of mineral (and oil and gas and coalbed methane) exploration and production require permits to have been issued by various federal and state agencies. See below.

DELAYS IN OBTAINING PERMITS FOR METHANE WELLS COULD IMPAIR OUR BUSINESS. Drilling and producing coalbed methane wells requires obtaining permits from various governmental agencies. The ease of obtaining the necessary permits depends on the type of mineral ownership and the state in which the property is

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located. Intermittent delays in the permitting process can reasonably be expected throughout the development of any property. We may shift our exploration and development strategy as needed to accommodate the permitting process. As with all governmental permit processes, permits may not be issued in a timely fashion or in a form consistent with our plan of operations.

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THE COMPANY'S POISON PILL COULD DISCOURAGE SOME ADVANTAGEOUS TRANSACTIONS. We have adopted a shareholder rights plan, also known as a poison pill (see "Description of Securities"). The plan is designed to discourage a takeover of the company at an unfair low price. However, it is possible that the board of directors and the takeover acquiror would not agree on a higher price, in which case the takeover might be abandoned, even though the takeover price was at a significant premium to market prices. Therefore, as a result of the mere existence of the plan, shareholders would not receive the premium price.

COMPLIANCE WITH ENVIRONMENTAL REGULATIONS MAY BE COSTLY. Our business (mostly coalbed methane) is intensely regulated by government agencies. Permits are required to drill and pump methane wells, explore for minerals, operate mines, build and operate processing plants, and handle and store waste. The regulations under which permits are issued change from time to time to reflect changes in public policy or scientific understanding of issues. If the economics of a project would not justify the changes, we might have to abandon the project.

The company must comply with numerous environmental regulations on a continuous basis, to comply with the United States Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act ("RCRA"), and the Comprehensive Environmental Response Compensation Liability Act ("CERCLA"). For example, water and dust discharged from mines and tailings from prior mining or milling operations must be monitored and contained and reports filed with federal, state and county regulatory authorities. Additional monitoring and reporting is required by the United States Nuclear Regulatory Commission for uranium mills even if not currently operating (like the company's uranium mill at Ticaboo, Utah). The Abandoned Mine Reclamation Act in Wyoming and similar laws in other states where we have properties impose reclamation obligations on abandoned mining properties, in addition to or in conjunction with federal statutes.

Failure to comply with these regulations could result in substantial fines and environmental remediation orders.

### RISK FACTORS INVOLVING THIS OFFERING

FUTURE EQUITY TRANSACTIONS, INCLUDING EXERCISE OF OPTIONS OR WARRANTS, COULD RESULT IN DILUTION; AND REGISTRATION FOR PUBLIC RESALE OF THE COMMON STOCK IN THESE TRANSACTIONS MAY DEPRESS STOCK PRICES. From time to time, the company sells restricted stock and warrants, and convertible debt (or stock in subsidiary companies, convertible to stock in the company), to investors in private placements conducted by broker-dealers, or in negotiated transactions. Because the stock is restricted, the stock is often sold at a discount to market prices compared to a public stock offering, and the exercise price of the warrants sometimes (and/or the conversion price for stock in subsidiaries) is at or even lower than market prices. These transactions cause dilution to existing shareholders. Also, from time to time, options are issued to employees and third parties as incentives, with exercise prices equal to market. Exercise of in-the-money options and warrants will result in dilution to existing shareholders;

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the amount of dilution will depend on the spread between market and exercise price, and the number of shares involved. The company will continue to grant options to employees with exercise prices equal to market price at the grant date, and in the future may sell restricted stock and warrants (or stock in subsidiary companies convertible to stock in the company), all of which may result in dilution to existing shareholders.

Public resale (pursuant to registration statements) of such restricted stock, and of stock issued in conversion of debt or stock of subsidiary companies, may depress our price. For example, all of the stock covered by this prospectus was sold to private investors, or will be issued on conversion of debt or stock in subsidiary companies which was sold to private investors; these private investors are the selling shareholders under this prospectus.

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TERMS OF SUBSEQUENT FINANCINGS MAY ADVERSELY IMPACT YOUR INVESTMENT. We may have to raise equity, debt or preferred stock financing in the future. Your rights and the value of your investment in the common stock could be reduced. For example, if we have to issue secured debt securities, the holders of the debt would have a claim to our assets that would be prior to the rights of stockholders until the debt is paid. Interest on these debt securities would increase costs and negatively impact operating results. Preferred stock could be issued in series from time to time with such designations, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock could be more advantageous to those investors than to the holders of common stock. In addition, if we need to raise more equity capital from sale of common stock, institutional or other investors may negotiate terms at least and possibly more favorable than the terms of this offering. Shares of common stock which we sell could be sold into the market, which could adversely affect market price.

### REPRESENTATIONS ABOUT THIS OFFERING

We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell nor does it seek an offer to buy the shares in any jurisdiction where this offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus (or any supplement), regardless of when it is delivered or when any shares are sold.

### FORWARD LOOKING STATEMENTS

We make statements in this prospectus which are considered to be "forward looking" statements. All statements (other than statements of historical fact) about financial and business strategy and the performance objectives of management are forward-looking statements. These forward-looking statements are based on the beliefs of management, as well as assumptions made by and information currently available to them. These statements involve risks that are both known and unknown, including unexpected economic and market factors, failure to accurately forecast operating and capital expenditures and capital needs (due to rising costs and/or different drilling and production conditions in the field), changes in timing or conditions for getting regulatory approvals to drill coalbed methane wells where needed, and other business factors. The use of the words "anticipate," "believe," "estimate," "expect," "may," "will," "should," "continue," "intend" and similar words or phrases, are intended by us to identify forward-looking statements (also known as "cautionary statements" because you should be cautious in evaluating such statements in the context of all the information in this prospectus and the information incorporated by

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reference into this prospectus). These statements reflect our current views with respect to future events. They are subject to the realization in fact of assumptions, but what we now think will happen, may turn out much different, and our assumptions may prove to have been inaccurate or incomplete.

The investment risks discussed under "Risk Factors" specifically address all of the material risk factors that may influence future operating results and financial performance. Those investment risks are not "boiler plate" but are intended to tell you about the uncertainties and risks inherent in our business at the present time which you need to evaluate before making your investment decision.

### USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares by the selling shareholders pursuant to this prospectus, but we will receive up to \$4,966,400 in proceeds from the exercise of the options and warrants, if they exercise all the options and warrants, which will be used by the company for working capital.

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### DILUTION

At March 31, 2004, the net tangible book value ("NTBV") of the company was \$7,305,500, or \$0.53 per share. NTBV per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding at May 24,, 2004 of 13,658,645. Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of common stock in this offering and the pro forma NTBV per share of common stock immediately after completion of this offering on a pro forma as adjusted basis.

After giving effect to the selling shareholders' conversion of RMG preferred and common stock to shares of the company, conversion of company debt to shares of the company, and exercise of the warrants and options held by the selling shareholders, our pro forma NTBV as of March 31, 2004 would have been \$15,369,600, or \$0.88 per share, with 17,409,576 shares outstanding, representing an immediate increase in NTBV of \$0.35 per share of common stock to existing shareholders.

Assuming the selling shareholders sell their shares at an assumed market price of \$2.21, new investors in this offering would realize an immediate dilution in pro forma NTBV of \$1.33. The table illustrates this per share dilution:

Assumed offering price per share:		\$2.21
NTBV per share at March 31, 2004:	\$0.53	
Increase in NTBV per share attributable to conversions and exercise of warrants and options	\$0.35	
	-----	
Pro forma NTBV per share as of December 31, 2003		\$0.88

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Dilution in pro forma NTBV  
per share for new investors

-----  
\$1.33  
=====

The foregoing assumes no options held by officers, directors and employees of the company are exercised. At March 31, 2004, there were 2,873,646 shares of common stock issuable on exercise of such options at a weighted average exercise price of \$2.74 per share.

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CAPITALIZATION

The capitalization of the company at March 31, 2004, and as adjusted for the selling shareholders' conversion of common and preferred stock of RMG, conversion of company debt, and exercise of warrants and options, is shown in the table.

	March 31, 2004			December 31, 2003		
	Actual	Pro Forma Adjustments	(1)	Pro Forma As Adjusted	(2)	(3)
Cash and Cash Equivalents	\$ 4,196,900	\$ 4,966,400	(2)	\$ 9,163,300		
Long-term Debt	\$ 5,246,400	\$ (397,700)	(3)	\$ 4,848,700		
Minority Interests	\$ 2,524,100	\$ (2,000,000)	(4)	\$ 524,100		
Shareholders' Equity						
Common stock, unlimited number authorized, 13,658,645 shares issued and outstanding (actual); 17,797,355 shares issued and outstanding (as adjusted)	\$ 136,500	\$ 37,500	(2) (3) (4)	\$ 174,000		
Additional Paid-in Capital	\$ 55,545,400	\$ 8,182,400	(2) (3) (4)	\$ 63,727,800		
Accumulated Deficit	\$(44,848,000)	\$ (155,800)	(3)	\$(45,003,800)		
Total shareholders' Equity	\$ 7,305,500	\$ 8,064,100		\$ 15,369,600		

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### SELLING SHAREHOLDERS

This prospectus covers the offer and sale by the selling shareholders of up to 5,552,283 shares of common stock owned or to be owned on exercise of options and warrants by the selling shareholders, on conversion of RMG common and preferred stock, and conversion of debt. The footnotes to the table below give information about shares issuable on exercise of the options and warrants by the selling shareholders.

None of the selling shareholders are affiliates of the company or any subsidiary of the company.

The shares covered by this prospectus, and the transactions in which the selling shareholders acquired their shares (or options or warrants), are summarized below:

- o 279,033 shares are held by 16 accredited investors who purchased shares at \$3.00 per share (and warrants, see below) from the company during the period June 21, 2001 to October 18, 2001, in a private placement conducted by the company (see below).
- o 1,205 shares held by 3 persons associated with McKim & Company LLC ("McKim", a registered broker-dealer, formerly VentureRound Group LLC) who acquired the shares through the exercise of warrants at \$3.75 per share.

These and other shares acquired on exercise of warrants, and outstanding warrants held by persons either associated (licensed) with, or owners of equity interests in McKim (which transactions are described below) were acquired in financing or advisory service transactions in which McKim was involved. In each of these transactions, the services provided by McKim were provided by persons associated (licensed) with McKim. The warrants were issued in partial consideration for these services, but distributed to the owners of McKim (including the licensed brokers, who also own equity interests in McKim). Those persons who received warrants as owners of McKim, but who are not licensed as brokers, did not provide securities-transaction services and did not otherwise pay for the warrants.

- o 10,667 shares held by two persons who acquired the shares on exercise of warrants at \$3.75 per share.
- o 45,795 shares underlying warrants held by 24 persons associated with McKim, exercisable at \$3.75 per share. These warrants include (a) warrants (expiring October 18, 2006) for 38,966 shares issued to McKim for services as financial advisor to the company in connection with the private placement of securities to 18 accredited investors completed on October 18, 2001 (see above), plus (b) warrants (expiring November 2, 2006) for 9,829 shares held by persons associated (licensed) with McKim, for financial planning and strategic services provided to the company by McKim.
- o 523,297 shares of restricted common stock issued to seven investors in exchange for shares of RMG.
- o 222,874 shares are held by 14 accredited investors who purchased shares at \$3.25 per share (and warrants, see below) from the company during the period February 20, 2002 to March 26, 2002, in a private placement conducted by the company (see below). There were 16 investors in the private placement; two have sold their shares (but not exercised their warrants) prior to the date of this prospectus.

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- o 56,383 shares are issuable on exercise of warrants held by the 16 investors, at an exercise price of \$4.00 per share, expiring in March 2005.

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- o 27,813 shares under warrants held by 34 persons who own equity interests in McKim, exercisable at \$4.00 per share, expiring in March 2005.
- o 379 shares held by two persons who own equity interests in McKim, who acquired the shares on exercise of warrants at \$4.00 per share
- o 120,000 shares under warrants held by Bourne Capital, LLC, a private lender and shareholder of U.S. Energy Corp., exercisable at \$3.00 per share. These warrants originally were issued to Caydal, LLC. in connection with Caydal's May 2002 purchase of shares and warrants in the company . Caydal sold the shares and retained the warrants. On March 16, 2004, Caydal transferred all such warrants to Bourne Capital, LLC; Bourne and Caydal have the same beneficial owners.
- o 29,559 shares under warrants held by 27 persons who own equity interests in McKim, exercisable at \$3.00 per share, expiring March 18 and 25, 2005.
- o 441 shares held by two persons who own equity interests in McKim, who acquired the shares on exercise of warrants at \$3.00 per share.
- o 3,000 shares held by one person who owns an equity interest in McKim, who acquired the shares on exercise of warrants at \$3.75 per share.
- o 52,110 shares held by 10 persons who had been associated (licensed) with a broker-dealer which raised funds for Yellowstone Fuels Corp., a subsidiary of the company, under a private placement of YSFC common stock in 1997. The shares were acquired through the exercise of warrants at \$3.64 per share. The YSFC warrants were exchanged for warrants of the company in 1999. The unexercised warrants have expired.
- o 60,000 shares under warrants held by Tsunami Partners, L.P., exercisable at \$3.00 per share. These warrants expire November 19, 2005.
- o 14,799 shares under warrants held by 30 persons who own equity interests in McKim, exercisable at \$3.00 per share. These warrants expire November 19, 2005.
- o 201 shares held by two persons who own equity interests in McKim, who acquired the shares on exercise of warrants at \$3.00 per share.
- o 10,000 shares held by a trusts issued in settlement of a lawsuit involving the company's subsidiary Sutter Gold Mining Company.
- o 18,000 shares under options held by Robert Nicholas, which were issued as partial payment for legal services, exercisable at \$3.00 per share. These options expire August 9, 2004.
- o 9,805 shares held by two persons, which shares were issued as partial payment for legal services.
- o 1,913 shares were issued to Dale May and his wife Jeanne May in March 2002, in exchange for 2,500 RMG shares which were issued to Mr. May in January

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2002 as a finder's fee for his introduction to RMG of several investors. Mr. May has represented to the company that he is not a securities 'dealer' as that term is defined in the Securities Act of 1933.

- o 50,000 shares, and warrants to purchase an additional 50,000 shares (exercisable at \$5.00 per share, expiring June 30, 2006), were issued to Sanders Morris Harris Inc. ("SMH"), a financial advisory

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firm, in partial payment of SMH's services provided to RMG in connection with RMG's transfer of certain coalbed methane properties to Pinnacle Gas Resources, Inc.

- o 15,000 held by Riches In Resources, Inc., a financial consulting firm. 7,920 shares were issued to for services to the company provided from November 15, 2002 through July 15, 2002 and another 7,080 shares were issued for services during the remaining term of the agreement (through May 15, 2004) with this consultant. This consulting agreement was entered into on May 30, 2003.
- o 12,000 shares were issued to C.C.R.I. Corporation, a financial consulting firm, under an agreement entered into May 30, 2003, for services to the company provided through September 2003. Pursuant to the same agreement, the company issued to C.C.R.I. warrants to purchase 75,000 shares, 25,000 exercisable at \$3.75 per share, 25,000 shares exercisable at \$4.50 per share and 25,000 shares exercisable at \$5.50 per share; and issued 12,000 shares and a warrant to purchase 12,500 shares, exercisable at \$3.75 per share to C & H Capital, Inc., which is owned by Jason Wayne Assad, who is associated with C.C.R.I. All of these warrants expire March 16, 2006.
- o 59,000 shares were issued to Burg Simpson Eldredge Hersh Jardine PC, a law firm representing the company in litigation, in partial payment of legal services provided to the company. 25,000 of these shares were issued in May and July 2002, and 34,000 shares were issued in July 2003.
- o 10,000 shares were issued to Tim and Betty Crotty in June of 2003 as settlement of a lease obligation relating to a property owned by the company's subsidiary, Sutter Gold Mining Company.
- o 12,500 shares were issued to Robert Hockert and 25,000 shares to Mathew B. Murphy in May of 2002 as partial payment of producing coalbed methane properties.
- o 24,260 shares were issued to James and Vida Roebling as payment for a coalbed methane lease. These shares were issued in December of 2001 and January 2002.
- o In 2002, the company borrowed \$500,000 from Tsunami Partners L.P., with rights to convert principal, but not interest, to shares of the company at a conversion rate of 1 share for each \$3.00 of principal. On October 28, 2003, the company and Tsunami amended the loan to (i) reduce the interest rate, starting September 1, 2003, from the original 8% annual rate, to be equal to the Federal Short Term Rate for annual compounding (the "Federal Short Term Rate" as defined in section 1274(d) of the Internal Revenue Code), as that rate changes from time to time; (ii) allow conversion of interest, as well as principal, to shares; (iii) not require quarterly payment of interest with cash, but add accruing interest to principal; (iv)



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extend the maturity date for the loan to December 31, 2004; (v) reduce the conversion rate for principal to (and establish the conversion rate for interest at) 1 share for each \$2.25 of principal and interest; and (vi) provide for mandatory conversion of principal and accrued interest outstanding at maturity to shares at the same conversion rate of 1 share for \$2.25 of principal and interest. Optional conversion of principal and accrued interest prior to maturity is permitted. Also, in connection with the restructuring of debt, the expiration date of the warrants issued to Tsunami was extended 12 months (from the original May 30, 2005 to the new date of May 30, 2006).

Resale of 245,991 shares issuable on Tsunami's future conversion of principal and interest is covered by this prospectus.

- o In June and July 2003, Caydal, LLC and five individuals invested \$750,000 in RMG for 333,333 shares of RMG stock (at \$2.25 per share); warrants on 62,500 RMG shares at \$3.00 per share, exercisable until June 3, 2006; and warrants on 46,875 shares of the company at \$4.00 per share, exercisable until June 3, 2006. Under the terms of the original transaction, each share of RMG stock

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was convertible into that number of shares of the company obtained by dividing (i) \$2.25 (subject to anti-dilution adjustments) by (ii) 85% of the then-current market price of the company's shares, provided that (a) the conversion price cannot exceed \$5.00, and (b) the exchange rights expire 20 business days after the company's stock price exceeds \$7.50 for 20 consecutive trading days.

On October 28, 2003, Caydal and one individual (James McCaughey) accepted the company's and RMG's offer, made to all of the 2003 investors in RMG, to restructure the transaction by (i) refunding 50% of the investment (Caydal was refunded \$250,000 and Mr. McCaughey was refunded \$50,000), and reducing the conversion rate for their remaining total of 133,333 RMG shares down to 77.5%. The other four individuals elected to remain fully invested, for which election the company and RMG reduced the conversion rate for their remaining total of 66,666 RMG shares down to 70%.

Caydal has converted the RMG shares (at the adjusted 77.5% conversion rate) owned after Caydal accepted RMG's offer in October 2003, and has sold the conversion shares. Caydal's warrants on 31,250 shares of the company's stock now are owned by Bourne Capital, LLC.

This prospectus covers the resale of 277,838 shares of the company on conversion of RMG shares, using an assumed conversion price of \$1.00 per share. The actual number of shares issued will depend on market price at conversion dates. The RMG shares issuable on exercise of the RMG warrants are not entitled to conversion into USE shares.

This prospectus covers the resale of the 46,875 shares underlying warrants, of which 6,250 have been exercised.

- o In partial compensation for services provided by McKim to RMG and USE in connection with the June and July, 2003 investments in RMG, USE issued to McKim warrants to purchase 19,500 shares of USE common stock, exercisable at \$4.00 per share. The warrants expire June 6, 2006. Warrants to purchase an additional 3,000 shares, on the same terms, were issued to John Schlie,

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an employee of McKim.

- o Warrants to purchase 10,000 shares were issued to Frederick P. Lutz in partial compensation for consulting services he provided to the company from August 1, 2002 to January 1, 2003. The warrants are exercisable at \$2.00 per share, and expire August 1, 2005.
- o Two options to purchase a total of 80,000 shares were issued to two individuals (Murray Roark and Robert Craig, 40,000 shares each), exercisable at \$4.30 per share and expiring July 31, 2006. These options were issued to compensate Mr. Roark and Mr. Craig as finders for their introducing RMG to Carrizo Oil & Gas, Inc. in early July 2001. Mr. Roark and Mr. Craig are licensed securities brokers. Since July 2001, RMG has had an agreement with a subsidiary of Carrizo for the acquisition and exploration of coalbed methane properties in Wyoming and Montana.
- o Options to purchase 10,000 shares were issued to Karl Eppich on December 12, 2003, exercisable at \$2.90 per share and expiring December 11, 2004.
- o 200,000 restricted shares held by seven persons who were issued shares of the company as partial payment to Hi - Pro Production, LLC of the purchase price for RMG I's purchase of coalbed methane properties from Hi - Pro. See "Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC" above. These persons are members of Hi - Pro Production, LLC.
- o 166,667 shares issued to seven persons as payment in lieu of cash on the company's \$500,000 promissory note, issued as partial payment to Hi - Pro Production, LLC of the purchase price for

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RMG I's purchase of coalbed methane properties from Hi - Pro. See "Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC" above. These persons are members of Hi - Pro Production, LLC. The shares had secured the note.

- o 312,221 shares issued on conversion of 233,333 restricted shares of RMG common stock, which RMG shares were issued to seven persons in partial payment of the purchase price for RMG I's purchase of coalbed methane properties from Hi - Pro. See "Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC" above. These persons are members of Hi - Pro Production, LLC. The RMG shares were converted as of May 27, 2004, at the election of the holders, into restricted shares of common stock of the company. The number of shares issued on conversion equaled (A) the number of RMG shares to be converted, multiplied by \$3.00 per share, divided by (B) the average closing sale price of the shares of the company as reported on Nasdaq for the 10 trading days prior to notice of conversion (\$2.24). Resale of the conversion shares is covered by this prospectus.
- o 1,442,192 shares of stock issuable on conversion of (and payment of dividends on) 600,000 shares of Series A preferred stock of RMG, purchased by three institutional investors (Crestview Capital Master, L.L.C.; Spring Street Partners, L.P.; and Lion Fund, L.P.) for \$1,800,000 (\$3.00 per Series A share) as of February 26, 2004. These investors also acquired warrants in the transaction (see below).

The Series A stock bears an annual dividend of 10%, and is convertible to

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common stock of the company at 90% of the company's volume weighted average pricing (VWAP) on Nasdaq for the five trading days before conversion (but the conversion price cannot be less than \$1.50 per share of the company's stock). Dividends are payable in cash or shares of the company's stock (at RMG's election) on each dividend payment date (March 1, beginning in 2005), with USE stock calculated in the same manner. Series A stock not converted on the second anniversary of investment will be converted into shares of RMG common stock.

Resale of the 1,442,192 shares issuable for conversion of (and dividends on) the Series A preferred stock is based on an assumed conversion price of \$1.50. The number of shares issued will depend on market prices.

- o 150,000 shares under warrants (held by the three institutional investors), exercisable (vesting) 25% per quarter (fully exercisable after one year, then expiring in February 2007), at a price equal to 90% of VWAP for the five trading days before exercise (but not less than \$1.50 per share). If the stock price determined under the 90% of VWAP formula exceeds \$6.00 for 15 consecutive trading days, the warrants will expire 10 on the tenth trading day after the company sends a call notice to the investors.
- o 75,000 shares under options held by consultant Michael Baybak at \$2.25 per share. The options were issued for services to be performed, on February 8, 1999, and expire August 9, 2004.
- o 350,000 shares (comprised of 100,000 shares; 50,000 shares underlying Class A warrants, exercisable at \$3.00 per share; and 200,000 shares underlying five year Class B warrants, exercisable at \$3.00 per share (the Class A warrants expire March 2, 2007; the Class B warrants expire March 2, 2009)). If the closing Nasdaq price for the company's stock is at or more than \$7.50 for any 10 consecutive trading days, the warrants shall expire on the 30th calendar day after such 10th trading day. The shares and warrants were purchased by Bourne Capital, LLC on March 2, 2007 for \$350,000 (\$300,000 for the shares and the Class A warrants, and \$50,000 for the Class B warrants).
- o 318,465 shares under warrants issued to the participating lenders (Drawbridge Special Opportunities Fund, L.P., and Highbridge/Zwirn Special Opportunities Fund, L.P.) in the mezzanine financing - see

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"Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC"). The warrants are exercisable for three years (subject to vesting) at \$3.30 per share. Warrants on 63,693 shares are vested at prospectus date. The remaining warrants will vest at the rate of the right to buy one share for each \$78.50 which RMG I subsequently borrows under the credit facility. Regardless of when vested, all warrants will expire on the earlier of January 30, 2007, or the 180th day after the company notifies the warrant holders that the company's stock price has achieved or exceeded \$6.60 per share for a consecutive 15 business day period.

The selling shareholders may offer their shares for sale on a continuous basis pursuant to rule 415 under the 1933 Act.

The following information has been provided to us by the selling shareholders. All numbers of shares, and percentage ownership, are stated on a pro forma basis as of the date of this prospectus, assuming issuance of

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4,182,357 shares upon exercise of all the selling shareholders' options and warrants, and conversion of all preferred and common stock of RMG, and company debt, held by the selling shareholders. Not included in the pro forma calculations are the additional shares issuable on exercise of other options and warrants held by persons who are not selling shareholders.

	NUMBER OF SHARES OF COMMON STOCK OWNED (1) -----	NUMBER OF SHARES TO BE REGISTERED -----	PER ----- BEFORE OFFERING -----
A. Clinton Allen 1280 Massachusetts Ave. #200 Cambridge, MA 02138	18,909 (3) (4) (5)	18,909	*
Ardell J. Schelich 347 Lake View Dr. Washington, MO 93090	35,359 (3) (4) (5)	34,500	*
Bathgate McColley & Associates LLC 5350 S. Roslyn Street, Suite 308 Greenwood Village, CO 80111	538 (4) (5)	538	*
Belmont Navy, LLC 111 Sixth Street Cambridge, MA 02141	1,167 (3) (4) (5)	1,167	*
Beverly Karns 5424 South Geneva Way Englewood, CO 80111	149,106 (9)	149,106	*
Bourne Capital LLC 410 Marion Street Denver, CO 80218	502,845 (3) (4) (5)	502,845	2.8%
Burg Simpson Eldredge Hersh Jardine PC 40 Iverness Dr. East Englewood, CO 80112	59,000	59,000	*
C.C.R.I. Corporation 3104 E. Camelback Rd., Suite 539 Phoenix, AZ 85016	87,000 (10)	87,000	*

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	NUMBER OF SHARES OF COMMON STOCK OWNED (1) -----	NUMBER OF SHARES TO BE REGISTERED -----	PER ----- BEFORE OFFERING -----
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Charles D. & Bonnie B. Snow 4725 Travis Way Reno, NV 89502-5358	23,367	6,667	*
Curragh Capital Partners, LLC 609 5th Avenue - 2nd Floor New York, NY 10017	1,500 (5)	1,500	*
Dale S. and Jeanne L. May 960 Point of the Pines Drive Colorado Springs, CO 80919	40,178	40,178	*
David Berlin, Birchwood Resources 1675 Broadway #1020 Denver, CO 80202	1,167	1,167	*
David Gertz 7120 E. Orchard Rd. #300 Greenwood Village, CO 80111	1,167 (3) (4) (5)	1,167	*
Domenico Porco 32777 West Warren Garden City, MI 48135	8,333	8,333	*
Donald F. Kern 2737 Nestlebrook Trail Virginia Beach, VA 23456	27,692 (4)	27,692	*
Donna Schulze 8777 E. Dry Creek Rd., Apt. 1422 Englewood, CO 80112	3,208 (5)	3,208	*
Dr. Ross T. Krueger 1801 Barrs St., Suite 605 Jacksonville, FL 32204-4751	18,462 (4)	18,462	*
Edward J. Godin 7424 S. Chapparal Circle East Aurora, CO 80016	1,000 (5)	1,000	*
Eggleston's LLC 8109 Wellington Road Alexandria, VA 22308	9,230 (4)	9,230	*

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NUMBER OF SHARES OF COMMON STOCK OWNED (1)	NUMBER OF SHARES TO BE REGISTERED	PER ----- BEFORE OFFERING -----
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Eleanor Crosswait 7790 Cherrywood Lane Verona, WI 53593	3,333	3,333	*
Eric Stroud 7715 Dairy Ln. Village of Lakewood, IL 60014	1,100	1,100	*
Francis M. Harris 541 Thornton Road Lithia Springs, GA 30122	50,000	50,000	*
Frederick P. Lutz 1089 Dunbarton Chase Atlanta, GA 30319	10,000 (11)	10,000	*
Generation Capital Association 1085 Riverside Trace Atlanta, GA 30328	36,924 (4)	36,924	*
George D. Thompson 11710 W. 102 Place Overland Park, KS 66214	285 (3) (4) (5)	285	*
Gulf Projects Investment Company Kuwait Stock Exchange Building Safat 13066, Kuwait	4,670 (3) (4) (5)	4,670	*
Jack D. Koser 728 Azalea Dr. Rockville, MD 20856	10,333	10,333	*
James and Vida Ann Roebeling P. O. Box 71 Clearmont, WY 82835	24,260	24,260	*
James A. McCaughey 3 Cueta Drive Rancho Mirage, CA 92270	101,169 (3) (4) (5) (9)	101,169	*
James E. Hosch 7038 Willa Lane Evergreen, CO 80439	1,231 (4)	1,231	*

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NUMBER OF SHARES OF COMMON STOCK OWNED (1)	NUMBER OF SHARES TO BE REGISTERED	PER ----- BEFORE OFFERING -----
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James J. Cahill 57 Lawrence Hill Rd. Huntington, NY 11743	26,148 (3) (4) (5)	26,148	*
James V. Rauh 7234 South Uravan Ct. Aurora, CO 60016	19,036 (3) (4) (5)	19,036	*
Jason Wayne Assad 6585 Sterling Drive Suwanee, GA 30024	77,077 (4)	18,462	*
C & H Capital, Inc. 6585 Sterling Drive Suwanee, GA 30024	24,500 (3)	24,500	*
Jeffrey J. Schmitz 5834 S. Paris Ct. Englewood, CO 80111	4,266 (4) (5)	4,266	*
John J. Lais, III 2602 Woodland Ct McKinney, TX 75070	5,574 (3) (4) (5)	5,574	*
John P. Kanouff 2525 E. Cedar Ave. Denver, CO 80209	15,000	15,000	*
John Schlie 2406 West Davies Ave. Littleton, CO 80120	3,000 (4)	3,000	*
John W. & Annette C. Golen JTWROS 1898 Harley Dr. Ann Arbor, MI 48103	4,333	4,333	*
John Shuster 21379 York Ct. Kildeer, IL 60047	1,788	1,788	*
Joseph & Daphne C. Alphonso Family Trust 7731 Provincial Drive Canton, MI 48187-2152	33,333	33,333	*

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NUMBER OF SHARES OF COMMON STOCK OWNED (1)	NUMBER OF SHARES TO BE REGISTERED	PER ----- BEFORE OFFERING
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Kurt Novey 4224 Nasmyth Drive Plano, TX 75093	550	550	*
Lance Hering 7163 S. Chapparal Cir. E Centennial, CO 80016-2129	2,175 (3) (4)	2,175	*
Larry A. Bach & Susan A. Bach 501 W. Fairbanks Avenue Winter Park, FL 32789	285 (3) (4) (5)	285	*
Linda Monahan & Donald R. Cotner 224 Anglers Drive South Marathon, FL 33050	43,767 (9)	43,767	*
Lynden L. Rader 10342 Carioca Ct. San Diego, CA 92124-1315	26,000	24,000	*
Mark A. & Kangping K. Lowenstein Jtwros 12512 White Drive Sliver Spring, MD 20904	33,469 (5)	33,469	*
Marshall G. Folkes, III 3841 Houndstooth Court Richmond, VA 23233	20,574 (3) (4) (5)	20,574	*
Marshall Gray Folkes, Jr. 829 Long Point Lane Topping, VA 23169	6,700	6,700	*
Martin G. Williams & Margaret M. Williams 13333 Long Leaf Dr. Clarksville, MD 21029	574 (3) (4) (5)	574	*
Mathew B. Murphy P. O. Box 15181 Gillette, WY 82717-1581	25,000	25,000	*
Maury Rogow 1050 Taylor Street N #709 Arlington, VA 22201	925 (3) (4) (5)	925	*

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	OWNED (1) -----	REGISTERED -----	OFFERING -----
McKim & Company LLC 8400 E. Crescent Parkway, Suite 600 Greenwood Village, CO 80111	19,500 (3)	19,500	*
Michael J. Alfano 10310 Forest Maple Rd. Vienna, VA 22182	40,000	40,000	*
Michael Bayback 45150 Ocean View Blvd., Suite 305 LaCanada, CA 91011	75,000 (6)	75,000	*
Michael Bagnulo 1020 Martins Lake Roswell, GA 30076	412	412	*
Michael M. Vuocolo DDS 407 Arrowhead BL 123 Jonesboro, GA 30236	18,462 (4)	18,462	*
Mildred Swift McBride Testamentary Trust 50 Church Street, P. O. Box 128 Sutter Creek, CA 95685	10,000	10,000	*
Mohamed Ali Ahmed 5052 Grimm Dr. #512 Alexandria, VA 23233	574 (3) (4) (5)	574	*
Morgan Stanley Dean Witter FBO Thomas Garrity 1857 Wainwright Dr. Reston, VA 20190	574 (3) (4) (5)	574	*
Murray Roark 4400 Post Oak Parkway, Suite 1720 Houston, TX 77027	40,000 (7)	40,000	*
P-Con Consulting 5432 Broadmoor St. Alexandria, VA 22315	9,230 (4)	9,230	*
Peyton N. Jackson & Linda M. Jackson 8704 Standish Rd. Alexandria, VA 22308	10,190 (3) (4) (5)	10,190	*

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	COMMON STOCK OWNED (1) -----	TO BE REGISTERED -----	BEFORE OFFERING -----
Philip A. Nicholas 170 North 5th Street P. O. Box 928 Laramie, WY 82703	4,331	4,331	*
R. A. Fitzner, Jr P. O. Box 8000-260 Mesquite, NV 89024	3,574 (3)	3,574	*
Richard A. Peterson 5839 Boca Raton Drive Dallas, TX 75230	4,000	4,000	*
Richard Huebner 16318 E. Berry Avenue Centennial, CO 80115	1,731 (4)	1,731	*
Riches In Resources, Inc. 1433 Oakleaf Circle Boulder, CO 80304	15,000	15,000	*
Robert A. Nicholas 107 South Broadway, Suite 213 Riverton, WY 82501	23,474 (5)	23,474	*
Robert H. Taggart, Jr. 4163 S. Chapparrel Circle East Aurora, CO 80116	25,148 (3) (4) (5)	25,148	*
Robert Hockert Petrol Pacific Corporation 3212 Fitzpatrick Dr. Gillette, WY 82718	12,500	12,500	*
Robert Long 3125 Riverside Drive Riverton, WY 82501	31,335	31,335	*
Robert S. Craig 2931 Highland Lakes Dr. Missouri City, TX 77459	40,000 (7)	40,000	*
Roger Conan 14 Oakley Road Dublin 6, Ireland	574 (3) (4) (5)	574	*

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NUMBER OF SHARES OF	NUMBER OF SHARES	PER -----
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	COMMON STOCK OWNED (1) -----	TO BE REGISTERED -----	BEFORE OFFERING -----
Roy Van Buskirk & Rachel Deutsch 1513 Forest Lane McLean, VA 22101	872 (3) (4) (5)	872	*
Russell A. Pomeroy 1801 Broadway, Suite 680 Denver, CO 80202	9,333	9,333	*
Sterne Agee & Leach, Inc. C/F Michael M. Vuocolo IRA 813 Shades Creek Pkwy., Suite 100B, Birmingham, AL 35209	574 (3) (4) (5)	574	*
Sanders Morris Harris Inc. 600 Travis, Suite 3100 Houston, TX 77002	100,000 (8)	100,000	*
Steven Bathgate 6376 E. Tufts Avenue Englewood, CO 80112	1,835 (4)	1,835	*
SJS Holdings c/o Susan Schoch 350 East 84th Street New York, NY 10028	5,909 (3) (4) (5)	5,909	*
Timothy R. Crotty TTEE FBO Timothy R. Crotty Trust DTD 3/14/03 13575 Ridge Road Sutter Creek, CA 95685	10,000	10,000	*
Troy G. Taggart 21220 Craborchard Ct. Ashburn, VA 20147	8,894 (3) (4) (5)	8,894	*
Tsunami Partners 2011 Cedar Springs Rd., Apt. 506 Dallas, TX 75201	305,991	305,991	1.7%
Vicki D.E. Barone 7854 S. Harrison Circle Littleton, CO 80122	51 (4)	51	*
Vincent Schmitz 4207 Montview Blvd. Denver, CO 80207	19,629 (4) (5)	19,629	*

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	SHARES OF COMMON STOCK OWNED (1)	SHARES TO BE REGISTERED	----- BEFORE OFFERING -----
Wayne A. Moore P. O. Box 68 Rock Falls, IL 61071	1,167 (3) (4) (5)	1,167	*
Wesley A. Pomeroy 1801 Broadway, Suite 680 Denver, CO 80202	2,668	2,668	*
William N. Anderson 6650 Oakhills Drive Bloomfield, MI 48301-3238	55,385 (4)	55,385	*
William Gamello 19 West Sky Lane Clifton Park, NY 12065	550	550	*
William Gavin Kessler 1921 Bissell - Unit C Chicago, IL 60614	275	275	*
William Potter 498 Ridgewood Avenue Glen Ridge, NJ 07028	159 (4) (5)	159	*
William Powers 19900 Earlwood Dr. Jupiter, FL 33458	550	550	*
William G. Van Buren 6576 Fairview Avenue Downers Grove, IL	29,822 (9)	29,822	*
Raymond Lynde 501 Clarion Dr. Gillette, WY 82718	142,566	142,566	*
Richard Lynde P. O. Box 325 Gillette, WY 82718	142,566	142,566	*
Virginia H. Lynde Trustee 604 Warren Avenue Gillette, WY 82718	112,017	112,017	*

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NUMBER OF SHARES OF	NUMBER OF SHARES	----- PER -----
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	COMMON STOCK OWNED (1) -----	TO BE REGISTERED -----	BEFORE OFFERING -----
Ronald K. Lynde Trustee 604 Warren Avenue Gillett,e WY 82718	112,017	112,017	*
The Riggs Company LLC 155 Scott Drive Sheridan, WY 82801	67,889	67,889	*
Steve Youngbauer 25 Buckhorn Flats Rd. Riverton, WY 82501	67,889	67,889	*
Carl Andresen 8511 W. Donald Dr. Peoria, AZ 85383	33,944	33,944	*
Lion Fund LP 601 Jefferson, Suite 3600 Houston, TX 77002	88,715 (12) (13)	88,715	*
Spring Street Partners L.P. 601 Jefferson, Suite 3600 Houston, Tx 77002	177,655 (12) (13)	177,655	*
Crestview Capital Master L.L.C. 95 Revere Drive, Suite A Northbrook, IL 60062	1,325,822 (12) (13)	1,325,822 (14)	7.4%
Drawbridge Special Opportunities Fund, LP 1251 Avenue of the Americas New York, NY 10020	159,233 (14)	159,233	*
Highbridge/Zwirn Special Opportunities Fund, LP 745 Fifth Avenue, 18th Floor New York, NY 10151	159,232 (14)	159,232	*
Christopher A. Flanigan Irrevocable Trust 1572 Northfield Lane Lafayette, CO 80026	127,289	127,289	*
Sean Flanigan 904 East Stanford Avenue Englewood, CO 80110	164,120	164,120	*

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	SHARES OF COMMON STOCK OWNED (1)	SHARES TO BE REGISTERED	----- BEFORE OFFERING -----
B.W. Squared LLC 2407 W. Colorado Avenue Colorado, Springs, CO 80904	38,265	38,265	*
Adaya Family Trust 1301 Ocean Avenue Santa Monica, CA 90401	76,531	76,531	*
SHYM, LLC 515 S. Figueroa Street, #1600 Los Angeles, CA 90071	76,531	76,531	*
James Pearl 324 Tenth Avenue, Suit 170 Salt Lake City, UT 84103	2,296	2,296	*
Karl Eppich 15 Piper Road Sheridan, WY 82801 -----	10,000 (15)	10,000	*

The shares owned or to be owned by the selling shareholders are registered under rule 415 of the general rules and regulations of the Securities and Exchange Commission, concerning delayed and continuous offers and sales of securities. In regard to the offer and sale of such shares, we have made certain undertakings in Part II of the registration statement of which this prospectus is part, by which, in general, we have committed to keep this prospectus current during any period in which the selling shareholders make offers to sell the covered securities pursuant to rule 415.

PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- o block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- o an exchange distribution in accordance with the rules of the applicable exchange;
- o privately negotiated transactions;

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- o settlement of short sales entered into after the date of this prospectus (a short sale occurs when shares, not owned by the seller, are sold in hopes of a decline in market price so the seller can purchase in the market at a lower price to be able to deliver the shares sold);
- o broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- o through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;

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- o a combination of any such methods of sale; or
- o any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under rule 144 under the 1933 Act, if available, rather than under this prospectus. Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Broker-dealers may agree to sell a specified number of such shares at a stipulated price per share, and, to the extent such broker-dealer is unable to do so acting as agent for us or a selling shareholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions, which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above, in the over-the-counter markets or otherwise at prices and on terms then prevailing at the time of sale, at prices than related to the then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers such share commissions as described above.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

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The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the 1933 Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the 1933 Act. The selling stockholders have informed the company that none of them have any agreement or understanding, directly or indirectly, with any person to distribute the common stock.

The company is required to pay all fees and expenses incurred by the company incident to the registration of the shares. The company has agreed to indemnify certain of the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the 1933 Act.

In order to comply with the securities laws of certain states, if applicable, the shares will be sold in such jurisdictions, if required, only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available.

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### BUSINESS AND PROPERTIES OF THE COMPANY

#### COALBED METHANE

##### GENERAL

Rocky Mountain Gas, Inc. ("RMG") was incorporated in Wyoming on November 1, 1999 for business in the coalbed methane industry in Wyoming and Montana. RMG is a subsidiary of the company (owned 49.4% by the company and 39.1% by Crested as of the date of this prospectus).

In 2003, RMG transferred all of its interest in certain coalbed methane properties, including a producing property, to Pinnacle. At the same time, Carrizo Oil & Gas, Inc.'s wholly owned subsidiary CCBM, Inc. ("CCBM") (with which RMG has an agreement to jointly acquire and explore properties) transferred to Pinnacle all of its interests in the same properties, and affiliates of Credit Suisse First Boston contributed equity financing to Pinnacle. See "Transaction with Pinnacle Gas Resources, Inc."

On January 30, 2004, RMG (through its wholly-owned, newly organized subsidiary RMG I LLC ("RMG I") acquired coalbed methane properties in the Powder River Basin of Wyoming. See "Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC." Part of the purchase price was financed under a \$25 million mezzanine credit facility.

RMG I plans to drill five development wells on the Hi-Pro properties in 2004 and upgrade existing infrastructure to improve gas production, and, subject to raising equity funding, drill up to 120 exploratory wells on undeveloped Hi-Pro acreage in 2004 and 2005.

In addition, RMG plans to drill exploratory wells on the Castle Rock and Oyster Ridge properties, and seek to acquire other producing coalbed methane properties, primarily in Wyoming. Financing may be available under the mezzanine credit facility for more acquisitions, if approved by the lenders. RMG does not



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have any agreements to acquire other producing properties.

RMG raised \$1.8 million of equity financing in the first quarter of 2004.

RMG holds leases and options on approximately 261,180 gross mineral acres of federal, state and private (fee) land in the Powder River Basin ("PRB") of Wyoming and Montana and adjacent to the Green River Basin of Wyoming, not including acreage held by Pinnacle.

There are 108 producing wells on the properties bought by RMG from Hi-Pro Production, LLC. RMG owns an average 58% working interest (46.4% average net revenue interest, before deduction of overriding royalty interests held by lenders) in these properties.

From RMG's inception, through December 31, 2003, 72 exploratory wells have been drilled, almost all with funds provided by industry partner CCBM and former industry partner SENGAI (see below). 43 of the wells were on properties transferred to Pinnacle in mid-2003. The balance of 29 wells (15 of which have been plugged and abandoned) are on properties held by RMG. Reserves have not been established for any of the properties on which these wells were drilled.

The Castle Rock property in southeast Montana, and the Oyster Ridge property adjacent to the Green River Basin (southwest Wyoming), are large properties which will require the drilling of numerous exploratory wells and extended dewatering for each group or "pod" of wells (possibly as much as 24 months after drilling and completion) before an assessment of reserves can be made.

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Among the uncertainties we face in determining if our coalbed methane investments will yield value are the following: Prices for gas sold in the Powder River Basin are typically lower than national prices, and therefore, the economics of Powder River Basin properties can be adversely affected more readily by lower gas prices. The Hi-Pro properties, and all revenues therefrom, are pledged to service \$3,635,000 of debt. To continue exploration efforts, additional capital (in addition to RMG's one-half of remaining balance under the CCBM \$5.0 million drilling commitment, which one half of remaining balance was \$305,100 at December 31, 2003) will be needed. Permitting issues for new wells on undeveloped acreage may be delayed. An unfavorable confluence of these uncertainties could result in a write-down of the carrying value of those properties which don't produce enough gas at low prices to be economic; in a write-down of the carrying value of other properties which need more wells drilled and dewatered to establish or improve the economics of production; and/or the delay (whether from lack of capital or permitting problems) in establishing reserves for the larger prospects where many wells will have to be drilled to assess their value.

Certain technical terms used in the oil and gas industry appear in this prospectus. The following are general definitions of those terms: Working interests percentages of a mineral lease total 100%; the working interest owners together (an aggregate of 100%) pay all of the costs to hold undeveloped leases, drill and complete wells on leases, and produce minerals from the leased property (including pump costs, gathering and transmission costs and marketing costs). Net revenue interests are the percentages of production which the working interest owners own, after deduction for payment of royalties to the owners of the minerals under lease (private parties, the Bureau of Land Management, or the State, as applicable). Owners of royalty interests pay none

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of the costs to drill, complete, or operate wells on a lease. An overriding royalty interest is carved out of the total net revenue interest; overriding royalty interest holders pay none of the costs to hold, drill, or produce the minerals. All owners pay their share of ad valorem and severance taxes.

### TRANSACTION WITH PINNACLE GAS RESOURCES, INC.

On June 23, 2003, RMG, CCBM and its parent company Carrizo Oil & Gas, Inc.; and seven affiliates of Credit Suisse First Boston Private Equity (the "CSFB Parties") signed and closed agreements for a transaction with Pinnacle. The transaction included: (1) the contribution to Pinnacle by RMG and CCBM of all of their ownership of a portion of the CBM properties owned by RMG and CCBM, in exchange for common stock and options to buy common stock in Pinnacle; and (2) \$17,640,000 cash to Pinnacle by the CSFB Parties for common stock and series A preferred stock of Pinnacle, and warrants to purchase series A preferred stock of Pinnacle.

Pinnacle is a private corporation. Only such information about Pinnacle, as its board of directors elects to release, is available to the public. All other information about Pinnacle is subject to confidentiality agreements between Pinnacle, RMG, and the other parties to the June 2003 transaction.

RMG's ownership in Pinnacle's common stock is 37.5%. RMG's ownership of Pinnacle on a fully-diluted basis will change if the CSFB Parties exercise their warrants to buy equity in Pinnacle, and/or if RMG and/or CCBM exercise their options to buy equity in Pinnacle, or other events occur. See the discussion under Pinnacle Equity Transaction below.

Immediately following, and in connection with, the transaction, Pinnacle acquired additional producing and non-producing CBM properties located in the Powder River Basin of Wyoming from Gastar Exploration, Ltd. ("Gastar," listed on the Toronto Stock Exchange), referred to below as the "Gastar acquisition."

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The transaction and the follow-on Gastar acquisition provide (1) Pinnacle the funded opportunity to explore and develop the contributed and acquired assets, and to acquire and explore, and if warranted, develop, additional CBM properties in Wyoming and Montana; and (2) RMG (through its ownership interest in Pinnacle) the opportunity to benefit (on a passive basis) from the continued development of the contributed assets and other properties which Pinnacle may acquire in the future. Since June 2003, Pinnacle has acquired additional acreage, and drilled numerous exploratory and development wells.

RMG now has interests in approximately 261,180 gross (126,920 net) mineral acres: (A) 171,500 gross (68,675 net) acres in the Castle Rock, Oyster Ridge, and Baggs properties, which were not contributed to Pinnacle (these properties are operated by RMG and held with its industry partner CCBM, Inc.); and (B) 51,500 gross (46,790 net) mineral acres acquired from Hi-Pro Production, LLC, and (C) 38,184 gross and net acres held by another company, which are at the north and south ends of the Anadarko acreage. The acreage total does not reflect properties held by Pinnacle.

CCBM is a wholly-owned subsidiary of Carrizo Oil & Gas, Inc. ("Carrizo," a Nasdaq listed company). Carrizo, CCBM and RMG entered into an agreement in July 2001 for CCBM to buy a 50% interest in, and fund exploration and development of, RMG's CBM properties then owned. Prior to and in connection with the Pinnacle

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transaction, CCBM paid RMG approximately \$1.8 million cash to complete its purchase of 50% of RMG's contributed CBM properties, thus enabling CCBM to contribute its interests in the CBM properties to Pinnacle as having been fully paid for. See "Continuing Operations of RMG, Continuing Agreement with CCBM, and the AMI Agreement, After the Pinnacle Transaction" below.

### - PINNACLE EQUITY TRANSACTION

Pinnacle is authorized to issue common stock (100 million shares, \$0.01 par value) and preferred stock (100 million shares, \$0.01 par value). Pinnacle has established series A preferred stock with the following provisions: Liquidation preference of \$100.00 per share; 10.5% compounded cumulative annual dividend (12.5% after July 1, 2010); redeemable at Pinnacle's option after July 1, 2004 at a premium declining to par after July 1, 2009 (mandatory redemption if there is a change in control of RMG or CCBM); and with voting rights (a) pari passu with the common stock on regular matters, and (b) as a separate class, to authorize changes in the series A preferred stock, to authorize issuance of stock senior to or in parity with the series A preferred stock, to approve any reorganization or merger of Pinnacle, to approve Pinnacle's sale of substantially all its assets, and similar matters.

Pinnacle's board of directors has eight directors (two each from RMG and CCBM, and four from the CSFB Parties).

The chart below summarizes (a) the contributions made by the parties to the transaction at the closing, and (b) thereafter in 2004 (subsequent capital call funded by the CSFB parties - see footnote (3)). At April 26, 2004, RMG owns 37.5% of the common stock of Pinnacle.

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		Equity in Pinnacle				Rights
Parties	Contribution	Common Stock	Series A Preferred Stock	Equity Warrants (1)	O	
-----	-----	-----	-----	-----	-----	
RMG	All CBM properties (except Castle Rock, Baggs and Oyster Ridge)	75,000 shares	-0-	-0-	30,00	
CCBM	All CBM properties (except Castle Rock, Baggs and Oyster Ridge)	75,000 shares	-0-	-0-	30,00	
CSFB Parties	\$29,400,000 (3)	50,000 shares	250,000 shares	250,000		
-----						

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As of December 31, 2003, RMG has recorded its 37.5% equity investment in Pinnacle at the carrying value of its coalbed methane properties of approximately \$922,600.

Sanders Morris Harris Inc. ("SMH") of Houston, Texas acted as financial advisor to RMG on the Pinnacle transaction. For its services in connection with the transaction and the Gastar acquisition, SMH was paid \$650,000 by Pinnacle. As additional compensation for SMH's services, USE issued to SMH 50,000 restricted shares of common stock and warrants to purchase (until June 30, 2006) another 50,000 restricted shares of common stock (at \$5.00 per share). Resale of these shares and warrant shares is covered by this prospectus (See "Selling Shareholders"). SMH did not receive any equity or equity rights in Pinnacle in connection with the transaction or the Gastar acquisition.

### - GASTAR ACQUISITION

With proceeds from the CSFB financing, Pinnacle paid Gastar \$6.2 million, effective June 1, 2003, for approximately 50% of Gastar's working interest in existing producing and non-producing CBM properties which included 95 producing wells in the early stages of dewatering and approximately 36,529 gross developed and undeveloped acres. The majority of the leases are either part of or located adjacent to the producing Bobcat property, which RMG and CCBM contributed to Pinnacle.

Pinnacle also agreed to fund up to \$14.5 million of future drilling and development costs on behalf of Gastar and Pinnacle prior to December 31, 2005, on the properties purchased from Gastar.

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### - CONTINUING OPERATIONS OF RMG, CONTINUING AGREEMENT WITH CCBM, AND THE AMI AGREEMENT AFTER THE PINNACLE TRANSACTION

RMG retained ownership, with CCBM, of the Castle Rock, Oyster Ridge, and Baggs projects, totaling about 189,000 gross acres (currently about 171,500 gross acres net of 15,200 gross acres returned to Anadarko after the transaction date and expiration of three leases). RMG and CCBM plan to continue exploration and development activities on these properties as well as acquiring other properties in Wyoming and Montana, under their July 2001 agreement (see "Carrizo - Purchase and Sale Agreement"). Presently there are no agreements for RMG and CCBM to acquire producing properties.

CCBM paid RMG approximately \$1.8 million for CCBM's outstanding purchase obligation (under the July 2001 agreement) on CCBM's interests in those properties it contributed to Pinnacle. The balance on the note at December 31, 2003 was \$836,200. The balance of CCBM's original purchase obligation is payable in monthly installments of approximately \$52,800 through November 2004 with a balloon payment of \$282,400 due on December 31, 2004.

In connection with the transaction with Pinnacle, RMG and Pinnacle signed a transition services agreement, for Pinnacle to pay RMG to assist in setting up operational accounting systems for Pinnacle through December 2003. The agreement was terminated by RMG effective January 1, 2004.

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Also in connection with the transaction, RMG, CCBM, Carrizo, USE and the CSFB Parties signed an area of mutual interest ("AMI") agreement: Until June 23, 2008, Pinnacle has the right to acquire from the other parties up to 100% of any interest in oil and gas leases, or interests therein or mineral interests or rights to acquire same, which the other parties acquire, at the same price paid or payable by the other parties, within the Powder River Basin in Montana and Wyoming (excluding most of Powder River County, Montana). The original AMI agreement between CCBM and RMG from July 2001 is superseded by the new AMI agreement, except for areas outside the new AMI agreement territory, wherein the original agreement is still in effect.

With respect to the properties acquired from Hi-Pro (see below), CCBM and Pinnacle waived their rights to buy any of the producing or undeveloped acreage.

### ACQUISITION OF PRODUCING AND NON-PRODUCING PROPERTIES FROM HI-PRO PRODUCTION, LLC

On January 30, 2004, RMG I, LLC ("RMG I"), a wholly-owned subsidiary of RMG, purchased coalbed methane properties from Hi-Pro for \$6,800,000. This transaction was closed after December 31, 2003. See the subsequent event footnote to the audited financial statements in this prospectus.

The purchased properties (all located in the Powder River Basin of Wyoming) include 247 completed wells and 40,120 undeveloped fee acres. As of the date of this prospectus, 108 wells now are producing approximately 4.7 million cubic feet (Mmcf) of gas per day (approximately 2.7 Mmcf per day net to RMG I). Net daily Mmcf sales are less than gross production, due to produced gas being consumed to run compressors, and from adjustments by purchasers for thermal content (gas is sold based on BTU heat content).

RMG I owns an average 58% working (average 46.4% net revenue) interest in the producing wells and proved developed acreage, and a 100% working (average 80% net revenue) interest in all of the undeveloped acreage. The net revenue interest percentage after deduction of the overriding royal interests held by lenders (see "Mezzanine Credit Facility") are 44.66% for the producing and five future wells to the Wyodak coal, and 78.0% for production from deeper coals and all of the undeveloped acreage.

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The transaction was structured as an asset purchase, with RMG I as the purchaser, in connection with the establishment of a mezzanine credit facility for up to \$25,000,000 of secured loans to acquire and develop more proven coalbed methane reserves. RMG may utilize RMG I for future acquisitions (none are presently under contract or agreement in principle). See "Mezzanine Credit Facility." A substantial portion of the cash consideration paid to Hi-Pro was funded with the initial advance on the credit facility. RMG I replaced Hi-Pro as the contract operator for 89% of the wells that were acquired.

RMG negotiated the purchase based on the \$7,113,000 present value, discounted 10%, of gas reserves recoverable (and the estimated future net revenues to be derived) from proved reserves in the Hi-Pro properties, as estimated as of November 1, 2003 by Netherland Sewell and Associates, Inc. See "Reserve Data" below for the estimate as of December 31, 2003.

The \$6,800,000 purchase price reflects a deduction, negotiated by the

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parties in January 2004, to account for the decrease in gas production from October 2003 due to the impact on production from deferred maintenance on the properties, and the expected cost of such maintenance work after closing.

- TERMS OF THE PURCHASE. The purchase price of \$6,800,000 was paid:
    - o \$ 776,700 cash by RMG.
    - o \$ 588,300 net revenues from November 1, 2003 to December 31, 2003, which were retained by Hi-Pro.(1)
    - o \$ 500,000 by USE's 30 day promissory note (secured by 166,667 restricted shares of USE common stock, valued at \$3.00 per share).(2)
    - o \$ 600,000 by 200,000 restricted shares of USE common stock (valued at \$3.00 per share) (2).
    - o \$ 700,000 by 233,333 restricted shares of RMG common stock (valued at \$3.00 per share).(3)
    - o \$3,635,000 cash, loaned to RMG I under the credit facility agreement.(4)
- \$6,800,000

- (1) RMG paid all January operating costs at closing. Net revenues from the purchased properties for January 2003 were credited to RMG I's obligations under the credit facility agreement. These net revenues were considered by the parties to be a reduction in the purchase price which RMG otherwise would have paid at the January 30, 2004 closing.
- (2) The note subsequently was paid in full by delivery of the collateral shares. Resale of such shares, and the 200,000 shares issued in the transaction (all of which now are held by the owners of Hi - Pro in proportion to their ownership in Hi - Pro), is covered by this prospectus. See "Selling Shareholders."
- (3) These RMG shares were held by the owners of Hi - Pro in proportion to their ownership in Hi - Pro). The RMG shares were convertible at the election of the holders into restricted shares of common stock of USE. The number of USE shares issued (on May 27, 2004) equaled (A) the number of RMG shares to be converted, multiplied by \$3.00 per share, divided by (B) the average closing sale price of the shares of USE for the 10 trading days prior to notice of conversion (\$2.24). Resale of the conversion shares is covered by this prospectus. See "Selling Shareholders."
- (4) See "Mezzanine Credit Facility."

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- PROPERTIES PURCHASED.

### RESERVE DATA

Netherland Sewell and Associates, Inc. ("NSAI," Houston, Texas), independent petroleum engineers, have prepared a report on the proved reserves, as of December 31, 2003, estimating recoverable reserves from the Hi-Pro properties, and the present value (discounted 10%) of future cash flow therefrom. NSAI's report takes into account fixed pricing for some production in 2004 and 2005, reflects the reduction in RMG's net revenue interests due to the overriding royalty interests held by lenders, and (except for fixed pricing in

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2004 and 2005) is based on the Henry Hub Spot market price of \$5.965 per mmbtu, adjusted by lease for energy content, transportation fees and regional price differentials on December 31, 2003, without price escalation. Henry Hub Spot prices closely approximate the prices paid to Powder River Basin producers.

	RESERVES (Mmcf)	NET PRESENT VALUE (discounted at 10%)
	-----	-----
Proved Developed Producing	2,206.490	\$4,589,600
Proved Developed Non-Producing	464.423	\$1,084,800
Proved Undeveloped	733.780	\$1,382,000
	-----	-----
Total	3,404.693	\$7,056,400
	=====	=====

The present value, discounted 10% value ("PV10 value") was prepared after ad valorem and production taxes on a pre-income tax basis, and is not intended to represent the current market value of the estimated gas reserves purchased from Hi-Pro. The PV10 discount factor is not the same as the standardized measure of present value calculations which are determined on an after-income tax basis.

Reserves as of November 1, 2003 were calculated by NSAI based on actual production up to June 30, 2003, with production decline curves to November 1, 2003 estimated based on that production, resulting in total net proven reserves of 4,034.5 Mmcf. For estimates as of December 31, 2003, NSAI was supplied with actual production data through that date. Because actual production was below the production predicted for the same period by the November 1, 2003 decline curves, the decline curves for the later report had a lower starting point on January 1, 2004 and a steeper rate of decline. These new decline curves thus predict lower future production (3,404.693 Mmcf net to RMG) as of December 31, 2003.

We expect production in 2004 from producing wells, and hence proven reserves (after adjustments for actual gas produced), will increase as maintenance work now in progress (which had been deferred by Hi-Pro in the last two quarters of 2003) is completed in the second quarter 2004. The reduction in the present value, discounted 10%, of proven reserves at November 1, 2003 (\$7,113,000) as compared to December 31, 2003 (\$7,056,400) was less than 1%, notwithstanding the decreased volume of reserves, due to the higher price at the later date compared with prices used in the November 1, 2003 estimate (\$4.50 per mcf in 2003, \$4.29 in 2004, and \$4.25 in 2005).

There are numerous uncertainties inherent in estimating gas reserves and their estimated values. Reservoir engineering is a subjective process of estimating underground accumulations of gas that cannot be measured exactly. Estimates of economically recoverable gas, and the future net cash flows which may be realized from the reserves, necessarily depend on a number of variable factors and assumptions, such as historical production from the area compared with production from other areas, the assumed effects of regulations by government agencies, assumptions about future gas prices and operating costs, severance

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and excise taxes, development costs, and work-over and remedial costs. The outcomes, in fact, may vary considerably from the assumptions.

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The PV10 value takes into account RMG I's contracts to sell 2,000 Mmbtu per day in 2004 at a fixed price of \$4.76 per Mmbtu, and 1,000 Mmbtu per day in 2005 at a fixed price of \$4.14 per Mmbtu. From time to time, RMG I may sign fixed price contracts for more production. In addition, gas market prices will vary, possibly by significant amounts, throughout each year, and on an average basis from year to year. For these reasons, the cash flow realized from production likely will vary from the estimates of cash flow used to determine the PV10 value.

Estimates of the economically recoverable quantities of gas attributable to any particular property, the classification of reserves as to proved developed and proved undeveloped based on risk of recovery, and estimates of the future net cash flows expected from the properties, as prepared by different engineers or by the same engineers but at different times, may vary substantially, and the estimates may be revised up or down as assumptions change.

In addition, it is likely that actual production volumes will vary from the estimates.

The PV10 discount factor, which is required by the SEC for use in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor, based on interest rates in effect in the financial markets, and risks associated with the gas business.

The business of exploring for, developing, or acquiring reserves is capital intensive. To the extent operating cash flow is reduced and external capital becomes unavailable or limited, RMG's ability to make the necessary capital investment to maintain or expand the gas reserves asset base would be impaired. There is no assurance future exploration, development, and acquisition activities will result in additional proved reserves. Even if revenues increase because of higher gas prices, increased exploration and development costs could neutralize cash flows from the increased revenues.

### - FUTURE PLANS FOR THE HI-PRO PRODUCTION PROPERTIES

In the second quarter of 2004, RMG I plans to drill five proven undeveloped locations to the Wyodak coal, continue a remedial workover program on a number of existing wells, and upgrade the gas gathering and pipeline facilities included in the purchase. The workover program is estimated to cost \$250,000 and will be funded by the working interest partners. The drilling and gathering upgrade is estimated to cost approximately \$640,000, and is being funded with a loan from the mezzanine credit facility. The programs are designed to enhance production from current levels. After the 5 new wells to the Wyodak are drilled, there will be no more undrilled locations on the currently producing properties available for the Wyodak coal. The first coals of interest under the undeveloped acreage are the Anderson and Canyon coals (for example under the Reno property); the Wyodak coal is not present under the undeveloped acreage. In addition to the 5 new wells, RMG-I plans to hook up 2 additional wells that were previously drilled by Hi-Pro and are in close proximity to the 5 new wells.

The Wyodak coal formation is 200 to 600 feet from surface. Existing infrastructure for the Wyodak wells (gathering lines, compressors, and water disposal) should significantly reduce drilling and completion costs for new wells to the deeper Dannar and Moyer coals (950 to 1,150 feet). Subject to raising capital, up to 120 wells could be drilled and completed to these deeper coals in 2004 and 2005, all on locations now producing from the Wyodak. This development activity is contingent upon obtaining future financing. We do not expect that funding for this activity will be available through the mezzanine credit facility.



No reserves have been established for the Dannar and Moyer coals. Because no other operators are producing gas from or dewatering these coals in the vicinity of the Hi-Pro properties, we expect several pods of wells will have to be drilled and completed to these coals, with an extended dewatering period (which could be up to 24 months), before significant gas production begins.

RMG is also developing plans to put five coalbed methane wells from the Reno property on production during 2004. The Reno property was part of the Hi-Pro acquisition. The target coals on the Reno property are the Anderson coal, which is about 600-650 feet in depth and approximately 40 feet in thickness and the Canyon coal which is about 700-850 feet in depth and 35 feet in thickness.

Four wells were previously drilled by Hi-Pro, at the Reno Property which were completed in both the Anderson and Canyon coals, with slotted screening in each. In addition, in March 2004, RMG I drilled a fifth well, which has been completed in the Canyon coal. The shallower Anderson coal may be completed at a later date. Four additional well locations exist at the Reno property based upon 80-acre spacing.

The Reno property consists of 760 gross and net acres, all on fee acreage. It is located in Campbell County, Wyoming, approximately 50 miles south of Gillette. RMG owns a 100% working interest in this property.

- MEZZANINE CREDIT FACILITY.

RMG I has signed a credit agreement with Petrobridge Investment Management, LLC (Houston, Texas) as lead arranger, and institutional lenders, for up to \$25,000,000 of loans to RMG I. The loan commitment is through June 30, 2006. All loans will have a three year term from funding date.

Funding to acquire and/or improve any project is subject to the lenders' approval of the transaction and RMG I's development plan.

The first loan (\$4,340,000 on January 29, 2004) under the credit facility has been applied to the Hi-Pro asset purchase (\$3,700,000) including transaction costs and professional fees; and for a Phase I development program (\$640,000).

Terms for all loans under the credit facility include the following:

- o Principal is not amortized, but interest must be paid monthly. All revenues from the properties owned by RMG I (including all current and new wells) is paid to a lock box account controlled by the lenders, from which is paid by the lenders, the lease operating costs, revenue distributions, RMG I operating fees and RMG pumping fees (all approved by the lenders). With the exception of operating and pumping fees, no revenues will be available for RMG operations until all loans are paid off.
- o The loans are secured by all of RMG I's properties and by RMG's equity interest in RMG I.
- o The lenders, in the aggregate, receive an overriding royalty interest of 3% of production from the wells producing when the acquisition was closed, and 2% of production from new wells on an 8/8ths working interest basis, proportionately reduced where less than 100% of the working interest is owned by RMG I. For the Hi-Pro properties, the 3%

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rate applies to all wells (producing and to be drilled) to the Wyodak formation (an aggregate override of 1.74%), and 2% to all wells to deeper formations (aggregate override to be determined based on working interest ownership by well). Override payments to the lenders are not applied to the loan balances. The percentage of overrides on future properties may vary.

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- o Negative covenants: RMG I will not permit the ratio of (a) total debt to EBITDA to exceed 2.00 to 1.00; (b) EBITDA to interest expense and rents (lease expense) to be less than 3.00 to 1.00; c) current assets to current liabilities to be less than 1.00 to 1.00; or (d) PV 10 (proved developed producing reserves) to total debt to be less than 1.00 to 1.00. All these ratios are to be determined quarterly. In addition, RMG I shall not permit net sales volume of gas from its properties to be less than 270 Mmcf, 230 Mmcf, 230 Mmcf and 210 Mmcf for each quarter in 2004, or less than 180 Mmcf per quarter in 2005 and the first two quarters of 2006.

At closing of the Hi-Pro acquisition, USE issued to the participating lenders three year warrants to purchase a total of 318,465 shares of common stock of USE (subject to vesting) at \$3.30 cash per share. At closing of the Hi-Pro Acquisition, warrants on 63,693 shares vested. The remaining warrants will vest at the rate of the right to buy one USE share for each \$78.50 which RMG I subsequently borrows under the credit facility. Regardless of when vested, all warrants will expire on the earlier of January 30, 2007, or the 180th day after USE notifies the warrant holders that USE' stock price has achieved or exceeded \$6.60 per share for a consecutive 15 business day period. Resale of the warrant shares is covered by this prospectus.

The preceding is a summary of some of the terms of the credit agreement, and is qualified by the text of the agreement, filed with the registration statement of which this prospectus is a part.

### - RMG EQUITY TRANSACTION

In the first quarter, RMG raised \$1,800,000 of equity financing from the sale of shares of Series A Preferred Stock in RMG, and warrants to purchase shares of common stock of USE, to institutional investors. Proceeds are being used for RMG working capital. The terms of the securities sold are:

- o 600,000 shares of Series A Preferred Stock at \$3.00 per share. The Series A Preferred Stock bears a 10% cumulative annual dividend (payable on March 1 of each year, beginning March 1, 2005), payable at RMG's election in cash or shares of common stock of RMG (at \$3.00 per share) or shares of common stock of USE (at 90% of USE' volume weighted average price for the five days, referred to as the "set price," provided that the set price cannot be less than \$1.50). The Series A Preferred Stock is convertible at the holder's election into shares of common stock of RMG, at \$3.00 per share, or shares of common stock of USE at the set price, until February 2006, at which time all Series A Preferred Stock shares not previously converted shall automatically be converted into shares of common stock of RMG. The Series A Preferred Stock carries a liquidation preference of \$4.05 per share.
- o Warrants to purchase 150,000 shares of common stock of USE, at the set price. The investors did not pay additional consideration for the

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warrants issued in connection with the purchase of the Series A Preferred Stock. The warrants are exercisable as to 25% of the underlying shares beginning in May 2004, and an additional 25% of the underlying shares on each of the six months, nine months, and twelve months thereafter, at which time the warrants are exercisable for the full number of underlying shares. Subject to this prospectus then being current, USE may call the warrants for exercise if USE's volume weighted average price (VWAP) for its stock exceeds \$6.00 for any consecutive 15 trading days; warrants not exercised by the tenth trading day after a call notice is sent will be canceled.

- o The number of shares of RMG or USE common stock issuable in payment of dividends on, or conversion of, the Series A Preferred Stock, and the number of shares of common stock of USE issuable on exercise of the warrants, are subject to adjustment in certain events to protect the holders from dilution. The first anti-dilutive provision is 'full ratchet': If RMG or USE issue

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shares of common stock, or derivative securities exercisable for or convertible into such shares of common stock, at a price less than \$3.00 per share for RMG stock or the set price for USE stock, at any time until 30 days after the registration statement (of which this prospectus is a part) has been declared effective by the SEC to permit the resale to the public by the holders of the USE common stock issuable on payment of dividends, in conversion, and on exercise of warrants, then the issue price for the dividends and conversions, and the exercise price of the warrants (for RMG and USE common stock, as applicable) shall be reduced (ratcheted down) to equal the lower issue price.

- o The second anti-dilutive provision would take effect after that 30th day: The issue price would be adjusted up to a fully weighted adjusted price, and would continue to be adjusted for any other issuance by RMG or USE of stock or derivative securities at a price less than \$3.00 or the set price, as applicable, until the Series A Preferred Stock is converted to common stock or RMG or USE, or until the expiration of the warrants, as applicable. As an example of fully weighted anti-dilution protection, if RMG were to sell 3,200,000 shares of common stock at \$2.50 per share, the dividend and conversion price on the Series A Preferred Stock would be \$2.91.

The preceding is a summary of some of the terms of the Series A Preferred stock designation, and the USE warrants, and is qualified by the text of the documents filed with the registrations statement (of which this prospectus is a part).

Resale of the shares into which the Series A Preferred stock may be converted, and shares issuable on exercise of the warrants, is covered by this prospectus.

VOLUMES, PRICES AND GAS OPERATING EXPENSE - BOBCAT PROPERTY (TRANSFERRED TO PINNACLE GAS RESOURCES, INC. IN JUNE 2003)

This table shows RMG's 27.6% working (22% net revenue) sales volumes of gas produced, average sales prices received for gas sold, and average production costs for those sales, for the seven months ended December 31, 2002, and for the

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year ended December, 2003, all from the Bobcat property which was transferred to Pinnacle in June 2003.

	Year Ended December 31, 2003 -----	Seven Months Ended December 31, 2002 -----
Sales volumes (mcf)	81,516	64,314
Average sales price per mcf(1)	\$3.71	\$1.86
Average cost (per mcf) (2)	\$1.91	\$1.91

- (1) From time to time, we sold some of the production at a set price and the balance at daily market prices. For the six months ended June 30, 2003, we sold 37.0% of our share of production at contract prices and 63.0% at the market. There were no gas sales after June 30, 2003.
- (2) Includes direct lifting costs (labor, repairs and maintenance, materials and supplies, workover costs, insurance and property, gathering, compression, marketing and severance taxes).

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### ACQUISITION AND EXPLORATION CAPITAL EXPENDITURES - ALL PROPERTIES THROUGH DECEMBER 31, 2003

From inception on November 1, 1999 through December 31, 2003, RMG incurred net acquisition (purchase price and holding costs) and exploration costs (drilling and completion) on CBM properties of approximately \$1,353,900, which does not include approximately \$2,194,900 funded by CCBM on RMG's behalf for leasehold, drilling and completion costs. Unproved properties on the balance sheet at December 31, 2003 reflect the reduction (by \$5,143,000) to reflect the reduction of the full cost price as a result of principal payments made by CCBM under its agreement with RMG and by payments from other industry partners. The foregoing data does not include \$922,600 spent by RMG on properties transferred to Pinnacle. The \$922,600 was recorded at December 31, 2003 as an investment in Pinnacle.

The following table shows certain information regarding the gross costs incurred by RMG. Costs associated with the Hi-Pro acquisition after December 31, 2003 are not included.

	Year Ended December 31, ----- 2003	Seven Months Ended December 31, ----- 2002	Year Ended May 31, ----- 2002
Acquisition costs	\$ 107,100	\$ 936,200	\$ 192,600
Development	158,300	97,200	87,400
	----- \$ 265,400 =====	----- \$ 1,033,400 =====	----- \$ 280,000 =====

The acquisition costs included amounts paid for properties, delay rentals, lease option payments, and general and administrative costs directly attributable to the acquisitions.

The recorded amounts for acquisition and exploration of \$265,400,

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\$1,033,400, and \$280,000 represent 1.1%, 3.6%, and 1.0% of total assets at December 31, 2003, December 31, 2002, and May 31, 2002, respectively.

We use the full-cost method of accounting for gas properties. Under this method, all acquisition and exploration costs are capitalized in a "full-cost pool" as incurred. Depletion of the pool will be recorded using the unit-of-production method. To the extent capitalized costs in the full-cost pool (net of depreciation, depletion and amortization and related deferred taxes) exceed the present value (using a 10% discount rate) of estimated future net pre-tax cash flows from proved gas reserves as established by reserve reports, the excess costs will be charged to operations.

All acquisition and exploration costs for a property are capitalized until such time as reserves can be established, or not, for the property. If no reserves are established, those capitalized costs will be transferred to the amortization basis and be subject to an impairment test. To the extent reserves are established for an exploration property to be less than such costs, the costs will be written-down to the amount of present value of the reserves. In this event, assets would decrease and expenses would increase. Once incurred, a write-down of gas properties can't later be reversed.

In addition, if future exploration work (in particular the larger prospects) is delayed because of lack of capital or permitting delays, or both, with the result that it cannot be established whether or not proved reserves exist on the properties, the exploration costs for those properties would be written-off.

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### COALBED METHANE PROPERTIES

We hold leases and options to develop approximately 261,180 gross mineral acres (including 69,895 acres under options - see "Oyster Ridge" below) under leases from the United States Bureau of Land Management, the states of Wyoming and Montana, and private landowners. Table 1 shows the total gross and net lease acres held in each prospect, and the amount of such acreage held by RMG and by companies with which RMG has agreements (CCBM, Inc. and Quaneco, L.L.C.). These agreements are summarized under "Carrizo - Purchase and Sale Agreement" and "Quaneco - Agreement." Acreage data assumes CCBM completes its obligations; CCBM will own its 50% working interest in wells drilled under CCBM's drilling fund commitment, but if CCBM does not complete its purchase obligations, CCBM would be entitled to a reduced working interest in the remaining undrilled acreage.

CCBM currently has purchase rights to acquire a 6.25% working interest in the Castle Rock prospect, and owns a 6.25% working interest in eight wells in Castle Rock, which were drilled by Suncor Energy Natural Gas America, Inc. ("SENGAI"). RMG's and CCBM's interests in the Castle Rock prospect, as shown in Table 1, reflect the completion of SENGA's drilling program in late calendar 2001. SENGA elected not to exercise its option under an Option and Farmin Agreement on February 8, 2002.

Prospects are evaluated for coal potential using available public and industry data, taking into account proximity to other positions held by RMG and existing or planned gas transmission lines, and whether drilling and production permits can be obtained and the costs thereof. The final decision to acquire a prospect is made by the executive officers of RMG. Well drilling and testing is

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done by outside contract drilling companies. Drilling results (cores, gas and water flow rates, and other data) are evaluated by RMG staff, using customary technical methods, to determine if any coal zones encountered in the well should be completed for production. Completion requires setting casing pipe down to the coal zone(s), installing pumps, and installing and setting up the necessary surface equipment (for example, water disposal lines and water holding tanks and/or holding ponds for evaluation wells, pending production permitting), and dewatering the well sufficiently so production can start. The decision whether to complete the well is made by the executive officers of RMG.

Table 1 reflects RMG's, Quaneco's and CCBM's acreage position. Table 1 does not reflect the reduction in net acreage held by RMG in the Oyster Ridge property if Anadarko Petroleum, Inc. exercises its options to back-in for a 25% working interest on 31,711 gross acres, or if the holder of the 38,184 gross acres (which became subject to exploration and participation agreement as of March 1, 2004) exercises its option to back-in for a 40% working interest on those acres. Also, 69,895 of the acres shown as held in Oyster Ridge assume we continue to earn acreage under the drill-to-earn-acreage provisions of the option agreements with Anadarko, and the holder of the 38,184 acres now under the exploration and participation agreement. See "Description of Prospects - Oyster Ridge" below.

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TABLE 1

Project and Date Acquired	Gross Lease Acres	Net Lease Acres	RMG Net Acres	Quaneco Net Acres	CCBM Acres
Castle Rock Jan. 2000	123,840	111,567	48,811	55,784	
Oyster Ridge Dec. 1999	85,720	85,720	31,259	0	
Baggs North Jan. 2000	120	120	60	0	
Hi-Pro Jan.2003	51,500	51,500	46,791	0	
TOTAL	261,180	248,907	126,921	55,784	

We own a 43.75% working interest (35% net revenue interest) in the Castle Rock prospect on 123,840 gross and 111,567 net acres in southeast Montana. CCBM can purchase a 6.25% working interest in our acreage (6,973 net acres) of the Castle Rock prospect if they meet certain payment obligations. In July 2001, we sold a 50% working interest in all our coalbed methane leases, except at Castle Rock, to CCBM for \$7,500,000, plus other consideration. The acreage data in

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Table 1 reflects these transactions.

CCBM agreed to pay up to \$5,000,000 for drilling and completing CBM wells on the properties owned by RMG and CCBM. We have a carried working interest in all of the wells drilled on properties owned in July 2001 (after the Pinnacle transaction, those properties consist of the Castle Rock, Baggs, and the Oyster Ridge property (not including 38,184 acres in the Oyster Ridge area which acres now are subject to the exploration and participation agreement, under which the other party can back in for acreage). To date, CCBM has not indicated whether they will participate in the subject 38,184 acres. CCBM has the right to participate as to 50% of the working interest we acquire in properties RMG or RMG I acquires in the future; if CCBM elects to participate, RMG or RMG I would not have a carried interest in wells on future properties.

A total of 72 wells have been drilled on RMG acreage through December 31, 2003: 5 in (former) fiscal year 2001; 53 in (former) fiscal year 2002; 12 in the seven months ended December 31, 2002; and 2 in 2003. 43 of the wells were drilled on properties transferred to Pinnacle in mid-2003. Nineteen of the wells were drilled by SENGAI in Castle Rock under the terms of a option and farmin agreement. Eleven of those 19 wells were stratigraphic wells and have been plugged by SENGAI; 8 of those 19 wells were completed and are owned by RMG (93.75% working interest) and CCBM (6.25% working interest), as Quaneco opted out of maintaining a working interest in the 8 wells. Other than the Castle Rock wells, RMG and CCBM both have a 50% working interest in all of these wells (see Table 2 below).

As of December 31, 2003, CCBM and RMG have spent approximately \$2,194,900 of the \$2,500,000 drilling fund CCBM is committed to spend on RMG's behalf. This reflects a reduction of \$391,000 for RMG's participation in two of Carrizo's Gulf Coast wells. We are relying on the \$305,100 balance to pay for continued drilling and completion work on the Castle Rock and Oyster Ridge properties, as to which RMG will have a carried working interest with no financial obligation of RMG for drilling and completion costs until the drilling fund is exhausted. For other properties we acquire in which

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CCBM elects to participate, CCBM would bear 50% of drilling and completion costs for their 50% working interest.

Future annual financial obligations for coalbed methane properties consist of approximately \$173,100 gross in rental fees to the lessors for 2004 (\$81,800 net to RMG).

Table 2 lists the number of wells drilled, the total exploration costs and the remaining number of wells currently permitted for drilling as of December 31, 2003. Wells permitted for drilling on the Hi-Pro properties are shown; exploration costs and numbers of wells drilled by Hi-Pro Production are not shown.

TABLE 2

Prospect	FY 2001 6/1/00-5/31/01	FY 2002 6/1/01-5/31/02	New Year 2002 6/1/01-12/31/02	FY 2003 1/1/03-12/31/03
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	Wells	\$	Wells	\$	Wells	\$	Wells	\$
Castle Rock	3*	\$283,900	19**	\$ 2,500,000		\$ 4,300	0	0
Oyster Ridge	2	150,500	5	464,200		3,400	0	0
Hi-Pro	n/a	n/a	n/a	n/a	n/a	n/a	0	0
TOTAL	5	434,400	24	2,964,200		7,700	0	0

\* one well has been plugged and abandoned

\*\* drilled by SENGAI, 11 have been plugged and abandoned

\*\*\* includes 3 wells that have been plugged and abandoned

CARRIZO - PURCHASE AND SALE AGREEMENT. On July 10, 2001, RMG closed a Purchase and Sale Agreement with CCBM, Inc., a Delaware corporation which is wholly-owned by Carrizo Oil & Gas, Inc., Houston, Texas (NMS "CRZO"). The agreement between CCBM and RMG is intended to finance the further exploration of the properties held in Montana and Wyoming, and to acquire and develop more properties.

RMG assigned CCBM an undivided 50% interest in all of RMG's then current coalbed methane properties (with the exception of Castle Rock of which only a 6.25% working interest was assigned) for a purchase price of \$7,500,000 by a promissory note payable in principal amounts of \$125,000 per month plus interest at an annual rate of 8%, over 41 months (starting July 31, 2001) with a balloon payment due on the forty-second month. This note was reduced in connection with CCBM's contribution of properties to Pinnacle (see "Transaction with Pinnacle Gas Resources, Inc. - Continuing Operations of RMG, Continuing Agreement with CCBM, and the AMI Agreement, after the Pinnacle Transaction"), and the balance on the note is secured with a 50% undivided interest in the remaining properties (Oyster Ridge and Baggs North (but not Hi-Pro).

CCBM has the right to participate in other properties RMG may acquire under an area of mutual interest ("AMI") agreement. This agreement has been modified by the AMI agreement signed in connection with the Pinnacle transaction; CCBM waived its right to participate in the Hi-Pro acquisition.

In addition to its one-half share of revenues in proportion to its one-half share of the working interest, CCBM was entitled to a credit (applied as a prepayment of the purchase price for the undivided 50%

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interest in RMG's acreage), equal to 20% of RMG's net revenue interest from wells drilled with the \$5,000,000 drilling budget, until the amount of that credit in favor of CCBM equals \$1,250,000. At the formation of Pinnacle, CCBM paid RMG approximately \$1.8 million to complete its purchase value on the contributed properties. The payment of \$1.8 million was a reduction to the principal on the original \$7.5 million note from CCBM. The \$1.25 million that CCBM was to recover from 20% of RMG's revenue interest on the contributed properties was netted against the total purchase price on the contributed



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properties which yielded the \$1.8 million cash payment. CCBM is not entitled to any additional disproportionate revenue distributions.

QUANECO - AGREEMENT. On January 3, 2000, RMG purchased a 50% working interest and 40% net revenue interest in the Castle Rock and Kirby prospects in the Powder River Basin of southeast Montana consisting of approximately 185,000 net mineral acres from Quaneco, L.L.C. (formerly Quantum Energy, L.L.C., Cleveland, Ohio and Oklahoma City, Oklahoma). The acreage includes 88,409 net acres of Bureau of Land Management ("BLM") land; 14,916 net acres of state land (Montana), and 82,775 net acres of fee land. In fiscal 2000 and 2001, RMG paid Quaneco the cash purchase price of \$5,500,000 for the acreage plus a drilling commitment of \$2,500,000. RMG and CCBM transferred their interests in the Kirby prospect to Pinnacle in mid-2003.

### DESCRIPTION OF PROSPECTS

Leases of federal mineral rights are obtained from the United States Bureau of Land Management and expire from 2004 to 2009, unless RMG establishes production on the lease, in which event the lease is held so long as coalbed methane or other gas or oil is produced. A royalty interest of 12.5% on the production is paid to the BLM. State leases expire from 2004 to 2009 in Wyoming and Montana, unless RMG establishes production on the lease, in which event the lease is held so long as coalbed methane or other gas or oil is produced. The royalty paid to the State of Wyoming is from 12.5 % to 16.67%, and 12.5% to the State of Montana. Annual renewal fees for non-producing Federal leases is \$1.50 to \$2.00 per acre, and \$1.00 and \$2.75 for non-producing Wyoming and Montana leases.

An environmental group has filed a lawsuit against the BLM, RMG and others, challenging the validity of numerous BLM leases in the Powder River Basin of Montana. See Item 3, Legal Proceedings ("Rocky Mountain Gas Litigation").

Leases on private (fee) land for coalbed methane and conventional gas expire at various times from 2004 to 2011, unless production is established, in which event the lease is held so long as there is production. The landowner is paid a royalty from production of 12.5% to 20.0% , depending on the lease terms.

Table 3 presents total acreage (developed and undeveloped) held by RMG at May 4, 2004, and the Hi-Pro acreage as of May 4, 2004.

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TABLE 3

Prospect	Gross Leased Acres	Net Leased Acres	Net Leased from BLM	Net Leased from State of Wyoming	Net Lease from State of Montana
Castle Rock	123,840	111,567	55,104	0	10,860

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Oyster Ridge*	18,385	18,385	15,825	0	0
Baggs North	120	120	0	120	0
Hi-Pro (undeveloped)	40,120	40,120	0	112	0
Total Undeveloped Acres	182,465	170,192	70,929	232	10,860
Hi-Pro (developed)	11,380	11,380	460	280	0
Total Acres	193,845	181,572	71,389	512	10,860

\* Does not include 29,151 acres under option from Anadarko Petroleum and 38,184 acres under an exploration and participation agreement. See "Description of Properties - Oyster Ridge."

RMG's properties and mineral leases of BLM, state and fee lands require annual cash payments of approximately \$173,100 during 2004. CCBM is obligated for \$59,600 of the \$173,100 required to keep undeveloped coalbed methane leases in effect.

CASTLE ROCK: The Castle Rock project consists of 123,840 gross and 111,567 net acres located in the northeastern portion of the Powder River Basin of Montana, west of Broadus, Montana. Coals present are in the Tongue River member of the Fort Union formation and appear comparable to coals currently being developed by other operators south of the Castle Rock acreage near the Montana/Wyoming border. Currently, there are no pipelines in this area.

OYSTER RIDGE: The Oyster Ridge project consists of two acreage positions: (1) 54,536 gross and net acres located in southwestern Wyoming in the Ham's Fork Coal Field adjacent to the Green River Basin; RMG and CCBM have an option to acquire a 100% working interest (50% each) in this acreage, which is held primarily by Anadarko Petroleum, Inc.; and (2) 38,184 gross and net acres held by another company, which are at the north and south ends of the Anadarko acreage.

The area is prospective for coalbed methane production from two primary Cretaceous age coals, the Frontier and the Adaville. The Kern River pipeline, which services southern California, crosses the property. Through December 31, 2003, \$799,500 has been spent on drilling and completion at Oyster Ridge.

(1) Anadarko Petroleum, Inc. is successor to Union Pacific Land Resources Corporation, which sold the acreage subject to UPLRC's back-in option to third parties, from whom RMG acquired the acreage in December 1999.

The agreement with Anadarko is a drill-to-earn-acreage agreement: We must drill at least four wells each year, each on a new section (640 acres), to earn a lease on each drilled section, and also to keep in force previously earned leases in the 31,711 acres area. Wells drilled by the lease holder, and by us (with CCBM), have earned 2,560 acres.

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Another 29,151 gross acres in the Oyster Ridge project are subject to an option held by Anadarko Petroleum, Inc. to participate as a 25% working interest

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owner on all wells drilled each year. Anadarko has not yet elected to participate, and has no working interest in the wells drilled to date on this prospect. If Anadarko elects to participate in the future, working interest ownership in affected wells would be 37.5% RMG, 37.5% CCBM, and 25% Anadarko.

(2) Effective as of March 1, 2004, RMG entered into an exploration and participation agreement to acquire a 60% working interest from another company in 38,184 gross acres held by the other company under federal and Wyoming state leases.

**BAGGS NORTH:** This prospect contains 120 gross and net acres located in Carbon County, Wyoming. This State lease is located 7 miles north of Baggs, Wyoming. RMG holds a 50% working interest in this prospect. To date, RMG has not conducted any significant exploration on the property.

### GENERAL INFORMATION ABOUT COALBED METHANE.

Methane is the primary commercial component of natural gas produced from conventional gas wells. Methane also exists in its natural state in coal seams. Natural gas produced from conventional wells generally contains other hydrocarbons in varying amounts which require the natural gas to be processed. Methane gas produced from coalbeds generally contains only methane and is pipeline-quality gas after simple water dehydration.

Coalbed methane ("CBM") production is similar to conventional natural gas production in terms of the physical producing facilities. However, the subsurface mechanisms that allow gas movement to the wellbore are very different. Conventional natural gas wells require a porous and permeable reservoir, hydrocarbon migration and a natural structural or stratigraphic trap. Coalbed methane is stored in four ways: 1) as free gas within the micropores (pores with a diameter of less than .0025 inch) and cleats (set of natural fractures in the coal; 2) as dissolved gas in water within the coal; 3) as absorbed gas held by molecular attraction on surfaces of macerals (organic constituents that comprise the coal mass), micropores, and cleats in the coal; and 4) as absorbed gas within the molecular structure of the coal molecules. Coals at shallower depth with good cleat development contain significant amounts of free and dissolved gas while the percentage of absorbed methane generally increases with increasing pressure (depth) and coal rank. Coalbed methane gas is released by pressure changes when the water in the coal is removed. In contrast to conventional gas wells, new coalbed methane wells initially produce water for several months. As the formation water pressure decreases, methane gas is released from the structure.

Methane production is a direct result of reducing the hydrostatic (water) pressure in the coal formation. Three principal stages are involved:

- o Drill wells (typically eight or more in a 'pod') down to the same coal formation, in contiguous 80 acre spacing per well; test the water in the formation and test coal samples taken from the formation. Water testing determines if the geochemical environment of the coal seam is conducive to the formation of CBM.
- o Install gathering lines to hook up and put wells on pump to "dewater" the coal formation. Hydrostatic pressure must be reduced to about 50% of initial pressure before enough data is obtained (water flow rates, CBM gas flows) to determine how much CBM the wells may produce. This dewatering stage may take 6 to 18 months, and in some instances 24 months (where there is no dewatering of the coal seam occurring from wells drilled by others on adjacent properties).

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- o Installing (or have a transmission company install) a compressor and transport line to carry produced gas to a gas transmission line for sale to end users. Gas production starts gradually then continues to grow in volume as hydrostatic pressure is reduced; optimal production won't occur until hydrostatic pressure is reduced approximately 90% from initial levels.

### COALBED METHANE WELL PERMITTING

Operators drilling for coalbed methane are subject to many rules and regulations and must obtain drilling, water discharge and other permits from various governmental agencies depending on the type of mineral ownership and location of the property. Intermittent delays in the permitting process can reasonably be expected throughout the development of all RMG projects. As with all governmental permit processes, there is no assurance that permits will be issued in a timely fashion or in a form consistent with the plan of operations.

Drilling and production operations on our Powder River Basin leases in Wyoming and Montana are subject to environmental rules, requirements and permits issued by various federal authorities for drilling and operating on all land, regardless of ownership, and state and local regulatory agencies for land owned by the state or in fee by private interests. The primary Federal agency with related responsibilities is the Bureau of Land Management of the U.S. Department of the Interior ("BLM") which has imposed environmental limitations and conditions on coalbed methane drilling, production and related construction activities on federal leases in the PRB. These conditions and requirements are imposed through Records of Decision ("ROD") issued pursuant to Environmental Impact Statements ("EIS"). The BLM may also impose site-specific conditions on development activities, such as drilling and the construction of rights-of-way, before it approves required applications for permits to drill and plans of development.

In April 2003 the BLM issued Records of Decision finalizing two impact statements: The Powder River Basin Oil and Gas EIS (PRB-EIS) for the Wyoming portion of the basin, and the Statewide Oil and Gas EIS and Proposed Amendment for the Powder River and Billings Resource Management Plans in Montana. Together, the impact statements authorize the development of some 77,000 coalbed methane gas wells in the Powder River Basin, most of which would be drilled on the Wyoming side of the basin.

With the EIS completed, the BLM will be able to consider drilling or development proposals in the geographic areas studied, however, before any permits are approved, the BLM will conduct an additional round of environmental review to identify site-specific environmental impacts and appropriate mitigation measures. Three lawsuits have been filed challenging the Record of Decisions, however, no stays have been issued. See "Legal Proceedings, Rocky Mountain Gas, Inc."

The state-based environmental agencies primarily concern themselves with the issuance of permits related to drilling, land, air quality and water discharge. The primary state-based agencies for which coalbed methane operators are subject to include:

- o Wyoming Department of Environmental Quality ("WDEQ")
- o Wyoming Oil and Gas Conservation Commission ("WOGCC")
- o Montana Department of Environmental Quality ("MDEQ")
- o Montana Board of Oil and Gas Conservation ("MBOGC")

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While the BLM is primarily responsible for issuing broadly based EISs for each state, its jurisdiction over related matters and the actual issuance of drilling permits is primarily reserved for federal leases. Permits for drilling on state or fee owned land are issued by the WOGCC and MBOGC.

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In contrast to Wyoming, Montana authorities have been very slow in undertaking CBM environmental studies and granting permits to drill wells. In fact, to date, only the Redstone (Fidelity) project is producing CBM gas in Montana. With the exception of a relatively small number of drilling permits available from earlier issuance (including those held by RMG which have allowed some drilling on the Castle Rock project), a drilling moratorium had been in effect during the last three years, prior to the approval of the two environmental impact statements.

The DEQs are primarily responsible for issuing air quality and water discharge permits, among other things. Water disposal has been and is expected to continue to be a significant issue, particularly with respect to coalbed methane gas production, which typically entails substantial water production at least during the dewatering phase of completion of a new well. The primary issue of concern is the salinity content in the produced water, which is measured by the sodium absorption ratio ("SAR"), which, depending upon a location, can range from slightly less than that in surface water to a substantially greater amount. Due to the discrepancies of the SAR content found in water from coalbed methane wells, the disposal of this water is tightly regulated. If the SAR content is low, the water can be used for irrigation, livestock drinking water or even as a water supply for cities. If the SAR content is higher, the water quality does not merit use for drinking water or irrigation and, under these measures, the DEQ has outlined various other methods of water disposal. Man-made ponds may also be built right beside the wells, enabling the wells to drain their water into the ponds (called surface discharge). Additionally, there might be drainages which the produced water can flow into. Finally, the water might be reinjected through wells into the ground below levels from which the water was produced. Thus far, the vast majority of associated water produced has been discharged on the surface, primarily captured in reservoirs and ponds and allowed to evaporate.

Overall, RMG has not experienced any difficulty in obtaining air quality and water discharge permits from the WDEQ, and those permits are in place for the Hi-Pro properties. RMG has not has applied for such permits in Montana.

The following summarizes permits now in place.

Table 4

Prospect	Remaining Permits	Expiration or Renewal Date
Castle Rock	5	May - July 2004
Hi-Pro	9	August - September 2004
Oyster Ridge	4	September 2004
-----		
Total	18	

Drilling permits issued by the State of Wyoming allow one year for drilling completion; permits issued by the State of Montana allow six months.

Once drilled, all wells in Wyoming are subject to a National Pollution Discharge Elimination System ("NPDES") permit relating to water testing and discharge. All wells in the Castle Rock prospect remain subject to the Montana Board of Oil and Gas Commission approval. Upon completion of drilling, wells are subject to monthly reporting regarding status and production to the respective state agencies in which they are located.

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Due to the low pressure characteristics of the coalbeds, the production of coalbed methane is dependent on the installation of multi-stage compression facilities. Gas is gathered from the wells, and transported to a low level compression station, then on to a high level compression station and finally to the transmission pipeline. The water is commonly collected through another pipeline from each of the wells and pumped into a surface reservoir.

Companies involved in coalbed methane production generally outsource gas gathering, compression and transmission. RMG and industry partners have and will likely continue to outsource their compression and gathering to third parties at fixed charges per mcf transported.

#### GAS MARKETS

Gas production from the Powder River Basin is significant. Since this area is sparsely populated, most of the gas must be exported to distant markets. The existing Wyoming pipeline infrastructure is already substantial and continues to expand with gathering systems and intrastate lines, yet is ultimately dependent on large interstate pipelines. With the exception of a portion of the gathering systems, this pipeline system is typically owned and operated by independent mid-stream energy companies, rather than oil and gas operators. The pipelines generally will not be financed and constructed until appropriate amounts of gas have been proven and committed for transport on the new lines. While the total current take away capacity from the PRB is approximately 1.25 billion cubic feet per day (Bcfd), excess capacity over current production rates does not exist in all locations and not all producers have a ready market for the sale of their gas at all times. Some major producers in the region reserve portions of pipeline capacity beyond their current requirements, resulting in less than stated maximum capacity being available for other producers. In addition, total stated capacity is unavailable at times as pipelines are shut down for maintenance or construction activities.

Based on the existing pipeline systems and the gas sales markets in its area of operations in Wyoming, RMG expects that, at least for the next few years, the markets in which it sells its gas, and the spot prices to which it will be subject, will be dependent upon three major sales points:

- o The Colorado Interstate Gas ("CIG") station near Cheyenne in southeastern Wyoming, which primarily feeds regional markets or markets in the Midwest.
- o The Ventura market ("Ventura") located in Ventura, Iowa, which prices gas on the Northern Border pipeline where it interconnects with

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Northern Natural Gas and feeds markets in the Northern Plains and Midwest.

- o The Opal market ("Opal") in southwestern Wyoming, which delivers to the Kern River pipeline for delivery to Utah, Nevada, Arizona and California.

### PIPELINES THAT SERVE THE CIG MARKET

Two large diameter intrastate pipelines, the Fort Union and the Thunder Creek, were constructed in the Basin in 1999, and gathering system infrastructure has continued to grow significantly. These two major intrastate pipelines currently provide almost 1.1 Bcfd capacity, flowing south out of the Basin to the CIG Hub in Southeast Wyoming.

- o Fort Union. The Fort Union Gas Gathering pipeline consists of a 106 mile, 24 inch, 434 Mmcfd capacity line completed in August 1999 and a 20" pipeline with a capacity of 200 Mmcfd completed in September 2001. It is believed that capacity could be increased by another 200 Mmcfd by adding additional compression to this line.

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- o Thunder Creek. Thunder Creek Gas Services pipeline is a 126-mile, 24 inch pipeline which commenced operations on September 1, 1999 with a capacity of 450 Mmcfd.

The Hi-Pro production is delivered to the Thunder Creek pipeline where it is carried south and delivered to the CIG market.

El Paso Corporation's subsidiary Cheyenne Plains Gas Pipeline Co. received approval from the Federal Energy Regulatory Commission in March 2004 for construction of a new 380 mile pipeline from Cheyenne, Wyoming to Greensburg, Kansas, with a capacity of 560 Mmcfd per day. Cheyenne Plains has announced its intent to apply to the FERC for permission to enlarge the line to handle 760 Mmcfd per day. This line, with the enlarged capacity, is expected by Cheyenne Plains to be in-service in January 2005, and may help narrow the negative price differential for CIG prices compared to national prices.

### PIPELINES THAT SERVE THE VENTURA MARKET

There are currently only two significant pipelines capable of transporting gas out of the Basin to the north, the Bitter Creek pipeline, which connects with the Northern Border interstate pipeline and the Grasslands pipeline. However, one additional line that is well along in its planning stages, would also deliver gas to the Northern Border pipeline. Descriptions are as follows:

- o Bitter Creek. The Bitter Creek pipeline is owned by Williston Basin Interstate Pipeline Company ("WBI"), a subsidiary of MDU Resources Group, Inc. It was completed in 2001 with initial capacity of 150 Mmcfd.
- o Grasslands. In response to the need for expandable access to the Ventura market, the Grasslands pipeline, also owned by WBI, went into service in November 2003. It is a 245 mile, 16 inch line with an initial capacity of 80 Mmcfd and expandable to 200 Mmcfd.

### THE OPAL MARKET

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The Opal market, in southwestern Wyoming, is a major pipeline connection point, with several intrastate and interstate lines connecting to the major interstate Kern River line, with a recently enlarged capacity of 1.73 Bcfd, delivering to markets in Utah, Nevada, Arizona and California. If the Oyster Ridge property is put into production, gas likely could be sold into this market.

### GAS PRICES

Historically, spot gas prices received by producers at the Ventura, CIG and Opal markets have generally been at discounts to the NYMEX front month contract and Henry Hub spot cash prices, although with lesser discounts during the winter months. Prices at CIG can trade at a further discount to the Ventura prices, and again with an even higher discount during the second and third quarters, because CIG is partially based on local demand which can drop outside the heating season, while Ventura serves larger national markets and is highly correlated to Chicago market prices.

The negative price differential in the prices realized by Powder River Basin producers in 2003, as compared to prices realized on the national gas market, ranged from 10% to 45% (higher outside the heating season). The negative price differential in the fourth quarter 2003 and first quarter 2004 narrowed in comparison to the fourth quarter 2002. However, there is no guarantee that increased capacity will eliminate the negative price differential or even significantly reduce it.

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### INACTIVE MINING PROPERTIES - URANIUM

GENERAL. We have interests in several uranium-bearing properties in Wyoming and Utah and in a uranium processing mill in southeastern Utah (the "Shootaring Mill" in Garfield County). All the uranium-bearing properties are in areas which produced significant amounts of uranium in the 1970s and 1980s. At some future date, we could sell, develop and/or operate these properties (directly or through a subsidiary company or a joint venture) with companies having the necessary capital to mine and mill the uranium bearing material to produce uranium concentrates ("U3O8") for sale to public utilities that operate nuclear powered electricity generating plants. Currently there is no operating uranium mill in Wyoming and it would take a substantial increase in the market price of uranium concentrate over a period of time before a company with the financial wherewithal would build a mill and place the deposits in production. Therefore, until uranium oxide prices improve significantly, the uranium properties will remain shut down.

At the dates of the consolidated balance sheets in this Report, there are no values carried on the balance sheets for uranium properties.

### SHEEP MOUNTAIN - WYOMING

Unpatented lode mining claims, underground and open pit uranium mines and mining equipment in the Crooks Gap area are located on Sheep Mountain in Fremont County, Wyoming. From December 21, 1988 to June 1, 1998, these properties were held by Sheep Mountain Partners ("SMP"). On June 1, 1998, the company received back from SMP all of the Sheep Mountain mineral properties and equipment, in partial settlement of certain disputes with Nukem, Inc. ("Nukem") and its



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subsidiary Cycle Resource Investment Corp. ("CRIC"). The judgment against Nukem impressing the CIS uranium supply contracts in a constructive trust with SMP remains unresolved. See "Legal Proceedings."

We have recorded reclamation liabilities for the SMP properties. All historical costs in the SMP properties were offset against a monetary award which was received from Nukem during fiscal 1999.

### UTAH

Plateau Resources Limited ("Plateau") is a wholly-owned subsidiary of USE. In 2003, reclamation work on uranium properties (the Tony M, Velvet, and Woods Complex) in San Juan County, Utah was completed.

### PLATEAU'S SHOOTARING CANYON MILL AND PROPERTIES

In August 1993, USE purchased from Consumers Power Company ("CPC"), all of the outstanding stock of Plateau which owns the Shootaring Canyon uranium processing mill and support facilities in southeastern Utah (the "Shootaring Mill") for a nominal cash consideration. The Shootaring Mill holds a source materials license from the NRC. In the purchase of the stock from CPC, we agreed to various obligations, as disclosed in USE's 1998 Form 10-K at pages 15 and 16.

The Shootaring Mill is located in southeastern Utah and occupies 19 acres of a 265 acre plant site. The mill was designed to process 750 tpd, but only operated on a trial basis for two months in mid-summer of 1982. In 1984, Plateau placed the mill on standby because CPC had canceled the construction of an additional nuclear energy plant.

For information on the Shootaring mill facility and related real estate property at Ticaboo, please see "Plateau's Shootaring Canyon Mill and Properties" in the annual report (Form 10-K/A1) for the former fiscal year ended May 31, 2002.

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### THE GREEN MOUNTAIN MINING VENTURE ("GMMV") PROJECT

For information on the GMMV agreement, see "Green Mountain Mining Venture" in the annual report (Form 10-K/A1) for the (former) fiscal year ended May 31, 2002.

### SHEEP MOUNTAIN PARTNERS ("SMP")

SMP PARTNERSHIP. In February 1988, USE acquired uranium mines, mining equipment and mineralized properties (Sheep Mountain Mines) at Crooks Gap in south-central Fremont County, Wyoming, from Western Nuclear, Inc. These Crooks Gap mining properties are adjacent to the Green Mountain uranium properties. USECC mined and milled uranium ore from one of the underground Sheep Mines during fiscal 1988 and 1989. In December 1988, USECC sold 50 percent of the interests in the Crooks Gap properties to Nukem's subsidiary Cycle Resource Investment Corporation ("CRIC") for cash. The parties thereafter contributed the properties to and formed Sheep Mountain Partners ("SMP"), in which USECC received an undivided 50 percent interest. SMP is a Colorado general partnership formed on December 21, 1988, between USECC and Nukem, Inc. then of Stamford, CT ("Nukem") through its wholly-owned subsidiary CRIC.

SMP was directed by a management committee, with three members appointed by

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USECC and three members appointed by Nukem/CRIC. The committee has not met since 1991 as a result of the SMP arbitration/litigation. During fiscal 1991, disputes arose between the SMP partners which resulted in litigation. See "Legal Proceedings."

PROPERTIES. USE, Crested and/or USECC own 98 unpatented lode mining claims and a 644 acre Wyoming State Mineral Lease in the Crooks Gap area.

An ion exchange plant located on the properties (to remove natural soluble uranium from mine water) was reclaimed and the plant disposed of at the Sweetwater Mill impoundment facility in fiscal 2002.

Permits to operate existing mines (now shut down) on the Crooks Gap properties had been issued by the State of Wyoming, but amendments would be needed to re-open them. A NPDES water discharge permit under the Clean Water Act has been obtained; monitoring and treatment of water removed from the mines and discharged in nearby Crooks Creek is generally required. However, for the last three years, USECC has not discharged wastewater into Crooks Creek, and the water instead is being discharged into the USECC McIntosh Pit at the Sweetwater mill owned by Kennecott (the Sweetwater mill had been part of the Green Mountain Mining venture).

### INACTIVE MINING PROPERTIES - GOLD

SUTTER GOLD MINING COMPANY. In fiscal 1991, USE acquired an interest in Sutter properties located in the Mother Lode Mining District of Amador County, California. The entire Lincoln Project (which is the name we use for the properties) is owned by Sutter Gold Mining Company, a Wyoming corporation ("SGMC"), and a majority-owned subsidiary of USE.

This property has never been in production. Persistent low prices for gold made financing difficult, and in fiscal 1999 resulted in a substantial write down of the SGMC properties.

Due to the depressed gold prices in the past, litigation (since resolved) and lack of funding, SGMC has deferred the start of construction of a gold mill complex and extension of existing underground workings. A tourist visitors center has been set up (see below) and leased to a third party for \$1,500 per

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month plus a 4% gross royalty on revenues. The conditional use permit is being kept current as necessary to allow for possible mining activities on the properties in the future.

In 1998 and 1999, the company took impairments (write-downs) in the amounts of \$1,500,000 and \$10,718,800, respectively, of the carrying value of the gold properties. These two impairments wrote off almost 85% of our investment in these properties. As a result of low market prices for gold at the time, we determined that we could not produce gold from these properties at a profit. The impairments taken in 1998 and 1999 resulted in no value for mine exploration, and the remaining assets relating to this property include raw land which is no longer needed for mining activity, and buildings and equipment. A significant portion of the raw land has been sold.

We have not obtained a final feasibility study to support a determination that the Sutter property contains proven or probable reserves of gold.

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In late 2003, SGMC signed a letter of intent for an acquisition of SGMC by Globemin Resources Inc., a British Columbia corporation listed on the TSX-V. Completion of the acquisition is subject to negotiation and execution of a share exchange agreement, approval by the TSX-V, Canadian regulatory authorities, and the boards of directors and if necessary, shareholders of SGMC and Globemin. If the acquisition is consummated, a majority of the stock of Globemin would be owned by the (former) SGMC shareholders. Globemin thereafter would seek to raise financing in Canada to begin mining the Lincoln Project and build a mill.

PROPERTIES. SGMC holds approximately 435 acres of surface and mineral rights: (87 acres of surface rights (owned), 73 acres of surface rights (leased), 146 acres of mineral rights (leased), and 289 acres of mineral rights (owned), all on patented mining claims near Sutter Creek, Amador County, California. The properties are located in the western Sierra Nevada Mountains at from 1,000 to 1,500 feet in elevation; year round climate is temperate. Access is by California State Highway 16 from Sacramento to California State Highway 49, then by paved county road approximately .4 mile outside of Sutter Creek.

Surface and mineral rights holding costs, and property taxes, will be approximately \$130,000 and \$9,900 for 2004.

The leases are for varying terms and require rental fees, annual royalty payments and payment of real property taxes and insurance.

PERMITS. The Amador County Board of Supervisors has issued a Conditional Use Permit ("CUP") allowing mining of the SGM and milling of production, subject to conditions relating to land use, environmental and public safety issues, road construction and improvement, and site reclamation. Applications will be made in the second quarter of 2004 to California regulatory authorities for a waste water discharge permit to allow the company to utilize mill tails as mine backfill and to store tails in a surface fill unit.

VISITORS CENTER. In fiscal 2000, SGMC spent approximately \$298,000 for surface infrastructure related to improving access to the mine site, and to a lesser extent tourist related improvements. The visitors center is being operated by a third party. The visitors center is an exhibit of the pictures and memorabilia from mining operations on other properties in the Sutter district in the nineteenth century, and a guided tour of the underground workings at the Lincoln Project. Revenues from this tourist operation were \$48,800 for 2003, \$49,200 for the seven months ended December 31, 2002, and \$41,200 in (former) fiscal year 2002, and are included in "real estate" in the consolidated statements of operations included in this report. These revenues offset a majority of costs for holding the Sutter properties.

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### MOLYBDENUM

As a holder of royalty, reversionary and certain other interests in properties located at Mt. Emmons near Crested Butte, Colorado, USE and Crested are entitled to receive annual advance royalties of 50,000 pounds of molybdenum, or cash equivalent. AMAX Inc. (which was acquired by Cyprus Minerals Company and was renamed Cyprus Amax Minerals Company in November 1993, then later acquired later by Phelps Dodge) delineated a deposit of molybdenum containing approximately 146,000,000 tons of mineralization averaging 0.43% molybdenum disulfide on the properties of USE and Crested.

Advance royalties are required to be paid in quarterly installments until:

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(i) commencement of production; (ii) failure to obtain certain licenses, permits, etc., that are required for production; or (iii) AMAX's return of the properties to USE and Crested. The advance royalty payments reduce the operating royalties (6% of gross production proceeds) which would otherwise be due out of production. There is no obligation to repay the advance royalties if the property is not placed in production. USE recognized \$108,500 advance royalty revenues in (former) fiscal 2001. Phelps Dodge ceased making payments in July 2001.

USE and Crested also are entitled to receive \$2,000,000 if the Mt. Emmons properties are put into production and, in the event of a sale of Mt. Emmons Mining Company (which owns the properties) or of its interest in the properties, USE and Crested are entitled to receive 15% of the first \$25,000,000 of sale proceeds.

AMAX Inc. and its successor companies have sought to put the Mt. Emmons molybdenum property into production for 20 years. Due to local opposition to mining (the property is close to the Crested Butte, Colorado recreational resort area) and AMAX's successors' failure to diligently pursue obtaining the permits needed to start mining, we know of no plans at this time to put the property into production.

USE and Crested are in litigation with Phelps Dodge concerning the properties and related agreements, see "Legal Proceedings."

### OIL AND GAS AND OTHER PROPERTIES

FORT PECK LUSTRE FIELD (MONTANA). We operate a small oil production facility (three wells) at the Lustre Oil Field on the Ft. Peck Indian Reservation in northeastern Montana. We receive a fee based on oil produced. This fee and other assets of the company collateralize a \$750,000 bank line of credit.

WYOMING. The company and Crested own a 14-acre tract in Riverton, Wyoming, with a two-story 30,400 square foot office building (including underground parking). The first floor is rented to non-affiliates and government agencies; the second floor is occupied by the company. The property is mortgaged to the WDEQ as security for future reclamation work on the Sheep Mountain Crooks Gap uranium properties.

The company also owns a fixed base aircraft facility at the Riverton Regional Airport, including a 10,000 square foot aircraft hangar and 7,000 square feet of associated offices and facilities. This facility is on land leased from the City of Riverton for a term ending December 16, 2005, with an option to renew on mutually agreeable terms for five years. The aircraft fueling operation to the public was shut down late in fiscal 2002.

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The company owns three mountain sites covering 16 acres in Fremont County, Wyoming. In Riverton, Wyoming, the company owns four city lots and improvements including two smaller office buildings.

COLORADO. USECC owns 175 acres of undeveloped land in and near Gunnison, Colorado.

UTAH. On August 14, 2003, USE's wholly-owned subsidiary Plateau Resources

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Limited (and Plateau's wholly-owned subsidiary Canyon Homesteads, Inc.) sold all of the outstanding stock of Canyon Homesteads to The Cactus Group, LLC, for \$3,470,000: \$349,250 cash and \$3,120,750 with The Cactus Group's five year promissory note. The note is secured with all the assets of The Cactus Group and Canyon (and is personally guaranteed by the six principals of The Cactus Group). The note is payable monthly (with annual interest at 7.5%) with a \$2,940,581 balloon payment due in August 2008.

The sold properties are in Ticaboo, Utah, near Lake Powell, and included a motel, restaurant and lounge, convenience store, recreational boat storage and service facility, and improved residential and mobile home lots.

### RESEARCH AND DEVELOPMENT

No research and development expenditures have been incurred, either on the company's account or sponsored by customers, during the past three fiscal years.

### ENVIRONMENTAL

GENERAL. Operations are subject to various federal, state and local laws and regulations regarding the discharge of materials into the environment or otherwise relating to the protection of the environment, including the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act ("RCRA"), and the Comprehensive Environmental Response Compensation Liability Act ("CERCLA"). With respect to mining operations conducted in Wyoming, Wyoming's mine permitting statutes, Abandoned Mine Reclamation Act and industrial development and siting laws and regulations also impact us. Similar laws and regulations in California affect SGMC operations and Utah laws and regulations effect Plateau's operations.

Management believes the company complies in all material respects with existing environmental regulations.

As of December 31, 2003, we have recorded estimated reclamation obligations of \$7,264,700. We anticipate paying for those reclamation efforts over several years. For further information on the approximate reclamation costs (decommissioning, decontamination and other reclamation efforts for which we are primarily responsible or potentially responsible), see note K to the consolidated financial statements in this prospectus.

OTHER ENVIRONMENTAL COSTS. Actual costs for compliance with environmental laws may vary considerably from estimates, depending upon such factors as changes in environmental laws and regulation (e.g., the new Clean Air Act), and conditions encountered in minerals exploration and mining. We do not anticipate that expenditures to comply with laws regulating the discharge of materials into the environment, or which are otherwise designed to protect the environment, will have any substantial adverse impact on the competitive position of the company.

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### EMPLOYEES

The company has 34 full-time employees, including 11 employees working only for RMG. Crested uses approximately 50 percent of the time of USE employees, and reimburses the company on a cost reimbursement basis.

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### MINING CLAIM HOLDINGS

TITLE. Nearly all the uranium mining properties held by the company are on federal unpatented claims. Unpatented claims are located upon federal public land pursuant to procedure established by the General Mining Law. Requirements for the location of a valid mining claim on public land depend on the type of claim being staked, but generally include discovery of valuable minerals, erecting a discovery monument and posting thereon a location notice, marking the boundaries of the claim with monuments, and filing a certificate of location with the county in which the claim is located and with the BLM. If the statutes and regulations for the location of a mining claim are complied with, the locator obtains a valid possessory right to the contained minerals. To preserve an otherwise valid claim, a claimant must also pay certain rental fees annually to the federal government (currently \$100 per claim) and make certain additional filings with the county and the BLM. Failure to pay such fees or make the required filings may render the mining claim void or voidable. Because mining claims are self-initiated and self-maintained, they possess some unique vulnerabilities not associated with other types of property interests. It is impossible to ascertain the validity of unpatented mining claims solely from public real estate records and it can be difficult or impossible to confirm that all of the requisite steps have been followed for location and maintenance of a claim. If the validity of an unpatented mining claim is challenged by the government, the claimant has the burden of proving the present economic feasibility of mining minerals located thereon. Thus, it is conceivable that during times of falling metal prices, claims which were valid when located could become invalid if challenged.

PROPOSED FEDERAL LEGISLATION. The U.S. Congress has, in legislative sessions in recent years, actively considered several proposals for major revision of the General Mining Law, which governs mining claims and related activities on federal public lands. If any of the recent proposals become law, it could result in the imposition of a royalty upon production of minerals from federal lands and new requirements for mined land reclamation and other environmental control measures. It remains unclear whether the current Congress will pass such legislation and, if passed, the extent such new legislation will affect existing mining claims and operations. The effect of any revision of the General Mining Law on operations cannot be determined conclusively until such revision is enacted; however, such legislation could materially increase the carrying costs of mineral properties which are located on federal unpatented mining claims, and could increase both the capital and operating costs for such projects and impair the ability to hold or develop such properties.

### LEGAL PROCEEDINGS

Material pending proceedings are summarized below. Certain of the company's affiliates are involved in ordinary routine litigation incidental to their business. Other proceedings which were pending during the year ended December 31, 2003 have been settled or otherwise finally resolved.

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### SHEEP MOUNTAIN PARTNERS ARBITRATION/LITIGATION

In 1991, disputes arose between USE/Crested d/b/a/ USECC, and Nukem, Inc. and its subsidiary Cycle Resource Investment Corp. ("CRIC"), concerning the formation and operation of their equally owned Sheep Mountain Partners (SMP) partnership. Arbitration proceedings were initiated by CRIC in June 1991 and in

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July 1991, USECC filed a lawsuit against Nukem, CRIC and others in the U.S. District Court of Colorado in Civil No. 91B1153. The Federal Court stayed the arbitration proceedings and discovery proceeded. In February 1994, all of the parties agreed to consensual and binding arbitration of all of their disputes over SMP before an arbitration panel (the "Panel").

After 73 hearing days, the Panel entered an Order and Award on April 18, 1996 and clarified the Order on July 3, 1996, finding generally in favor of USE and Crested on certain of their claims and imposed a constructive trust in favor of Sheep Mountain Partners on uranium contracts Nukem entered into to purchase uranium from CIS republics. The Panel also awarded SMP damages of \$31,355,070 against Nukem. USECC filed a petition for confirmation of the Order and on June 27, 1997, the U.S. District Court confirmed the Panel's Orders in its Second Amended Judgment.

Thereafter, Nukem/CRIC appealed the Judgment to the 10th Circuit Court of Appeals ("CCA"). On October 22, 1998, the 10th CCA issued an Order and Judgment affirming the U.S. District Court's Second Amended Judgment without modification. The ruling affirmed (i) the imposition of a constructive trust in favor of SMP on Nukem's rights to purchase CIS uranium, the uranium acquired pursuant to those rights, and the profits therefrom; and (ii) the damage award in favor of SMP against Nukem. The 10th CCA held that the Panel's Awards "clearly retains both a constructive trust and a damage award," and the Arbitration Awards and the Second Amended Judgment were "clear and unambiguous."

On February 8, 1999, the U.S. District Court ordered Nukem to pay USECC the balance of the damage award. Nukem did so, but then moved for a satisfaction of judgment without accounting for the monies earned in the Constructive Trust. The District Court denied Nukem's motion and Nukem filed its second appeal to the 10th CCA. On October 16, 2000, the 10th CCA again affirmed the order of the District Court. The 10th CCA held that Nukem had not "provided an accounting of the partnership assets," finding that "the district court order presented for our review does not decide which CIS contracts are covered by the constructive trust."

On November 3, 2000, USECC filed a motion for a further accounting of the Constructive Trust. On February 15, 2001, the District Court entered an Order of Reference appointing a Special Master to "conduct an accounting" of the Constructive Trust. The accounting was conducted and on May 1, 2003, the Special Master filed his Report with the District Court. Both parties filed objections to the Report. On July 30, 2003, the U.S. District Court adopted the Report in part and rejected it in part. Judgment was then entered by the Court on August 1, 2003 in favor of USECC and against Nukem in the amount of \$20,044,183.

On August 15, 2003, Nukem filed a "Motion to Remand to the Arbitration Panel or in the Alternative, to Alter, Amend and/or Correct the Court's August 1, 2003 Judgment and July 30, 2003 Order," and a "Motion to Correct Certain Findings or Statements in the Court's Order of July 30, 2003." On the same day, USECC filed a motion under Fed.R.Civ.P. 52(b) and 59(e) to alter or amend the July 30, 2003 Order and the August 1, 2003 Judgment. The District Court denied the parties' motions on September 10 and 11, 2003, respectively. Nukem's appeal and USECC's cross-appeal followed. Nukem's opening brief was filed on January 16, 2004 and on February 24, 2004, USECC filed an opening brief in its cross-appeal and an answer to Nukem's brief. Nukem has until March 29, 2004 or any extension thereof to file an answer to USECC's opening brief. USECC may then file a reply brief 14 days after

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service of Nukem's answer. Management believes that the ultimate outcome of this matter will not have an adverse affect on the company's financial condition or result of operations.

### CONTOUR DEVELOPMENT LITIGATION

On July 28, 1998, USE and Crested filed a lawsuit in the U. S. District Court of Colorado in Case No. 98WM1630, against Contour Development Company, L.L.C. and entities and persons associated with Contour Development Company, L.L.C. (together, "Contour") seeking compensatory and consequential damages of more than \$1.3 million from the defendants for dealings in real estate owned by USE and Crested in Gunnison, Colorado. The Contour defendants asserted a counterclaim asking for payment of attorneys fee and costs. The parties settled the litigation in 2004. In the settlement, USE and Crested received \$25,000 in cash; two lots in the City of Gunnison, Colorado, which have been sold for approximately \$250,000; and an additional five development lots covering 175 acres north of Gunnison, Colorado.

### PHELPS DODGE LITIGATION

USE and Crested, d/b/a USECC, were served with a lawsuit on June 19, 2002, filed in the U.S. District Court of Colorado (Case No. 02-B-0796(PAC)) by Phelps Dodge Corporation ("PD") and its subsidiary, Mt. Emmons Mining Company ("MEMCO"), over contractual obligations in USECC's agreement with PD's predecessor companies, concerning mining properties on Mt. Emmons, near Crested Butte, Colorado.

The litigation stems from agreements that date back to 1974 when USE and Crested leased the mining claims AMAX Inc., PD's predecessor company. The mining claims cover one of the world's largest and richest deposits of molybdenum discovered by AMAX. AMAX reportedly spent over \$200 million on the acquisition, exploration and mine planning activities on the Mt. Emmons properties.

The complaint filed by PD and MEMCO seeks a determination that PD's acquisition of Cyprus Amax was not a sale. Under a 1986 agreement between USECC and AMAX, if AMAX sold MEMCO or its interest in the mining properties, USE and Crested would receive 15% (7.5% each) of the first \$25 million of the purchase price (\$3.75 million). In 1991, Cyprus Minerals Company acquired AMAX to form Cyprus Amax Minerals Co. USECC's counter and cross-claims allege that in 1999, PD formed a wholly-owned subsidiary CAV Corporation, for the purpose of purchasing the controlling interest of Cyprus Amax and its subsidiaries (including MEMCO) at an estimated value in cash and PD stock exceeding \$1 billion and making Cyprus Amax a subsidiary of PD. Therefore, USECC asserts the acquisition of Cyprus Amax by PD was a sale of MEMCO and the properties that triggers the obligation of Cyprus Amax to pay USECC the \$3.75 million plus interest.

The other issue in the litigation is whether USECC must, under terms of a 1987 Royalty Deed, accept PD's and MEMCO's conveyance of the Mt. Emmons properties back to USECC, which properties now include a plant to treat mine water, costing in excess of \$1 million a year to operate in compliance with State of Colorado regulations. PD's and MEMCO's claim seek to obligate USECC to assume the operating costs of the water treatment plant. USECC refuses to have the water treatment plant included in the return of the properties because, the USECC counterclaim argues, the properties must be in the same condition as when they were acquired by AMAX before the water treatment plant was constructed by AMAX.

As added counterclaims, USECC seeks (i) damages for PD's breach of covenants of good faith and fair dealing; (ii) damages for PD's failure to develop the Mt. Emmons properties and not protecting USECC's rights as a



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revisionary owner of the mining rights to the properties, (iii) damages for unjust

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enrichment of PD; (iv) damages for breach of the PD's fiduciary duties owed to USECC as revisionary owner of the property, and for neglecting to maintain the mining rights and interests in the properties.

On March 17, 2003, PD filed additional motions for partial summary judgment on various claims. On January 22, 2004, the District Court heard the motions and responses of USECC and additional briefs were thereafter filed with the Court. The Court is considering the motions. Management believes that the ultimate outcome of this matter will not have an adverse affect on the company's financial condition or result of operations.

ROCKY MOUNTAIN GAS, INC.

### LITIGATION INVOLVING LEASES ON COALBED METHANE PROPERTIES IN MONTANA

On or about April 1, 2001, RMG, a subsidiary of USE and Crested, was served with a Second Amended Complaint wherein the Northern Plains Resource Council had filed suit in the U.S. District Court of Montana, Billings Division in Case No. CV-01-96-BLG-RWA against the United States Bureau of Land Management ("BLM"), RMG, certain of its affiliates (including USE and Crested) some 20 other defendants. The plaintiff is seeking to cancel oil and gas leases issued to RMG et. al. by the BLM in the Powder River Basin of Montana and for other relief.

The basis for the complaint appears to be that the BLM's regulations require the BLM to respond to objections filed by persons owning land or lease rights adjacent to the coalbed properties which the BLM is offering to lease to the public. The argument of plaintiff appears to be that if objections are not responded to by the BLM prior to issuing CBM leases, the leases are invalid. Based on this argument, the plaintiff appears to have been successful in forcing cancellation of some CBM leases granted to others in the Powder River Basin of Montana, because the BLM did not respond to some objecting adjacent landowners. However, all of the BLM leases in Montana held by RMG (none are held by U.S. Energy Corp. or Crested Corp. in their own corporate names) are at least four years old, and there is no record of any objections being made to the issue of those leases.

Based on filings in the case to date, it appears that the BLM is taking the initiative in responding to the plaintiff. We believe RMG's leases were validly issued in compliance with BLM procedures, and do not believe the plaintiff's lawsuit will adversely affect any of RMG's Montana BLM leases.

### LAWSUITS CHALLENGING BLM'S RECORDS OF DECISIONS

Three lawsuits are currently pending in the Montana Federal District Court challenging BLM's Records of Decisions for the Powder River Basin Oil and Gas EIS (PRB-EIS) for the Wyoming portion of the basin, and the Statewide Oil and Gas EIS and Proposed Amendment for the Powder River and billings Resource Management Plans in Montana. Neither the company nor RMG are parties to any of these lawsuits.

### LITIGATION INVOLVING DRILLING ON A COALBED METHANE LEASE

A drilling company, Eagle Energy Services, LLC filed a lien on RMG's

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leasehold in southwestern Wyoming for drilling services performed at RMG's Oyster Ridge Property and filed a lawsuit foreclosing the lien. Eagle Energy's bank, Community First National Bank of Sheridan, Wyoming, filed a similar suit for the same amount on an assignment from Eagle Energy against RMG, Eagle Energy Services, LLC and others who guaranteed a loan to Eagle Energy in Civil Action No. C02-9-328 in the 4th Judicial District of Sheridan County, Wyoming. Eagle Energy's claim is for a contract to drill a well for coalbed methane. RMG terminated the agreement because of the dangerous conditions of Eagle Energy's equipment and

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other reasons. The claim against RMG is for approximately \$49,300. Negotiations to settle the lien and lawsuits are pending. Management believes that the ultimate outcome of this matter will not have an adverse affect on the company's financial condition or result of operations.

### MARKET FOR COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

Shares of USE common stock are traded on the over-the-counter market, and prices are reported on a "last sale" basis on the Nasdaq Small Cap of the National Association of Securities Dealers Automated Quotation System ("Nasdaq"). The range by quarter of high and low sales prices was:

	High	Low
Quarter ended March 31, 2004 -----	\$3.33 -----	\$2.49 -----
Fiscal year ended December 31, 2003		
First quarter ended 3/31/03	\$ 3.85	\$ 2.95
Second quarter ended 6/30/03	5.92	3.12
Third quarter ended 9/30/03	5.70	3.15
Fourth quarter ended 12/31/03	3.68	2.30
Transition period ended December 31, 2002 -----		
First quarter 8/31/02	\$ 3.95	\$ 2.00
Second quarter ended 11/30/02	4.20	3.38
Month ended 12/31/02	3.98	3.08
Fiscal year ended May 31, 2002 -----		
First quarter ended 8/31/01	\$ 6.05	\$ 3.56
Second quarter ended 11/30/01	4.15	3.09
Third quarter ended 2/29/02	5.27	3.50
Fourth quarter ended 5/31/02	4.30	3.29
Fiscal year to ended May 31, 2001 -----		
First quarter ended 8/31/00	\$ 3.00	\$ 1.75
Second quarter ended 11/30/00	3.38	1.75
Third quarter ended 2/28/01	4.00	2.00
Fourth quarter ended 5/31/01	6.25	3.56

(b) Holders

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(1) At May 4, 2004 the closing market price was \$2.21 per share and there were approximately 660 shareholders of record, with 13,658,645 shares of common stock issued and outstanding, including shares owned by our subsidiaries and shares in officers' and directors' names that are subject to forfeiture.

(2) Not applicable.

(c) We have not paid any cash dividends with respect to common stock. There are no contractual restrictions on our present or future ability to pay cash dividends, however, we intend to retain any earnings in the near future for operations.

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(d) Equity Plan Compensation Information - Information about Compensation Plans as of December 31, 2003:

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (c))
	(a)	(b)	(c)
Equity compensation plans approved by security holders			
1998 USE ISOP 3,250,000 shares of common stock on exercise of outstanding options	1,464,646	\$2.69	-0-
2001 USE ISOP 3,000,000 shares of common stock on exercise of outstanding options	1,409,000	\$3.09	1,464,664
Equity compensation plans not approved by security holders	--	--	--
None			

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Total	2,873,646	\$2.74	1,464,664
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ITEM 6. SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following sets forth selected historical financial data for U.S. Energy Corp. as of and for the dates indicated and selected pro forma financial data as of and for the year ended December 31, 2003. The selected financial data as of and for the years ended December 31, 2003, May 31, 2002, 2001, 2000 and 1999; and as of and for the seven months ended December 31, 2002 have been derived from our audited financial statements. The selected historical financial data for the year ended December 31, 2002 and as of and for the year ended December 31, 2001 has been derived from our unaudited financial statements and, in our opinion, has been prepared on the same basis as the audited financial statements, and includes all adjustments consisting of normal recurring adjustments, necessary for a fair presentation of this information.

The selected pro forma financial information reflects the Company's historical financial data for the year ended December 31, 2003 and the three months ended March 31, 2004 as adjusted for the acquisition of gas properties from Hi-Pro Production LLC on January 30, 2004. The pro forma selected operating data assumes the acquisition occurred January 1, 2003. For a description of the assumptions used in preparing the selected pro forma financial data, see the notes to the pro forma financial statements. The pro forma financial and operating data should not be considered as indicative of the historical results the company would have had or the future results the company will have due to the acquisition.

The financial data for the three months ended March 31, 2004 and March 31, 2003, has been derived from our unaudited financial statements that, in the opinion of management, reflect all adjustments necessary for a fair presentation of the financial data for those periods. Both our audited and unaudited financial statements are included in this registration statements.

The historical results presented below are not necessarily indicative of the results to be expected for any future period.

This information should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" immediately following these tables.

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ITEM 6. SELECTED FINANCIAL DATA

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	December 31,		
	2003	2002	2001
	----	----	----
			(Unaudited)
Current assets	\$ 5,191,400	\$ 4,755,300	\$ 4,597,900
Current liabilities	1,909,700	2,044,400	2,563,800
Working capital (deficit)	3,281,700	2,710,900	2,034,100
Total assets	23,929,700	28,190,600	30,991,700
Long-term obligations(1)	12,036,600	14,047,300	13,596,400
Shareholders' equity	6,760,800	8,501,600	8,018,700

	May 31,			
	2002	2001	2000	
	----	----	----	----
Current assets	\$ 4,892,600	\$ 3,330,000	\$ 3,456,800	\$ 12,7
Current liabilities	1,406,400	2,396,700	6,617,900	5,3
Working capital (deficit)	3,486,200	933,300	(3,161,100)	7,3
Total assets	30,537,900	30,465,200	30,876,100	33,3
Long-term obligations(1)	13,804,300	13,836,700	14,025,200	14,5
Shareholders' equity	11,742,000	8,465,400	4,683,800	10,1

	Year Ended December 31,		Seven Months Ende December 31,	
	2003	2002	2002	2001
	----	----	----	----
		(Unaudited)		(Unaudited)
Operating revenues	\$ 837,300	\$ 648,700	\$ 673,000	\$ 5
Loss from continuing operations	(7,237,900)	(7,563,600)	(3,524,900)	(3,9
Other income & expenses	(73,000)	(72,600)	(387,100)	1,0
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(7,310,900)	(7,636,200)	(3,912,000)	(2,9
Minority interest in loss (income) of consolidated subsidiaries	235,100	69,800	54,800	
Equity in loss of affiliates	--	--	--	

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Income taxes	--	--	--	
Discontinued operations, net of tax	(349,900)	255,600	17,100	1
Cumulative effect of accounting change	1,615,600	--	--	
Preferred stock dividends	--	(11,500)	--	(
Net (loss) income to common shareholders	<u>\$ (5,810,100)</u>	<u>\$ (7,322,300)</u>	<u>\$ (3,840,100)</u>	<u>\$ (2,7</u>

	For Former Fiscal Years Ended May 31,			
	2002	2001	2000	
	----	----	----	
Operating revenues	\$ 2,004,100	\$ 3,263,000	\$ 3,303,900	\$
Loss from continuing operations	(7,454,200)	(7,517,800)	(11,356,100)	(2
Other income & expenses	1,319,500	8,730,800	802,200	
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(6,134,700)	1,213,000	(10,553,900)	(1
Minority interest in loss (income) of consolidated subsidiaries	39,500	220,100	509,300	
Equity in loss of affiliates	--	--	(2,900)	
Income taxes	--	--	--	
Discontinued operations, net of tax	(85,900)	488,100	(594,300)	
Cumulative effect of accounting change	--	--	--	
Preferred stock dividends	(86,500)	(150,000)	(20,800)	
Net (loss) income to common shareholders	<u>\$ (6,267,600)</u>	<u>\$ 1,771,200</u>	<u>\$ (10,662,600)</u>	<u>\$ (1</u>

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	Year Ended December 31,		Seven Months Ended December 31,	
	2003	2002	2002	2001
	-----	-----	-----	-----
		(Unaudited)		(Unaudited)
Per share financial data				
Operating revenues	\$ 0.07	\$ 0.06	\$ 0.06	\$ 0.06
Loss from continuing operations	(0.64)	(0.70)	(0.33)	(0.33)
Other income & expenses	(0.01)	(0.01)	(0.03)	(0.03)
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(0.65)	(0.71)	(0.36)	(0.36)
Minority interest in loss (income) of consolidated subsidiaries	0.02	0.01	--	--
Equity in loss of affiliates	--	--	--	--
Income taxes	--	--	--	--
Discontinued operations, net of tax	(0.03)	0.02	--	--
Cumulative effect of accounting change	0.14	--	--	--
Preferred stock dividends	--	--	--	--
Net (loss) income per share, basic	\$ (0.52)	\$ (0.68)	\$ (0.36)	\$ (0.36)
	=====	=====	=====	=====
Net (loss) income per share, diluted	\$ (0.52)	\$ (0.68)	\$ (0.36)	\$ (0.36)
	=====	=====	=====	=====

For Former Fiscal Years Ended May 31,

	2002	2001	2000
	-----	-----	-----
Per share financial data			

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Operating revenues	\$	0.22	\$	0.42	\$	0.43	\$
Loss from continuing operations		(0.80)		(0.96)		(1.39)	
Other income & expenses		0.14		1.11		0.01	
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change		(0.66)		0.15		(1.38)	
Minority interest in loss (income) of consolidated subsidiaries		0.01		0.03		0.07	
Equity in loss of affiliates		--		--		--	
Income taxes		--		--		--	
Discontinued operations, net of tax		(0.01)		0.06		(0.08)	
Cumulative effect of accounting change		--		--		--	
Preferred stock dividends		(0.01)		(0.01)		--	
Net (loss) income per share, basic	\$	(0.67)	\$	0.23	\$	(1.39)	\$
Net (loss) income per share, diluted	\$	(0.67)	\$	0.21	\$	(1.39)	\$

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SELECTED FINANCIAL DATA FOR THE QUARTERS ENDED MARCH 31, 2004 AND 2003 AND SELECTED PRO FORMA DATA.

	March 31,	
	2004	2003
	(Unaudited)	(Unaudited)
Current assets	\$ 4,196,900	\$ 4,149,700
Current liabilities	3,017,400	1,753,500
Working capital	1,179,500	2,396,200
Total assets	30,830,600	27,064,300



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Long-term obligations (1)	15,257,000	14,261,900
Shareholders' equity	7,305,500	8,322,300

(1) Includes \$6,994,300, of accrued reclamation costs on properties at March 31, 2004 and \$7,382,800, at March 31, 2004. See Note K of Notes to Consolidated Financial Statements.

	Three Months Ended March 31,		Hi-Pro Pro Forma March 31, 2004	H Pro Dece
	2004	2003		
	(Unaudited)	(Unaudited)	(Unaudited)	(Un
Operating revenues	\$ 867,500	\$ 425,100	\$ 1,169,400	\$ 5
Loss from continuing operations	(1,871,300)	(1,108,500)	(1,565,000)	(6
Other income & expenses	55,700	(59,700)	--	
Loss before minority interest, equity in loss of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(1,815,600)	(1,168,200)	(1,565,000)	(6
Minority interest in loss of consolidated subsidiaries	40,600	37,700		
Equity in loss of affiliates	--	--		
Income taxes	--	--		
Discontinued operations, net of tax	--	(176,400)		
Cumulative effect of accounting change	--	1,615,600		
Preferred stock dividends	--	--		
Net (loss) income to common shareholders	\$ (1,775,000)	\$ 308,700		
	=====	=====		

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	Three Months Ended March 31,	Hi-Pro Pro Forma	H Pro
--	---------------------------------	---------------------	----------

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	----- 2004 ----- (Unaudited)	----- 2003 ----- (Unaudited)	----- March 31, 2004 ----- (Unaudited)	----- Dece ----- (Un
Per share financial data				
Operating revenues	\$ 0.07	\$ 0.04		
Loss from continuing operations	(0.14)	(0.10)		
Other income & expenses	--	--		
Loss before minority interest, equity in loss of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(0.14)	(0.10)		
Minority interest in loss of consolidated subsidiaries	--	--		
Equity in loss of affiliates	--	--		
Income taxes	--	--		
Discontinued operations, net of tax	--	(0.02)		
Cumulative effect of accounting change	--	0.15		
Preferred stock dividends	--	--		
	-----	-----		
Net (loss) income per share, basic	\$ (0.14) =====	\$ 0.03 =====	\$ (0.13) =====	\$ =====
Net (loss) income per share, diluted	\$ (0.14) =====	\$ 0.03 =====	\$ (0.13) =====	\$ =====

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is Management's Discussion and Analysis of significant factors, which have affected the company's liquidity, capital resources and results of operations during the periods included in the accompanying financial statements. The discussion contains forward-looking statements that involve risks and uncertainties. Due to uncertainties in the minerals business, the company's actual results may differ materially from the results discussed in any

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such forward-looking statements.

### GENERAL OVERVIEW

The company and its subsidiaries historically have been involved in the acquisition, exploration, development and production of properties prospective for hard rock minerals including lead, zinc, silver, molybdenum, gold, uranium, oil and gas and commercial real estate. The company manages all of its operations through a joint venture, USECC Joint Venture ("USECC"), with one of its subsidiary companies, Crested Corp., of which it owns a consolidated 71.5%. The narrative discussion below refers only to the company (also referred to as "USE") but includes the consolidated financial statement of Crested, Rocky Mountain Gas, Inc. ("RMG"), Plateau Resources Ltd. ("Plateau"), USECC and other subsidiaries. The company has entered into partnerships through which it either joint ventured or leased properties with non-related parties for the development and production of certain of its mineral properties. Due to either depressed metal market prices or disputes in certain of the partnerships, all mineral properties have either been sold, reclaimed or are shut down. The company has had no production from any of its mineral properties during the periods from May 31, 2001 through December 31, 2003, except coalbed methane.

The company formed RMG to enter into the coalbed methane (CBM) business in 1999. The acquisition of leases and acreage for the exploration, development and production of coalbed methane has become the primary business focus of the company. At December 31, 2003, the company on a consolidated basis owned 88.5% of RMG. RMG has purchased or leased acreage for CBM exploration and development. RMG has entered into various agreements and joint operating agreements to develop and produce coalbed methane from these properties. Management of the company plans to create value in RMG by growing RMG into an industry recognized producer of CBM. Management believes the fundamentals of natural gas supply and demand are, and will remain favorable well into the future. Management further believes that the investments the company has made in RMG will provide a solid base of cash flows into the future.

The price that RMG receives for the sale of its coalbed methane is based on the Colorado Interstate Gas Index ("CIG") for the Northern Rockies. Historically, the highest prices realized on the CIG over a twelve-month period are during the months of December and January and the lowest prices realized are during the months of late summer or early fall. Calendar 2003 did not follow this trend as gas prices rose from a low of \$3.14 per mcf (thousand cubic feet) in January 2003 to a high of \$5.01 per mcf in March 2003. The following table represents a summary of historical CIG prices:

	PRICES PER MCF			
	2003	2002	2001	2000
	-----	-----	-----	-----
12 Month High	\$ 5.01	\$ 3.33	\$ 8.63	\$ 5.95
12 Month Low	\$ 3.14	\$ 1.09	\$ 1.05	\$ 2.15
12 Month Average	\$ 3.98	\$ 1.97	\$ 3.50	\$ 3.37
December 31	\$ 4.44	\$ 3.33	\$ 2.13	\$ 5.95

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Although management believes that gas prices will increase over the long

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term from present levels, no assurance can be given that will happen. Gas prices are directly affected by 1) weather conditions, which impact heating and cooling requirements; 2) electrical generation needs and 3) the amount of gas being produced by those companies in the gas production business. All of these factors are variable and cannot be accurately predicted. Many of the company's industry competitors are very large international companies that are well funded.

### CRITICAL ACCOUNTING POLICIES

Readers of this document and users of the information contained in it should be aware of how certain events may impact our financial results based on the accounting policies in place. The policies we consider to be the most significant are discussed below. The company's management has discussed each critical accounting policy with the audit committee of the company's board of directors.

The selection and application of accounting policies is an important process that changes as our business changes and as accounting rules are developed. Accounting rules generally do not involve a selection among alternatives, but involve implementation and interpretation of existing rules and the use of judgment to the specific set of circumstances existing in our business.

**OIL AND GAS PROPERTIES** - The accounting for our business is subject to special accounting rules that are unique to the oil and gas industry. There are two allowable methods of accounting for oil and gas business activities: the successful efforts method and the full-cost method. The company follows the full-cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. We also capitalize internal costs that can be directly identified with our acquisitions, exploration and development activities and do not include any costs related to production, general corporate overhead or similar activities. Under the successful efforts method, geological and geophysical costs and costs of carrying and retaining undeveloped properties are charged to expense as incurred. Costs of drilling exploratory wells that do not result in proved reserves are charged to expense. Depreciation, depletion, amortization and impairment of oil and gas properties are generally calculated on a well by well or lease or field basis versus the aggregated "full cost" pool basis. Additional gain or loss is generally recognized on all sales of oil and gas properties under the successful efforts method. As a result, our financial statements will differ from companies that apply the successful efforts method since we will generally reflect a higher level of capitalized costs as well as a higher oil and gas depreciation, depletion and amortization rate.

Capitalized costs are amortized on a composite unit-of-production method based on proved oil and gas reserves. Depreciation, depletion and amortization expense is based on the amount of estimated reserves. If we maintain the same level of production year over year, the depreciation, depletion and amortization expense may be significantly different if our estimate of remaining reserves changes significantly.

Proceeds from the sale of properties are accounted for as reductions of capitalized costs unless such sales involve a significant change in the relationship between costs and the value of proved reserves or the underlying value of unproved properties, in which case a gain or loss is recognized. No income is recognized in connection with contractual services provided by the company on properties in which we hold an economic interest.

The costs of unproved properties are excluded from amortization until the properties are evaluated. We review all of our unevaluated properties quarterly to determine whether or not and to what extent proved reserves have been assigned to the properties, and otherwise if impairment has occurred.

Unevaluated properties are grouped by major producing area where individual property costs are not significant and are assessed individually when individual costs are significant.

We review the carrying value of our oil and gas properties under the full-cost accounting rules of the Securities Exchange Commission on a quarterly basis. This quarterly review is referred to as a ceiling test. Under the ceiling test, capitalized costs, less accumulated amortization and related deferred income taxes, may not exceed an amount equal to the sum of the present value of estimated future net revenues less estimated future expenditures to be incurred in developing and producing the proved reserves discounted at 10%, less any related income tax effects. The two primary factors impacting this test are reserve levels and current prices, and their associated impact on the present value of estimate future net revenues. Revisions to estimates of natural gas and oil reserves and/or an increase or decrease in prices can have a material impact on the present value of estimate future net revenues. The process of estimating natural gas and oil reserves is very complex, requiring significant decisions in the evaluation of available geological, geophysical, engineering and economic data. The data for a given property may also change substantially over time as a result of numerous factors, including additional development activity, evolving production history and a continual reassessment of the viability of production under changing economic conditions. As a result, material revisions to existing reserve estimates occur from time to time. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various properties increases the likelihood of significant changes in these estimates. In addition, the prices of natural gas and oil are volatile and change from period to period. Price changes directly impact the estimated revenues from our properties and the associated present value of future net revenues. Such changes also impact the economic life of our properties and thereby affect the quantity of reserves that can be assigned to a property.

The volatility of oil and natural gas prices and the impact of revisions to reserve estimates can have a significant impact on the company's financial condition and results of operations.

ASSET RETIREMENT OBLIGATIONS - The company has adopted SFAS NO. 143, "Accounting for Asset Retirement Obligation". Under this statement the company is required to record the fair value of the reclamation liability on its shut down mining as gas properties as of the date that the liability is incurred. The company reviews the liability each quarter and determines if a change in the estimate is required. The company accrues the total liability on a quarterly basis for the future liability. The company also deducts any actual funds expended for reclamation during the quarter in which it occurs. Changes in inflation and environmental regulations, among other things, may cause significant future revisions in these estimates.

LONG LIVED ASSETS - The company evaluates its long-lived assets (other than oil and gas properties which are discussed above) for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the sum of estimated future cash flows on an undiscounted basis is less than the carrying amount of the related asset, an asset impairment is considered to exist. The impairment loss is measured by comparing estimated future cash flows on a discounted basis to the carrying amount of the asset. Changes in significant assumptions underlying future cash flow estimates may

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have a material effect on the company's financial position and results of operations. An uneconomic commodity market price, if sustained for an extended period of time, or an inability to obtain financing necessary to develop mineral interests, may result in asset impairment.

USE OF ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

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### RECENT ACCOUNTING PRONOUNCEMENTS

SFAS 143 Effective January 1, 2003, the company adopted SFAS No. 143, "Accounting for Asset Retirement Obligation." The statement requires the company to record the fair value of the reclamation liability on its shut-down mining and gas properties as of the date the liability is incurred. The statement further requires the company to review the liability each quarter and determine if a change is required as well as accrue the total liability on a quarterly basis for the future liability.

The company will also deduct any actual funds expended for reclamation during the quarter in which it occurs. As a result of the company taking impairment allowances in prior periods on its shut-down mining properties, it has no remaining book value for these properties. See Note B to the audited financial statements.

### LIQUIDITY AND CAPITAL RESOURCES - AT DECEMBER 31, 2003

During the year ended December 31, 2003, operations resulted in a loss of \$5,810,100 and consumed \$5,673,600 of cash. The company increased cash and cash equivalents during the same period by \$2,343,800. Investing activities provided \$6,964,000 as a result of the sale of CBM properties, sale of property and the reduction, after the approval of the Nuclear Regulatory Commission ("NRC"), of the cash bond for reclamation obligations. The increase in cash from investing activities of \$1,053,400 was as a result of the sale of the company's and RMG's common stock. Cash provided by investing activities was partly used to pay down third party debt.

During the year ended December 31, 2003, the company contributed its interest in producing methane gas properties to a new entity, Pinnacle Gas Resources, Inc. ("Pinnacle") See above, and Note F to the audited financial statements. The company will therefore not be receiving revenues from those properties. RMG continues to evaluate CBM properties and plans on generating cash flows from methane gas production. See Note P to the audited financial statements.

### CAPITAL RESOURCES

A major component of the company's future cash flow projections is the ultimate resolution of litigation with Nukem, Inc. ("Nukem") over issues relating to Sheep Mountain Partners ("SMP") Partnership. On August 1, 2003, the U.S. District Court of Colorado entered a Judgment in favor of the company against Nukem in the amount of \$20,044,200. Nukem has appealed this Judgment to

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the 10th Circuit Court of Appeals ("CCA"). The company has filed a cross-appeal and answer to Nukem's appeal. See "Legal Proceedings" above. Should the 10th CCA affirm the District Court's Order and Judgment and/or grant the additional claims made by the company, the liquidity of the company will be significantly improved. Although no assurance can be given as to the outcome of the appeal, Nukem was required to post a supersedeas bond in the full amount of the Judgment with interest.

During the year ended December 31, 2003, the company sold its interests in the town site operations to a non-affiliated entity, The Cactus Group ("Cactus"). As a result of the sale of the town site, USE received cash of \$349,300 and a promissory note from Cactus in the amount of \$3,120,700. USE is to receive \$203,000 in payments from Cactus during calendar 2004. All of these payments will be applied to interest only. Cactus will continue to make monthly payments, primarily interest, until August 2008 at which time a balloon payment of \$2.8 million is due.

Other sources of capital are cash on hand; collection of receivables; receipt of monthly payments from an industry partner for the purchase of an interest in RMG's CBM properties; contractual funding of

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drilling and development programs by non-affiliates; sale of excess equipment and real estate properties; a line of credit with a commercial bank, and equity financing of the company's subsidiaries.

The company has a \$750,000 line of credit with a commercial bank. The line of credit is secured by certain real estate holdings and equipment. At December 31, 2003, the full line of credit was available. The line of credit could be used for short-term working capital needs associated with operations.

### CAPITAL REQUIREMENTS

The company will continue to maintain its uranium properties in a shut down mode during 2004 unless an industry partner funds the development costs of the properties. The company anticipates funding its gold property through 2004 and completing an equity funding in Canada which will provide the funds necessary to place that property into production. The company will also use its capital resources during 2004 to pay down debt and general and administrative expenses and reclamation costs associated with the SMP and Plateau uranium properties.

Our current level of operations, including general and administrative overhead, mineral operations (primarily holding costs for the uranium and gold properties), and costs to comply with lease and permitting obligations for the coalbed properties, are estimated to cost \$8,262,000 for the twelve months ending December 31, 2004. If we do not realize cash from liquidating assets, or other sources, or if RMG spends more money on exploration than will be covered by current arrangements, additional equity financing may be necessary to sustain the company's current level of operations after the second quarter 2004. There are no current commitments for such future financing as may be necessary.

### MAINTAINING URANIUM PROPERTIES

#### SMP URANIUM PROPERTIES

The care and maintenance costs associated with the Sheep Mountain uranium mineral properties decreased by \$11,500 from \$28,000 as of December 31, 2002 to

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approximately \$16,500 per month at December 31, 2003. Included in the average monthly cost during the year ended December 31, 2003, is ongoing reclamation work on the SMP properties. It is anticipated that a total of \$125,000 in reclamation costs will be incurred during 2004.

### PLATEAU RESOURCES URANIUM PROPERTIES

Plateau owns and maintains the Shootaring Canyon Uranium Mill (the "Shootaring Mill"). During the year ended December 31, 2003, Plateau requested a change in the status of the Shootaring Mill from active to reclamation from the NRC. The NRC granted the change in license status, which generated a surplus in the cash bond account of approximately \$2.9 million, which was released to Plateau.

During the year ended December 31, 2003, Plateau performed approximately \$209,600 in reclamation on the Velvet and Tony M mines and the Shootaring Mill. No further reclamation expenses are anticipated on the Velvet and Tony M mine properties. It is estimated that the company will incur approximately \$500,000 in reclamation costs at the Shootaring Mill during calendar 2004.

Although reclamation has been initiated on the Plateau properties, the company continues to evaluate the future of the properties as a result of the significant increases in the market price for uranium to approximately \$17.50/lb. U308 in March 2004 from approximately \$10.10/lb. in March 2003.

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The cash costs per month, including reclamation costs, at the Plateau properties during calendar 2003 were approximately \$100,000 per month. These costs are projected to decrease to \$55,000 per month during the year ending December 31, 2004.

### SUTTER GOLD MINING COMPANY PROPERTIES

Due to the recent increase in the price of gold, management of SGMC has decided to place its properties into production. No extensive development work or mill construction will be initiated until such time as funding from either debt or equity sources is in place. The goal is to have SGMC properties be self-supporting and not require any capital resources commitment from the company. Until such time as SGMC is able to raise its own capital, the company will continue to fund SGMC. Management projects that the total cash costs to be incurred in getting SGMC funded either through debt or equity will not exceed \$120,000. See Note P to the audited financial statements. No reclamation costs are projected to be incurred on the SGMC properties during 2004.

### DEVELOPMENT OF COALBED METHANE PROPERTIES

The majority of the costs during the year ended December 31, 2003 for the development of RMG's CBM properties, was funded through an agreement that RMG entered into with CCBM, Inc. ("CCBM") a subsidiary of Carrizo Oil and Gas of Houston, Texas. At December 31, 2003, the balance remaining under this arrangement was \$610,200, one half of which was for the benefit of RMG. After this drilling commitment is completed by CCBM, RMG will have to fund its working interest amount on wells drilled.

During the year ended December 31, 2003, RMG and CCBM entered into a Subscription and Contribution Agreement with Credit Suisse First Boston Private



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Equity parties ("CSFB") to form Pinnacle Gas Resources, Inc. ("Pinnacle"). As a result of the formation of Pinnacle, RMG and CCBM contributed certain undeveloped and producing CBM properties to Pinnacle. RMG has the opportunity to increase its ownership in Pinnacle by purchasing common stock in Pinnacle through the exercise of options. Any increase in RMG's equity would be offset by contributions made by the other owners of Pinnacle. See "Transaction with Pinnacle Gas Resources, Inc." above. We do not anticipate exercising these options during calendar 2004 unless surplus capital resources are received. RMG has no capital commitments on the properties contributed to Pinnacle. See Note F to the audited financial statements.

RMG continues to pursue other investment and production opportunities in the CBM business. On January 30, 2004, RMG purchased the assets of a non-affiliated entity, which included both producing and non-producing properties. The purchase of these CBM assets was accomplished by the issuance of common stock and warrants of both RMG and USE and cash, the majority of which was borrowed as a result of mezzanine financing through Petrobridge Investment Management, LLC ("Petrobridge"). See "Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC" and Note P to the audited financial statements.

All cash flows from the sale of gas from the Hi-Pro properties are pledged to Petrobridge for the loan to purchase the Hi-Pro property. The Hi-Pro acquisition debt also requires minimum net production volumes through June 30, 2006 and maintenance of financial ratios. The Hi-Pro properties are held by RMG I, LLC, a wholly-owned subsidiary of RMG and are the sole collateral of the debt financing entity.

In addition, we don't expect the lenders under the mezzanine credit facility to fund more than the drilling and completion of five wells on proved undeveloped locations on the properties. Future equity financing by RMG, or industry financings, will be needed for RMG I, LLC to drill and complete wells on the substantial undeveloped acreage acquired from Hi-Pro. New production from this acreage could be

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needed to service the acquisition debt to offset the impact of declining production from the producing properties and/or low gas prices.

The Petrobridge credit facility will fund the drilling and completion of five wells on proved undeveloped locations on the Hi-Pro properties. Future equity financing by RMG, or industry financings, will be needed for RMG I, LLC to drill and complete wells on the substantial undeveloped acreage acquired from Hi-Pro.

As a result of RMG's sale of property interests and the formation of joint operating ventures with industry partners, it is not anticipated that the company's capital resources will be used to fund RMG operations during the balance of 2004.

### LIQUIDITY SUMMARY

The company's capital resources on hand at December 31, 2003 were sufficient to fund mine standby costs, limited reclamation and general and administrative expenses. Development of our gold property and undeveloped CBM properties will require funding from either debt or equity sources.

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### RESULTS OF OPERATIONS - YEAR ENDED DECEMBER 31, 2003, PRIOR PERIODS

During the periods presented, the company has discontinued certain operations. Reclassifications to previously published financial statements have therefore been made to reflect ongoing operations and the effect of the discontinued operations. The company changed its year end to December 31 effective December 31, 2002.

The company began focusing its direction on the coal bed methane industry during the year ended May 31, 2002. At the same time the company began selling its other assets that produced revenues from commercial real estate operations, construction and drilling operations and the commercial repair of aircraft. The company has entered the coal bed methane industry and anticipates revenues from the production of coal bed methane during calendar 2004. Cash flows are projected to begin being recognized in calendar 2005 after debt on the company's newly acquired (from Hi - Pro) coal bed methane properties is retired.

### YEAR ENDED DECEMBER 31, 2003 COMPARED TO THE YEAR ENDED DECEMBER 31, 2002

#### Revenues:

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Revenues for the twelve months ended December 31, 2003 consisted of \$334,300 from real estate operations, \$287,400 from gas sales and \$215,600 from management fees. Revenues from gas sales were \$119,400 during the twelve months ended December 31, 2002 or an increase of \$168,000. This increase is as a result of the company producing and selling coal bed methane gas for six months during 2003 as compared only three months during 2002 as well as increased production rates during 2002.

The company recognized a minimal increase of \$23,400 in management fee revenues during the year ended December 31, 2003 to \$215,600 over the \$192,200 recognized in management fee revenues during the twelve months ended December 31, 2002. Management fee revenues were reduced after June 2003 when RMG contributed its producing and certain undeveloped properties to Pinnacle. Although RMG provided the transitional accounting services for Pinnacle through December 31, 2003, it received only its actual cost for those services.

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#### Costs and Expenses:

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Costs and expenses for the year ended December 31, 2003 were \$8,075,200 as compared to \$8,212,300 for the year ended December 31, 2002. Costs and expenses of real estate operations decreased by \$446,500 during that twelve month