U.S. Energy Corp.

2004 ANNUAL REPORT

carpe
momentum...

Corporate Profile

U.S. Energy Corp. is a diversified natural resource company. Through its subsidiaries, Sutter Gold Mining Inc., Plateau Resources Limited., U.S. Moly Corp. and U.S. Uranium Ltd., it owns interests or properties prospective for gold, uranium, vanadium and molybdenum.

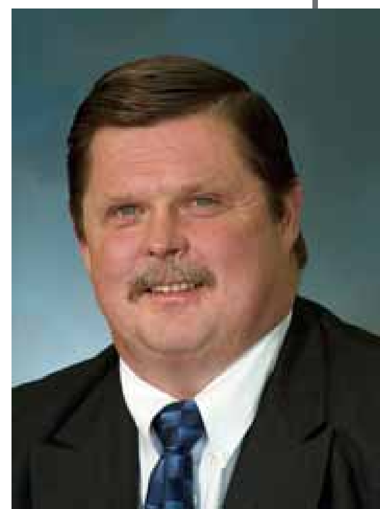
U. S. Energy's Corp's. objective is to capitalize on the tremendous opportunities in the commodities markets today and transition to a positive cash flow entity. U. S. Energy Corp. is listed on the Nasdaq Small Cap Market under the symbol "USEG".

The secret of success in life is for a man to be ready for his opportunity when it comes. **Benjamin Disraeli**

President's Letter to the Shareholders

15 June 2005

Carpe Momentum… "seize the moment" … and that's what we intend to do! Two thousand-four and early 2005 have presented extraordinary opportunities for your Company and its subsidiaries. During this time frame, prices for each of the commodities we have interests in (natural gas, uranium, molybdenum and gold) have risen steadily. I am pleased to report that management has taken effective steps to capitalize on the new opportunities we see before us.



Keith G. Larsen
President

U.S. Energy Corp. ("USE") has assembled an enviable portfolio of natural resource assets. We are convinced that the value of these assets have been greatly enhanced since 2004. Recognizing this nations growing natural gas requirements, in 2001, we announced plans to shift our focus to the development of coalbed methane (CBM) properties. At the time, uranium and gold prices were depressed. This year, however, supply/demand imbalances have presented us with the opportunity to capitalize on the value of All the Company's assets. Thankfully, we have been able to retain these valuable natural resource assets over the last decade.

Timing and strategy. In June 2005, we concluded the sale of the Company's CBM gas subsidiary, Rocky Mountain Gas, Inc. (RMG). This transaction came at an opportune time and will allow us to further pursue opportunities we see in uranium, molybdenum and gold. We also believe that the price increases of these commodities will enhance our ability to raise capital from outside sources and have taken steps to establish new subsidiaries that are totally focused on their respective commodities whether it be molybdenum or uranium

As Benjamin Franklin said, "Time is money" and we intend to "seize the moment" and take advantage of the opportunities presented to the Company. It is our goal to obtain outside funding for these commodity specific subsidiaries with the intention of making them self sufficient.

Coalbed Methane… Rocky Mountain Gas

As reported earlier, RMG acquired and developed a significant leasehold portfolio in CBM. In 2004, RMG added producing properties to its portfolio through the purchase of Hi-Pro Production. Frankly, it was not an easy task. Fortunately, prices for CBM had risen to $5.32 per mcf by early May 2004, and it was Management's expectation that CBM prices would continue their upward trend into 2005. That trend was realized, with natural gas prices moving above $6.60 per mcf in mid-winter 2004-05. It was at this time that an opportunity arose to merge RMG with Enterra

Energy Trust ("Enterra") of Calgary, Alberta…a stellar gas company with a vision.

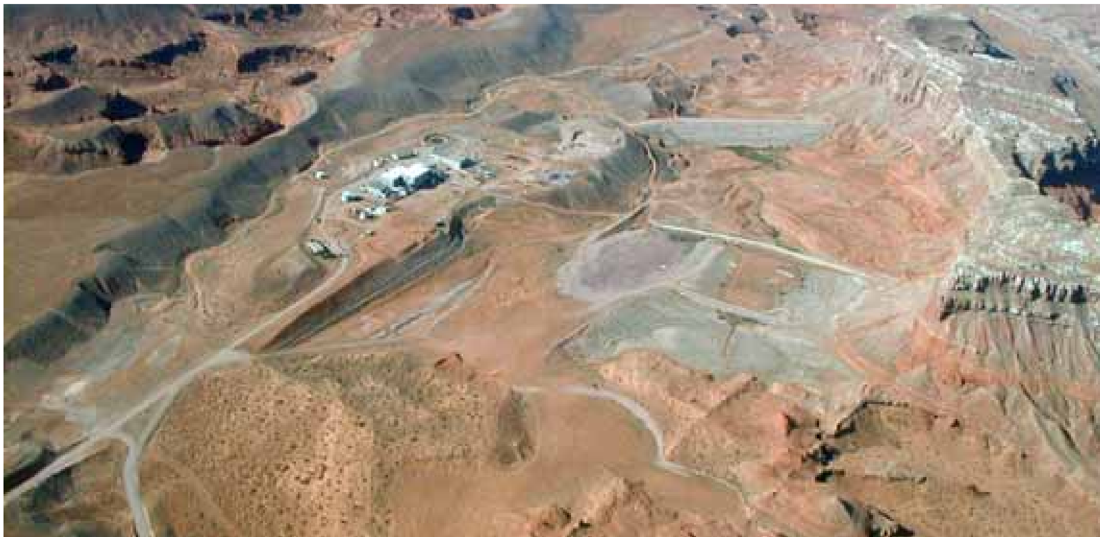
Enterra Closing

In June 2005, USE closed the transaction with Enterra receiving cash, trust units and exchangeable shares of Enterra totaling $18.8 million (US) in value. Enterra trades on both the NASDAQ and Toronto stock exchanges. In addition, Enterra agreed to assume $3.3 million in debt to make the total transaction value of $22.1 million. By mutual consent, the Enterra transaction excluded RMG's equity interest in Pinnacle Gas Resources, Inc. (Pinnacle), a private CBM company jointly owned by USE, Crested, Credit Suisse First Boston Private Equity and Carrizo Oil & Gas, Inc. In summary, while USE may be exiting the day to day operations in the gas industry through the sale of RMG, we will still remain in the business through our significant equity holdings in both Enterra and Pinnacle.

Uranium … the fuel of the future

Strong investor interest in the energy industry as a whole and uranium in particular characterized much of 2004 and has continued into 2005. In large part, this interest has been fueled by a production deficit in uranium. Today, world-wide demand for uranium is more than 170 million pounds per year. However, uranium production currently stands at about 105 million pounds per year – approximately 62% of demand. Although the production deficit is expected to narrow somewhat over the next five years, the price pressures are expected to continue. By mid-2004, prices for uranium concentrates (U_3O_8) had risen to $17.60 per pound. By June 1, 2005, spot prices stood at $29.00 per pound and long-term prices were pushing $31.00 per pound. Management intends to capitalize on this situation and raise capital in a new subsidiary with the goal of taking the Company's uranium assets to production.

In December 2004, USE agreed to sell a 50% interest in the Company's Sheep Mountain (Wyoming) uranium properties to Uranium Power Corp. (UPC), a Vancouver, British Columbia company, which trades on the TSX Venture Exchange, for $4,050,000 and 4,000,000 shares of UPC common stock. Additionally, UPC will provide initial funding of $10,000,000 (up to $500,000 each for up to 20 projects) for various uranium exploration projects, including Sheep Mountain. The parties have formed a joint mining venture for the exploration and development of the Sheep Mountain property and other uranium properties to be acquired.



Aerial View of the Shootaring Uranium Mill

Mining operations at Sheep Mountain could be initiated relatively quickly; however, the controlling factor will be the availability of a mill to process the ore. Several options are possible to secure mill capacity for Sheep Mountain, including forming joint ventures and contracting services from an existing mill. Thus far, drilling on three separate exploration projects with UPC are scheduled for summer 2005 to potentially expand the uranium resources of the joint mining venture.

In-mid March 2005, USE filed a formal request with the state of Utah to re-open the Shootaring Canyon Uranium Mill in Garfield County, in the southeastern part of the state. To assure a constant, reliable supply of ore to the Mill, USE has staked over 12,000 acres of mining claims in past known uranium mining districts, which are believed to be prospective for uranium and vanadium. Further exploration and drilling on these claims is expected to commence in summer 2005, which could lead to the development of operating mines within the next two years. Additionally, USE is exploring the possibility of purchasing ore feed from other mining operations in the vicinity of our Mill. Our goal is to assure a constant supply of ore when the Mill is ready for operation.

Claim Staking in Utah

The Shootaring Canyon Mill was originally designed to process as much as 1,000 tons of ore per day. Management believes, however, that with a combination of upgrades to the Mill and careful selection of ores, the Shootaring Canyon Mill will have the capacity to produce up to 1.5 million pounds of uranium concentrates per year.

In addition, burgeoning demand for steel alloys has also raised vanadium prices, which stood at nearly $26 per pound on June 1, 2005. Although this high price level may not be sustained; we expect that long-term demand, the resulting prices for vanadium to remain strong. Therefore, we currently plan to add a processing circuit to the Shootaring Canyon Mill to recover up to 4.2 million pounds of vanadium annually, with the possibility of expansion.

Management estimates that it will cost $25 million or more to modify the Mill's tailings cells to comply with Utah environmental standards, post additional reclamation bonds, add a vanadium circuit and complete other Mill upgrades before production can begin. We are now actively seeking investment capital to finance the refurbishment and expansion of the Mill. We are also exploring avenues of cooperation with Garfield County and neighboring counties which could prove mutually beneficial.

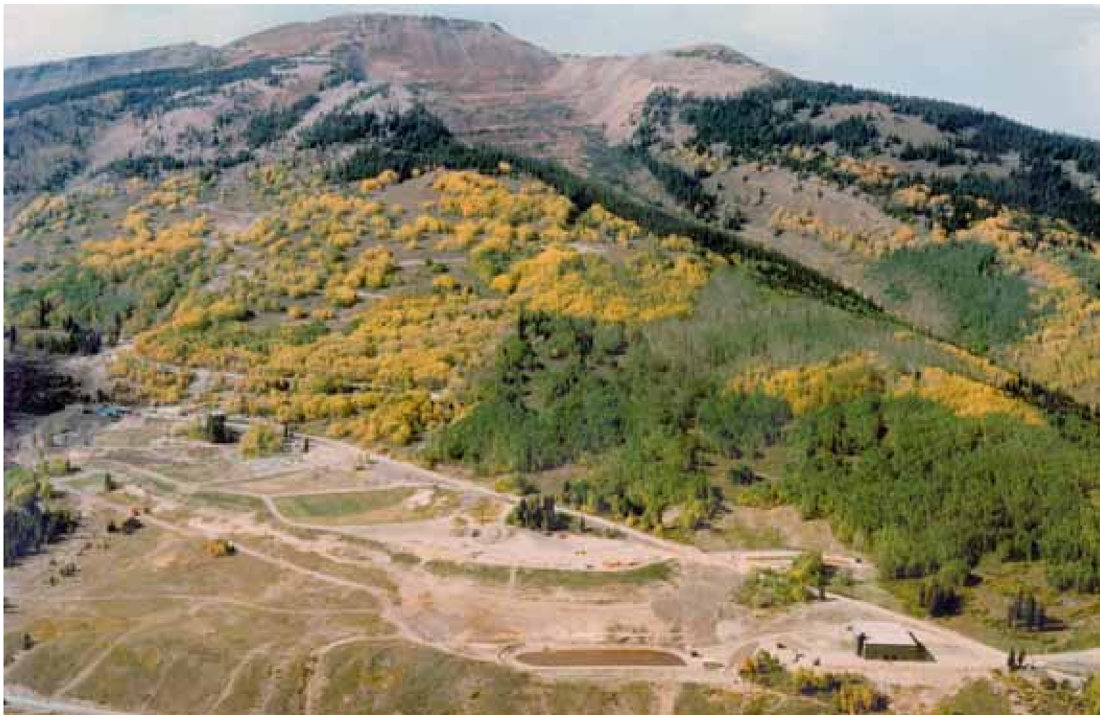
In 2005, we expect to transfer the uranium mining claims and ownership of Plateau Resources Limited to a new subsidiary, U.S. Uranium Ltd. (USUL). USUL will be a subsidiary of U.S. Energy Corp. and Crested Corp. and will be exclusively involved in the mining and milling of uranium and vanadium. It will also be the vehicle in which our anticipated uranium funding will take place.

Molybdenum…a remarkable opportunity

Last year, I reported to you that USE and Crested might receive one of the world's largest deposits of molybdenum (moly) – approximately 146 million tons of .43% MoS_2 (in excess of 800 million pounds of moly oxide) at Mt. Emmons, Colorado – from Phelps Dodge Corporation (PD.) On February 4, 2005 the United States District Court for Colorado ruled that PD had the authority to convey its mining claims related to the Mt. Emmons property to USECC, including the responsibility to operate and pay for a water treatment plant and other costs associated with the property.

Mark J. Larsen is the former President of Rocky Mountain Gas, and is slated to become the President of U.S. Moly Corp.

This court action may be a blessing in disguise. Moly oxide prices were at a 20-year high of $39.00 per pound on June 1, 2005. Management believes that, if prices remain above $8.00 per pound, the Company is positioned to profitably take advantage of the growing world-wide demand for moly. Mount Emmons Mining Company (MEMCO,) a subsidiary of PD reportedly spent over $200 million on the acquisition, exploration and mine planning for the property, as well as for construction and operation of the water treatment plant. Much of this baseline work appears to still be valid but will

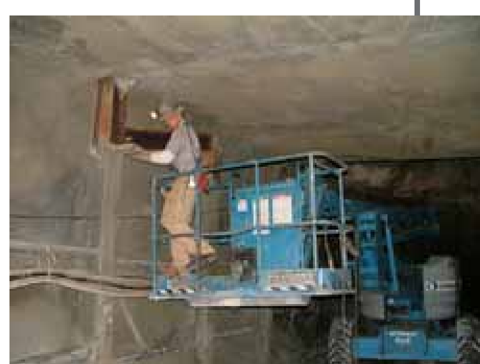


Aerial View of Mount Emmons

likely need to be updated for any anticipated future mining operations. We expect an orderly transition of the molybdenum property to USE before year-end 2005, and at that time we will evaluate all of our options in our effort to maximize the value of this property. In anticipation of receiving the property from PD, we have formed a subsidiary known as U.S. Moly Corp. and anticipate that future molybdenum fundings will flow through this entity.

Gold…the perfect inflation hedge

Although gold prices have not escalated on the same trajectory as energy prices, the trend is encouraging. Gold stood at $415 per troy ounce on June 1, 2005, an increase of more than 33% since May 2003. In 2004, Sutter Gold Mining Company (SGMC,) U.S. Energy's majority-owned subsidiary, merged with Globemin Resources Inc. (GBM) of Vancouver, British Columbia, to form Sutter Gold Mining Inc. (SGMI.) The newly formed company is now developing mining claims located 47 miles southeast of Sacramento, in California's historic 121-mile-long Mother Lode gold belt.



New Steel Bracing in Portal

SGMI has applied to the California Regional Water Quality Control Board (CRWQCB) for the final major permit required for the project. This permit will allow for more efficient and cost-effective disposal of tailings while at the same time protecting the environment. Sutter Gold currently holds a conditional mining/milling permit for the properties which will allow the operation to process up to 1,000 tons of ore per day.

Harold F. Herron, President SGMI & USUL

During 2005, SGMI management has been performing work on the project in anticipation of receiving the CRWQCB permit. Progress to date includes rebuilding the portal, replacing and extending new ventilation lines, rebuilding one raise and preparing the mill site. SGMI plans to conduct further exploration work and to construct a new ventilation shaft in order to bring the operation into compliance with Mine Safety and Health Administration standards. An extensive property/gold resource report, or Form NI 43-101, was prepared in April 2004 by Mine Development Associates, an independent consulting firm, which was required pursuant to the merger with GBM. This report is important to ongoing funding efforts which will continue upon receiving the CRWQCB permit. We expect the permit to be issued by year end and anticipate further funding with SGMI to initiate startup of the mine. (For more information: www.suttergoldmining.com.)

Aerial View of the Sutter Gold Mine

Nukem Litigation

After more than a decade of litigation and arbitration, U.S. Energy Corp. and Crested Corp. (USECC) was awarded a judgment of over $20 million from CRIC/Nukem, Inc. on August 1, 2003. The dispute that sparked the case arose between USECC and CRIC/Nukem over the formation and operation of their equally owned Sheep Mountain Partners (SMP,) a Colorado partnership. SMP was formed to produce and market uranium concentrates to utilities generating electricity from nuclear power plants.

An arbitration panel heard the case starting in 1994 and entered an order and award on April 18, 1996 awarding damages to USECC in 1996. The order and award was clarified by the panel on July 3, 1996. This and various court actions issued over the intervening years have generally favored USECC. CRIC/Nukem appealed the actions to the U.S. Tenth Circuit Court of Appeals three times. On February 24, 2005 the Tenth Circuit Court vacated the August 1, 2003 judgment by the United States District Court for Colorado and directed that the case be remanded to the arbitration panel. The District Court remanded the case on April 19, 2005 and directed that the arbitration panel clarify each of the issues USECC had argued for in its court action of November 3, 2000. These issues are: further definition regarding purchase rights for Commonwealth Independent States uranium and profits therefrom; when and how those purchase rights are extinguished; what deductions are allowable by Nukem Inc. in determining profits and; if prejudgment interest should be awarded.

While we had hoped for finality in this matter, we are optimistic that the arbitration panel will not only uphold previous decisions in favor of USECC but may in fact increase the award to USECC.

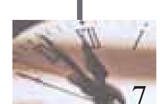
Summary

Throughout history, companies that have prospered in the mineral and energy industries have had to be both nimble and flexible to take maximum advantage of their opportunities. We find ourselves at a unique time in the history of your Company. The management of your Company is dedicated to seize the moment and fund our subsidiary company's while uranium, gold and moly prices are of interest to the investing public.

As President, I am confident that U.S. Energy Corp. will meet – and exceed – the challenges of capitalizing on the value of our natural resources and I look forward to an exciting year of opportunities. We are fortunate to be associated with such dedicated and focused companies such as Enterra, with visionary Tom Jacobson at the helm, and Rahoul Sharan at Uranium Power Corp. I would also like to thank the shareholders, the Board of Directors and our employees for their support and confidence in management.

U.S. Energy Corp.

Keith G. Larsen
President and Chief Operating Officer



This President's letter includes statements which may constitute "forward-looking" statements, usually containing the words "believe," "estimate," "project," "expect," or similar expressions. These statements are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, future trends in mineral prices, the availability of capital, competitive factors, and other risks.

The profitable mining and processing of uranium and vanadium will depend on many factors: Obtaining properties in proximity to the Shootaring mill to keep transportation costs economic; delineation through extensive drilling and sampling of sufficient volumes of mineralized material, with sufficient grades, to make mining and processing economic over time; continued sustained high prices for uranium oxide and vanadium; obtaining the capital required to upgrade the Shootaring mill and add a vanadium circuit; and obtaining and continued compliance with operating permits.

The profitable mining and processing of gold will depend on many factors, including receipt of final permits and keeping in compliance with permit conditions; delineation through extensive drilling and sampling of sufficient volumes of mineralized material, with sufficient grades, to make mining and processing economic over time; continued sustained high prices for gold; and obtaining the capital required to initiate and sustain mining operations and build and operate a gold processing mill.

We have not yet obtained feasibility studies on any of our mineral properties. These studies would establish the economic viability, or not, of the different properties based on extensive drilling and sampling, the design and costs to build and operate gold and uranium/vanadium mills, the cost of capital, and other factors. Feasibility studies can take many months to complete. We have not established any reserves (economic deposits of mineralized materials) on any of our uranium/vanadium or gold properties, and future studies may indicate that some or all of the properties will not be economic to put into production. The molybdenum property has had extensive work conducted by prior owners, but this data will have to be updated to determine the viability of starting mining operations. Obtaining mining and other permits to begin mining the molybdenum property may be very difficult, and, like any mining operation, capital requirements for a molybdenum mining operation will be substantial.

By making these forward- looking statements, we undertake no obligation to update these statements for revision or changes.

Information About Our Stock

Shares of USEG 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:

Fiscal Year ended December 31, 2004	High	Low
First quarter ended 3/31/04	$ 3.45	$ 2.41
Second quarter ended 6/30/04	3.14	2.11
Third quarter ended 9/30/04	2.59	2.12
Fourth quarter ended 12/31/04	3.05	2.10
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

At March 31, 2005 the closing market price was $5.98 per share and there were approximately 641 shareholders of record, with 16,219,079 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.

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.

Equity Plan Compensation Information - Information about Compensation Plans as of December 31, 2004:

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 (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders			
1998 USEG ISOP 3,250,000 shares of common stock on exercise of outstanding options	1,464,646	$2.67	-0-
2001 USEG ISOP 3,000,000 shares of common stock on exercise of outstanding options	2,659,000	$2.85	214,664
Equity compensation plans not approved by security holders			
None	--	--	--
Total	4,123,646	$2.79	214,664

During the twelve months ended December 31, 2004, pursuant to the shareholder-approved 2001 Stock Compensation Plan, 50,000 shares were issued to officers of USEG at the rate of 10,000 shares each: John L. Larsen, Keith G. Larsen, Harold F. Herron, Robert Scott Lorimer, and Daniel P. Svilar. The shares were issued at the closing market price of $3.02, $2.57, $2.46 and $2.22 as of January 5, 2004, April 1, 2004, July 1, 2004 and October 1, 2004, respectively.

In 2004, USEG issued 476,883 shares of common stock as payment of principal and interest to settle the note due two private investors; 123,879 shares of common stock in exchange for 124,444 shares of RMG stock as part of a provision given to an accredited investor when it invested in RMG common stock; 678,888 shares of common stock and 318,465 common stock warrants (exercisable until January 2007 at an exercise price of $3.28 per share) in the purchase of the Hi-Pro properties; 100,000 shares of common stock and 250,000 warrants (exercisable until March 2009 at an exercise price of $2.98 per share) to purchase common stock to an accredited investor in a private placement; 758,360 shares of common stock to an accredited investor in exchange for 500,000 shares of RMG Series A preferred stock; released 22,140 shares of forfeitable shares to employees and 50,000 shares of common stock to five employees under the 2001 Stock Award Program, which was approved by the shareholders at the 2002 shareholder's meeting, 125,000 shares to an investor who exercised its warrants and 70,439 shares to the USEG Employee Stock Ownership Plan for the calendar 2004 funding requirement. Three investment firms held an additional 300,000 shares of RMG preferred stock (at an exchange rate of 90% the USEG's stock price on conversion date), convertible to USEG's common stock at 90% of the market value when converted. All this stock has been converted as of March 31, 2005. USEG also issued a total of 150,000 common stock purchase warrants (exercisable until February 2007, at an exercise price of $3.11 per share) to three accredited investment firms as part of their investment in RMG Series A preferred stock. Warrants on 125,000 of these shares have been exercised as of March 31, 2005. These transactions were exempt under Section 4(2) of the Securities Act.

Selected Financial Data

The selected financial data is derived from and should be read with the financial statements for USEG included in this Report.

	December 31,				May 31,		
	2004	2003	2002	2001 (Unaudited)	2002	2001	2000
Current assets	$ 5,421,500	$ 5,191,400	$ 4,755,300	$ 4,597,900	$ 4,892,600	$ 3,330,000	$ 3,456,800
Current liabilities	6,058,000	1,909,700	2,044,400	2,563,800	1,406,400	2,396,700	6,617,900
Working capital deficit	(636,500)	3,281,700	2,710,900	2,034,100	3,486,200	933,300	(3,161,100)
Total assets	30,703,700	23,929,700	28,190,600	30,991,700	30,537,900	30,465,200	30,876,100
Long-term obligations (1)	13,615,300	12,036,600	14,047,300	13,596,400	13,804,300	13,836,700	14,025,200
Shareholders' deficit	6,281,300	6,760,800	8,501,600	8,018,700	11,742,000	8,465,400	4,683,800

(1)Includes $7,384,700, of accrued reclamation costs on properties at December 31, 2004$7,264,700 at December 31, 2003, and $8,906,800, at December 31, 2002, 2001 and May 31, 2001 and 2000, respectively. See Note K of Notes to Consolidated Financial Statements.

	Year Ended December 31,		Seven Months Ended December 31,		For Former Fiscal Years Ended May 31,		
	2004	2003	2002	2001 (Unaudited)	2002	2001	2000
Operating revenues	$ 4,641,700	$ 837,300	$ 673,000	$ 545,900	$ 2,004,100	$ 3,263,000	$ 3,303,900
Loss from continuing operations	(6,659,300)	(7,237,900)	(3,524,900)	(3,914,900)	(7,454,200)	(7,517,800)	(11,356,100)
Other income & expenses	13,000	(73,000)	(387,100)	1,005,000	1,319,500	8,730,800	802,200
Loss before minority interest, equity in loss of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(6,646,300)	(7,310,900)	(3,912,000)	(2,909,900)	(6,134,700)	1,213,000	(10,553,900)
Minority interest in loss of consolidated subsidiaries	397,700	235,100	54,800	24,500	39,500	220,100	509,300
Equity in loss of affiliates	--	--	--	--	--	--	(2,900)
Income taxes	--	--	--	--	--	--	--
Discontinued operations, net of tax	--	(349,900)	17,100	175,000	(85,900)	488,100	(594,300)
Cumulative effect of accounting change	--	1,615,600	--	--	--	--	--
Preferred stock dividends	--	--	--	(75,000)	(86,500)	(150,000)	(20,800)
Net loss to common shareholders	$ (6,248,600)	$ (5,810,100)	$ (3,840,100)	$ (2,785,400)	$ (6,267,600)	$ 1,771,200	$ (10,662,600)

	Year Ended December 31,		Seven Months Ended December 31,		For Former Fiscal Years Ended May 31,		
	2004	2003	2002	(Unaudited) 2001	2002	2001	2000
Per share financial data							
Operating revenues	$ 0.35	$ 0.07	$ 0.06	$ 0.07	$ 0.22	$ 0.42	$ 0.43
Loss from continuing operations	(0.51)	(0.64)	(0.33)	(0.47)	(0.80)	(0.96)	(1.39)
Other income & expense	0.00	(0.01)	(0.03)	0.12	0.14	1.11	0.01
Loss before minority interest, equity in loss of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(0.50)	(0.65)	(0.36)	(0.35)	(0.66)	0.15	(1.38)
Minority interest in loss (income) of consolidated subsidiaries	0.03	0.02	--	--	0.01	0.03	0.07
Equity in loss of affiliates	--	--	--	--	--	--	--
Income taxes	--	--	--	--	--	--	--
Discontinued operations, net of tax	--	(0.03)	--	0.02	(0.01)	0.06	(0.08)
Cumulative effect of accounting change	--	0.14	--	--	--	--	--
Preferred stock dividends	--	--	--	(0.01)	(0.01)	(0.01)	--
Net (loss) income per share, basic	$ (0.47)	$ (0.52)	$ (0.36)	$ (0.34)	$ (0.67)	$ 0.23	$ (1.39)
Net (loss) income per share, diluted	$ (0.47)	$ (0.52)	$ (0.36)	$ (0.34)	$ (0.67)	$ 0.23	$ (1.39)

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 USEG'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, actual results may differ materially from the results discussed in any such forward-looking statements.

General Overview

U.S. Energy Corp. ("USE" or 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. ("Crested") of which it owns a consolidated 70.1% The narrative discussion of this MD&A refers only to USE or the Company but includes the consolidated financial statements 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 except coalbed methane. However, activities have resumed on a limited basis in uranium and gold. The Company has had no production from any of its mineral properties during the periods from May 31, 2001 through December 31, 2004, 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 became the primary business focus of the Company. At December 31, 2004, the Company on a consolidated basis, owned 91.1% 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 plan 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. The following table represents a summary of historical CIG prices:

	Prices per mcf				
	2004	**2003**	**2002**	**2001**	**2000**
12 Month High	$ 6.98	$ 5.01	$ 3.33	$ 8.63	$ 5.95
12 Month Low	$ 4.17	$ 3.14	$ 1.09	$ 1.05	$ 2.15
12 Month Average	$ 5.17	$ 3.98	$ 1.97	$ 3.50	$ 3.37
December 31	$ 6.20	$ 4.44	$ 3.33	$ 2.13	$ 5.95

Although management believes that gas prices will increase over the long 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. Many of the Company's industry competitors are very large international companies that are well funded. All of these factors are variable and cannot be accurately predicted.

In the first quarter 2004, the Company obtained $350,000 of equity funding from an accredited investor (100,000 shares of USE common stock, three year warrants to purchase 50,000 shares of USE common stock, at $3.00 per share; and five year warrants to purchase 200,000 shares at $3.00 per share).

In the third quarter 2004, we borrowed $3,000,000 from Geddes and Company of Phoenix, Arizona. The loan matures on July 30, 2006, bears 10% annual interest, and is secured principally by RMG's CBM properties in the Castle Rock prospect and 4,000,000 shares of RMG stock held by the Company. The loan may be prepaid in cash without penalty, but the lender at any time may convert loan principal to RMG common stock at $3.00 per share on the first $1,500,000 converted; and at $3.25, $3.50 and $3.75 per share for each additional $500,000 converted. In connection with the loan, RMG issued to the lender five year warrants to buy 600,000 shares of common stock of RMG: $3.00 per share for 300,000 shares; and $3.25, $3.50 and $3.75 per share for 100,000 shares at each price.

In the first quarter 2004, RMG raised $1,800,000 of equity financing from the sale of shares of 600,000 shares of Series A Preferred Stock in RMG, and warrants to purchase shares of common stock of the Company, to institutional investors. Proceeds were used to pay part of the Hi-Pro acquisition price, and for RMG working capital. As of March 3, 2005, all Series A Preferred Stock including dividends have been converted to and paid with 894,299 shares of the Company’s common stock. Additionally the institutional investors exercised all 150,000 of their warrants for which the Company received $251,100 during the fourth quarter of 2004 and $73,700 during the first quarter of 2005.

On January 30, 2004, RMG organized a wholly-owned subsidiary RMG I, LLC for the purchase of producing and non-producing CBM properties (the "Hi-Pro properties) near Gillette, Wyoming. RMG I, LLC ("RMG I"), a wholly-owned subsidiary of RMG, purchased CBM properties from Hi-Pro for $6,800,000. RMG and the Company participated in raising equity capital and mezzanine financing for this transaction.

During the last six months of the year ended December 31, 2004 and the first quarter of 2005 uranium, gold and molybdenum market prices have experienced significant increases. Due to these increased market price conditions and industry projected prices over the foreseeable future, the Company is in the process of re-evaluating its mineral properties for these metals. Management of the Company is developing plans to maximize the value of existing properties and is in the process of acquiring and in some cases re-acquiring uranium properties.

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”) assets. On August 1, 2003, the U. S. District Court of Colorado entered a Judgment in favor of the Company and USE against Nukem in the amount of $20,044,183. Nukem appealed this Judgment to the 10th Circuit Court of Appeals (“10th CCA”) and USECC cross appealed. Oral Arguments were heard by the 10th CCA on September 28, 2004.

On February 24, 2005, a three judge panel of the 10th CCA vacated the judgment of the U.S. District Court and remanded the case to the Panel for clarification of the 1996 Order and Award. In remanding this case, the 10th CCA stated: "The arbitration award in this case is silent as to the definition of 'purchase rights' and the 'profits therefrom,' including the valuation of either. Also unstated in the award is the duration of the constructive trust and whether and what costs should be deducted when computing the value of the constructive trust. Further, the arbitration panel failed to address whether prejudgment interest should be awarded on the value of the constructive trust. As a result, the district court's valuation of the constructive trust was based upon extensive guesswork. Therefore, a remand to the arbitration panel for clarification is necessary, despite the long and tortured procedural history of this case."

Management is not able to predict the timing and ultimate outcome of the Nukem litigation. We do however believe that the ultimate outcome will not have an adverse affect on our financial condition or results of operations.

On February 4, 2005, the U.S. District Court of Colorado entered Findings of Fact and Conclusions of Law in a case involving the Company, Crested and Phelps Dodge Corporation authorizing the return of the Mt. Emmons molybdenum properties and associated water treatment plant to the Company and Crested. USECC has filed a motion with the Court to amend the Order to determine that the decreed water rights be conveyed to USECC. The motion is pending. The ultimate impact of this decision on the financial statements of the Company in management's opinion will not be measurable until such time as the final decisions are reached and the property actually transferred to USECC.

Critical Accounting Policies

Asset Impairments - We assess the impairment of property and equipment whenever events or circumstances indicate that the carrying value may not be recoverable.

Oil and Gas Producing Activities - We follow the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including directly related overhead costs, are capitalized and are subject to ceiling tests to insure the carrying value does not exceed the fair market value.

Reclamation Liabilities - The Company's policy is to accrue the liability for future reclamation costs of its mineral properties based on the current estimate of the future reclamation costs as determined by internal and external experts.

Revenue Recognition - Revenues are reported on a gross revenue basis and are recorded at the time services are provided or the commodity is sold. Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

Use of Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Liquidity and Capital Resources

During the year ended December 31, 2004, operations resulted in a loss of $6,248,700 and consumed $4,282,300 of cash. Investing activities also consumed cash in the amount of $5,051,200 primarily as a result of the purchase of additional CBM properties and the exploration expenses incurred on existing

CBM properties. Financing activities generated $9,091,300 as a result of the sale of the Company's and RMG's stock and third party debt. All these factors together resulted in a net reduction of cash and cash equivalents of $242,300.

Cash generated by the production of coalbed methane gas operations during the year ended December 31, 2004 was swept by the financing entities to pay principal and interest. Prior to the sweep of the cash for principal and interest payments, sufficient cash to pay well and field operating costs was advanced to RMG. RMG also receives a per well monthly fee of $193, net to RMG, average per well for operating the coalbed methane operations from the working interest owners.

The liquidity of the Company during the year ended December 31, 2004 was dependant therefore upon the sale of equity and increased debt to third parties. The Company anticipates repaying the debt once it is able to sell certain mineral or coalbed methane properties.

Capital Resources

As of April 11, 2005, the Company and its subsidiary Rocky Mountain Gas, Inc. ("RMG") has entered into a binding agreement with Enterra Energy Trust ("Enterra") for the acquisition of RMG by Enterra in consideration of $20,000,000, payable pro rata to the RMG shareholders in the amounts of $6,000,000 in cash and $14,000,000 in exchangeable shares of one of the subsidiary companies of Enterra. The shares will be exchangeable for units of Enterra twelve months after closing of the transaction. The Enterra units are traded on the Toronto Stock Exchange and on Nasdaq; the exchangeable shares will not be traded. RMG will be acquired with approximately $3,500,000 of debt owed to its mezzanine lenders.

Two major components of anticipated future capital resources during 2005 therefore are the settlement of the litigation with Nukem and the sale of RMG to Enterra. Should the sale of RMG common stock to Enterra be concluded the Company will receive cash and trust units of Enterra which would be marketable in 12 months after the closing of the transaction. Management believes both these transactions will be concluded favorably, however, the ultimate outcome of the Nukem litigation and the Enterra transaction are not certain.

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, the Company received cash of $349,300 and a promissory note from Cactus in the amount of $3,120,700. The Company received $166,000 in cash payments and $44,000 in room credits from Cactus during calendar 2004. The room credits will be used by the Company as it works on developing its uranium assets in southern Utah. Cactus is to continue making monthly payments, primarily interest, until August 2008 at which time a balloon payment of $2.8 million is due.

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, 2004, the full line of credit was available to the Company and has been renewed by the bank through June 30, 2005. This line of credit is used for short term working capital needs associated with operations.

On February 9, 2005, the Company borrowed $4,000,000 from seven accredited investors, issuing $4,720,000 face amount of debentures (including three years of annual interest at 6%). Net proceeds to the Company were $3,700,000 after paying a commission and lenders' legal costs.

The debentures are unsecured; the face amount of the debentures are payable every six months from February 4, 2005, in five installments of 20%, in cash or in restricted common stock of the Company. We may pay this amortization payment in cash or in stock at the lower of $2.43 per share (the "set price") or 90% of the volume weighted average price of the Company's stock for the 90 trading days prior to the repayment date. The set price was determined on the formula of 90% of the volume weighted average price of the stock over the 90 trading days prior to February 4, 2005. The debentures are convertible to restricted common stock of the Company at the set price.

At any time, the Company has the right to redeem some or all of the debentures in cash or stock, in an amount equal to 120% of the face amount of the debentures until February 4, 2006; 115% from February 5, 2006 to February 4, 2007; and 110% from February 5, 2007 until maturity. Payment in stock would be at the set price. The holders may convert the debentures to stock even if USE should seek to redeem in cash.

If at any time, after registration for public resale of the conversion shares have been approved, the Company's stock trades at more than 150% of the set price for 20 consecutive trading days, USE may convert the balance of the face amount of the debentures at the set price.

In the event of default, the investors may require payment (i) in cash equal to 130% of the then outstanding face amount; or (ii) in stock equal to 100% of face amount, with the stock priced at the set price, or (iii) in stock equal to 130% of the face amount, with the stock priced at 100% of the volume weighted average price of our stock for the 90 trading days prior to default.

The Company issued warrants to the investors, expiring February 4, 2008, to purchase 971,195 shares of restricted common stock, at $3.63 per share (equal to 110% of the Nasdaq closing price on February 3, 2005). The number of shares underlying the warrants equals 50% of the shares issuable on full conversion of the debentures at the set price (as if the debentures were so converted on February 4, 2005). Warrants to purchase an additional 100,000 shares, at the same price and for the same term as the warrants issued to the investors, were a registered broker-dealer as compensation for its services in connection with the transaction. If in any period of 20 consecutive trading days (after registration has been approved) the stock price of the Company's common stock exceeds 200% of the warrants' exercise price, on each of the trading days, all of the warrants will expire on the 30th day after the Company sends a call notice to the warrant holders.

During the quarter ended March 31, 2005, the Company received $1,529,300 from the exercise of 417,811 warrants by non-employee individuals and firms. The continued exercise of employee options and non-employee warrants is contingent upon the market price of the Company's common stock remaining above the exercise prices.

Other sources of capital are cash on hand; collection of receivables; contractual funding of drilling and development programs by non-affiliates; sale of excess equipment and real estate properties; additional debt or equity financings through third parties; equity financing of the Company's subsidiaries and a line of credit with a commercial bank.

Capital Requirements

The capital requirements of the Company during 2005 remain its General and Administrative costs and expenses; the funding of costs associated with the maintenance and operation of its coalbed methane properties; permitting and development work on its gold property and the ongoing maintenance of its uranium properties. Additionally, pending the outcome of the litigation with Phelps Dodge, the Company may incur the costs associated with holding the molybdenum property. Although it is not known what the exact cost of maintaining the molybdenum properties is, it has been represented that the cost is approximately $1.0 million per year.

Maintaining Uranium Properties

SMP Uranium Properties

The average monthly care and maintenance costs associated with the Sheep Mountain uranium mineral properties was $23,100 during the year ended December 31, 2004. Included in the average monthly cost during the year ended December 31, 2004 is ongoing reclamation work on the former SMP properties. It is anticipated that a total of $192,700 in reclamation expenditures will be conducted during 2005.

On December 8, 2004, the Company and Crested d/b/a USECC entered into a Purchase and Sale Agreement (the "agreement") with Bell Coast Capital Corp. now Uranium Power Corp. ("UPC"), a British Columbia corporation (TSX-V "UPC-V") for the sale to UPC of an undivided 50% interest in the former SMP uranium properties. The initial purchase price for the 50% interest in the properties is $4,050,000 and 4,000,000 shares of common stock of UPC, payable by installments. All amounts are stated in US dollars.

The Company and Crested, and UPC, will each be responsible for paying 50% of (i) current and future Sheep Mountain reclamation costs in excess of $1,600,000, and (ii) all costs to maintain and hold the properties.

UPC has agreed to contribute $10,000,000 to the joint venture (at $500,000 for each of 20 exploration projects that are approved). The Company, USE and UPC, each will be responsible for 50% of costs on each project in excess of $500,000. (see Note F to the financial statements)

On April 11, 2005 USECC and UPC signed a mining venture agreement.

Plateau Resources Uranium Properties

Plateau owned the Ticaboo townsite, motel, convenience store, boat storage, restaurant and lounge. During the year ended December 31, 2003, the Company sold its interest in the townsite operations to a non-affiliated entity, Cactus. As a result of the sale of the townsite, USECC received a promissory note from Cactus in the amount of $3,120,700. The Company received $166,000 in cash payments and $44,000 in room credits from Cactus during calendar 2004.

Additionally, 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. The Company received the benefit of this release of cash.

During the years ended December 31, 2004 and 2003, Plateau performed approximately $262,500 $209,600, respectively in reclamation on mining properties and the Shootaring Mill. Due to increases in the market price for uranium during the last six months of the year ended December 31, 2004 and the first quarter of 2005, the Company reconsidered its prior decision to reclaim the Shootaring Mill property. In March 2005, Plateau filed an application with the State of Utah to restart the Mill. Therefore, the Company will not expend any capital resources in the reclamation of the Mill during calendar 2005.

The cash costs per month, including reclamation costs, at the Plateau properties during calendar 2004 were approximately $32,600 per month. These costs are projected to increase to $75,000 to $100,000 per month during the year ending December 31, 2005 due to increased activity in the uranium business.

Sutter Gold Mining Inc. (SGMI) Properties

Because of the recent increase in the price of gold, management of Sutter Gold has decided to place the properties controlled by it into production. No extensive development work or mill construction will be initiated until such time as funding from debt and or equity sources is in place. The goal of the Company's management is to have the SGMI properties be self supporting and thereby not requiring any capital resource commitment from the Company. On December 29, 2004, SGMC merged with Globemin Resources, Inc., a Canadian company, and changed its name to Sutter Gold Mining Inc. ("SGMI"). SGMI is traded on the TSX Venture Exchange. SGMI has sufficient capital to pay for the anticipated work which will be done on the properties during calendar 2005. Additional financing is being sought by SGMI. (see Note F to the financial statements)

Development of Coalbed Methane Properties

A portion of the costs during the year ended December 31, 2004 for the development of RMG's coalbed methane properties were 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, CCBM had completely satisfied its cash and drilling commitments to RMG.

During the year ended December 31, 2003, RMG and CCBM entered into a Subscription and Contribution Agreement with Credit Suisse First Boston Private Equity parties ("CSFB") to form Pinnacle Gas Resources, Inc. ("Pinnacle"). As a result of the formation, RMG and CCBM contributed certain undeveloped and producing coalbed methane properties to Pinnacle. RMG has the opportunity to increase its ownership in Pinnacle by advancing cash to purchase common stock in Pinnacle through the exercise of options, but that increase would be offset to the extent other parties contribute additional capital to Pinnacle. Management of the Company does not anticipate exercising these options during calendar 2005 unless surplus capital resources are received. RMG has no capital commitments on the properties contributed to Pinnacle. (see Note F to the financial statements)

RMG continues to pursue other investment and production opportunities in the CBM business. On January 30, 2004, RMG purchased the assets of Hi-Pro Production, LLC 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. See Note F to the financial statements.

All cash flows from gas production on the Hi-Pro properties are pledged to pay the acquisition debt. See Note F to the financial statements in this Annual Report. The 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 for the debt.

At December 31, 2004, RMG I was not in compliance with all of the financial covenants under the Petrobridge agreement. A revocable waiver was granted through January 31, 2006 by the lender. As the wavier is conditional, the entire debt is classified as current. Management of RMG I continues to seek solutions in the production of coalbed methane gas to bring the project into compliance. Due to lower than projected sales volumes, the Hi-Pro field will remain out of compliance unless (1) higher prices are realized, (2) costs are reduced and (3) the debt is paid down. Because it is probable that RMG I will not be in compliance with these ratios for the next reporting period the entire $3,214,800 is classified as current debt. Should the lender declare the note in default, the only asset available for recourse is the Hi-Pro property owned by RMG I. See Note F to the financial statements.

Future equity financing by RMG, or industry financings, will be needed for RMGI, LLC to drill and complete wells on the substantial undeveloped acreage acquired from Hi-Pro. New production from this acreage could be needed to service the acquisition debt to offset the impact of declining production from the producing properties and/or low gas prices.

As of April 11, 2005, the Company, USE, and RMG signed a binding agreement for the acquisition of RMG by Enterra Energy Trust. (see Capital Resources above.)

If the proposed transaction with Enterra is not consummated, management of the Company believes that continued exploration and development of RMG's unproven properties will be financed through cash that RMG and USE have on hand as well as ventures with industry partners. None of the Company's capital resources should be needed therefore to fund operations or development work of RMG during 2005.

Debt Payments

Debt to non-related parties at December 31, 2004 was $7,180,700 net of a discount of $273,000. This debt consists of debt owed by RMG I to mezzanine lenders to purchase the Hi-Pro assets of $3.2 million; long term debt related to the purchase of vehicles and a corporate aircraft of $1.2 million, and convertible debt of $2.7million. The commitment of capital resources during calendar 2005 for equipment and liability insurance debt is $185,300. The mezzanine lenders for the Hi-Pro acquisition sweep all funds from operations of the field to pay interest and principal with the exception of funds to pay (a) lease operating expenses, (b) royalties and (c) production related taxes. At December 31, 2004, RMG I was not in compliance with five of the financial covenants under the Petrobridge agreement (see note F). A revocable waiver was granted through January 31, 2006 by the lender. As the waiver is conditional, the entire debt is classified as current. The convertible debt is not due until 2006 so will only require $300,000 of the Company's capital resources to pay interest when due quarterly.

Reclamation Costs

The asset retirement obligations are substantially long term and are either bonded through the use of cash bonds or the pledge of assets. It is anticipated that $192,700 of reclamation work on the SMP properties in Wyoming will be performed during 2005.

The asset retirement obligation on the Plateau uranium mining and milling properties in Utah at December 31, 2004 was $5,249,100, which is reflected on the Balance Sheet. This liability is fully funded by cash investments that are recorded as long term restricted assets. Due to the increased market price of uranium, the reclamation of this property has been delayed significantly and is not anticipated to commence until 2032.

The asset retirement obligation of the Sheep Mountain uranium properties in Wyoming at September 30, 2004 are $2,339,900 and are covered by a reclamation bond which is secured by a pledge of certain real estate assets of the Company and Crested.

RMG asset retirement obligations at September 30, 2004 were $463,700. It is not anticipated that any reclamation work will commence on the coalbed methane properties during 2005.

The asset retirement obligation for SGMI is $22,400 which is covered by a cash bond. No cash resources will be used for asset retirement obligations at SGMI during the twelve months ended December 31, 2005.

Liquidity Summary

The Company's capital resources during the year ended December 31, 2004 were sufficient to fund mine standby costs; coalbed methane property acquisition, maintenance and operations; limited reclamation and general and administrative expenses. The anticipated development of our gold, uranium, molybdenum and coalbed methane gas properties will require additional funding. This funding will be derived either through joint ventures with industry participants, debt or equity financings.

The current market prices for gold, uranium, molybdenum and coalbed methane gas are at levels that will warrant the exploration and development of the Company's mineral properties. Industry projections for all these metals along with gas anticipate prices remaining at the current levels or higher during the next decade. Management of the Company therefore believes that sufficient capital will be available to develop its mineral properties. The successful development and production of these properties will greatly enhance the liquidity and financial position of the Company.

Results of Operations

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.

Year ended December 31, 2004 Compared to the Year ended December 31, 2003

Revenues:

Operating revenues during the year ended December 31, 2004 increased significantly over those recognized during the prior year. The primary cause of this increase is as a result of the purchase of producing coalbed methane properties by RMG during the first quarter of 2004. The Company recognized $3,205,700 in gas sales during the twelve months ended December 31, 2004 as compared to only $287,400 during the prior year. The gas sales during the year ended December 31, 2003 were only for six months due to the formation of Pinnacle and the contribution of all of the Company's producing properties to that entity.

The acquisition of producing gas properties also increased management fee revenues recognized by the Company during the year ended December 31, 2004. This increase came as a result of the Company being paid a per well fee for the operation of the wells by the other working interest owners as well as a monthly fee for employees who manage the day to day production of the producing properties. During the year ended December 31, 2004 the Company recognized $796,300 in management revenues as a result of these activities. No similar revenues were recognized during the year ended December 31, 2003.

Revenues from real estate operations decreased during the year ended December 31, 2004 from those recorded during the year ended December 31, 2003 by $78,200. This decrease was as a result of reduced lot sales at the Plateau operations in Utah. All other revenues for the year ended December 31, 2004 remained constant with those recognized during the previous year.

Costs and Expenses:

As a result of the Company purchasing and operating coalbed methane properties during the year ended December 31, 2004, the costs associated with gas operations increased significantly from $313,100 to $4,168,800. These costs and expenses reflect the costs of operations, repairs and maintenance and amortization of the purchase price on a units of production basis. The field which was purchased by the Company had not been well maintained for some time and therefore required major repairs and enhancements. Although the operation of a gas field constantly requires ongoing maintenance, it is not anticipated by management that the major enhancement costs will be required in the future as the Company has, and is committed to, perform the required maintenance on an ongoing basis. The enhancements and maintenance performed during the year ended December 31, 2004 have increased production and improved both the cash flow and results of operations relating to the gas property.

The production on all gas properties has a life certain and therefore begins to decline the longer the property is produced. The gas property that the Company purchased is on that decline curve and it is not known how long the property will continue to produce at its current levels. There are however additional coal seams that the management of the Company is evaluating for future development and production. The overall cost of the property is therefore anticipated to remain static; however, if the lower coals are not placed into production, the profitability of the property will decrease.

The holding costs associated with the Company's mineral properties during the year ended December 31, 2004 remained constant with those costs recorded during the previous year. It is anticipated that these costs will increase during 2005 as the Company moves forward with the permitting process relating to its uranium and gold properties. Additionally the holding cost of the molybdenum property, which the Company most probably will receive back from Phelps Dodge, will increase these costs. All costs associated with the acquisition of additional properties will be capitalized but the permitting costs will be expensed.

Real estate operating costs and general and administrative costs were reduced during the year ended December 31, 2004 from those of the year ended December 31, 2003. The reduction of real estate costs is insignificant, $7,400, and is related to the reduction of the Company's involvement in the southern Utah property sold to a third party which had previously been operated by Plateau. The reduction in general and administrative costs of $706,400 was due to the ongoing efforts of the Company's management to reduce overhead and related expenses.

Other Income and Expenses:

Other Income and Expenses increased from net expenses of $73,000 during the year ended December 31, 2003 to net income of $13,000 during the year ended December 31, 2004. Although the net increase of $86,000 is insignificant there were some major changes in the individual components.

Due to the positive upward movement of the market prices for the minerals in which the Company is involved it has determined to retain its remaining mineral development and extraction equipment. The determination to retain this equipment is a direct cause of the reduction of $154,000 from the year ended December 31, 2003 to the year ended December 31, 2003 in the gain on the sale of assets.

The income recognized from the sale of investments is as a result of the liquidation of common stock of a company, Ruby Mining Company ("Ruby"), which the Company sold several years ago. The Company retained ownership of a portion of its former shares of common stock in Ruby and had no book basis in the shares. During the year ended December 31, 2004 the Company sold 832,500 shares of Ruby common stock and received $433,100. The Company also received $152,700 from the sale of a piece of real estate during the year ended December 31, 2004 which had no book value.

Interest revenues recognized during the year ended December 31, 2004 decreased from those recognized during the year ended December 31, 2003 due to the reduced amount of cash invested in interest bearing accounts. Interest expenses increased from $799,100 during the twelve months ended December 31, 2003 by $266,300 to $1,065,400 at December 31, 2004 as a result of increased debt associated with the purchase of coalbed methane properties.

Net Loss:

High and non-recurring remediation and maintenance costs associated with the new coalbed methane producing property resulted in a net loss from those operations of $963,100. This loss is offset by an increase of management fees of $964,300 which is directly tied to the operations of coalbed methane properties. Increased interest expenses and reduced interest revenues are therefore the primary causes for the increase in the loss of $438,600 during the year ended December 31, 2004 to $6,248,700 as compared to the loss during the year ended December 31, 2003 of $5,810,100. These losses reflect net losses per share of $0.47 per share and $0.52 per share for the years ended December 31, 2004 and 2003 respectively.

Year ended December 31, 2003 Compared to the Year ended May 31, 2002

Revenues:

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 real estate operations during the fiscal year ended May 31, 2002 were $1,276,200. The decrease in real estate revenues was as a result of reduced sales of commercial real estate during the twelve months ended December 31, 2003. During fiscal 2002 the Company sold a tract of land in California which was no longer needed for the SGMC development plan for operations.

During the year ended December 31, 2003 the Company reported $287,400 in gas sales. There were no similar revenues during the twelve months ended May 31, 2002 as the Company had no production of coal bed methane gas at May 31, 2002.

The Company recognized a minimal increase in management fee revenues during the year ended December 31, 2003 to $215,600 over the $208,200 recognized in management fee revenues during the twelve months ended May 31, 2002. Management fee revenues were actually 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.

Costs and Expenses:

Costs and expenses for the year ended December 31, 2003 were $8,075,200 as compared to $8,877,800 for the year ended May 31, 2002. Costs and expenses of real estate operations and the cost of real estate sold decreased by $1,045,500 during that twelve months ended December 31, 2003 when compared to the costs and expenses incurred during the fiscal year ended May 31, 2002. This decrease was primarily as a result of a tract of no longer needed. Real estate was sold by SGMC during the year ended May 31, 2002 while no similar sales occurred during the year ended December 31, 2003.

During the year ended December 31, 2003 the Company recognized $313,100 in gas operating expenses. No similar expenses were recorded during the fiscal year ended May 31, 2002 as the Company had not yet begun producing gas at that time.

Mineral holding costs decreased by $246,100 to $1,461,700 at December 31, 2003 from $1,707,800 at May 31, 2002. This decrease was as a result of the Company placing all its mining properties on a shut-down status and reducing costs of holding those properties.

General and administrative costs increased by $2,050,700 during the twelve months ended December 31, 2003 over the twelve months ended May 31, 2002. This increase was as a result of several non cash items. Non cash items which were expensed during the year ended December 31, 2003 were: depreciation and amortization of $554,200; accretion of asset retirement obligations of $366,700; amortization of debt discount of $537,700; amortization of non cash services of $134,700, and non cash compensation of $893,500 for a total of $2,486,800.

The amortization of debt discount increased primarily as a result of the acceleration in the discount amortization due to the conversion of approximately one half of the debt under the terms of $1.0 million of debt to common shares of the Company's common stock.

On January 1, 2003, the Company adopted SFAS 143, Accounting for Asset Retirement Obligation. Under the terms of this accounting standard, the Company is required to record the fair value of the reclamation liability on its shut-down mining and gas properties as of the date that the liability was incurred. The accounting standard further requires the Company to review the liability and determine if a change in estimate is required as well as accrete the total liability for the future liability. As a result of the adoption of this accounting standard, the Company recorded the non cash accretion of $366,700.

Non cash compensation increased as a result of the initial funding of the 2001 Stock Award Plan whereby five of the executive officers of the company were granted a total of 100,000 shares of common stock at $3.10 per share. Under the plan, each officer is to receive 10,000 shares of common stock annually under the condition that the shares cannot be sold until the officer's death or retirement. The plan was effective in 2001 and had not been funded. The funding for the twelve months ended December 2003 was therefore retroactive for two years. In addition to the increase due to the funding of the 2001 Stock Award Plan, the funding for the ESOP as well as the amortization of the deferred compensation recorded in prior periods were both for a full twelve months as compared to only seven months in the prior period.

The increase in the amortization of non cash services during the year ended December 31, 2003 resulted from the issuance of additional stock and warrants for legal and financial consulting services. These services related to the formation of Pinnacle and litigation with Phelps Dodge.

Other Income and Expenses:

During the fiscal year ended May 31, 2002 the Company recognized $812,700 in gains from the sale of assets while during the year ended December 31, 2003 the Company recognized only $198,200. The Company was selling the majority of its construction equipment during the years ended May 31, 2002 and 2001. The majority of the surplus equipment to be sold was sold during those two years.

Interest income decreased $291,800 during the year ended December 31, 2003 when compared to the year ended May 31, 2002. This reduction in revenues occurred as a result of the company having less amounts of cash invested in interest bearing accounts during the year ended December 31, 2003. In May of 2002 the Company borrowed $1.5 million from third party lenders During the year ended December

31, 2003 the Company recorded interest on this debt while there was not interest paid on this debt during fiscal 2002.

Effective January 1, 2003 the Company adopted SFAS 143 “Accounting for Asset Retirement Obligations” which requires the Company to record the fair value of the reclamation liability on its shut down mining and gas properties as of the date that the liability is incurred. The Company is further required to accrete the total liability for the full value of the future liability. As a result of adopting this new accounting policy the Company recorded a cumulative effect of accounting change of $1,615,600 as well as an accretion expense of 366,700.

Operations for the year ended December 31, 2003 resulted in a loss of $5,810,100 or $0.52 per share as compared to a loss of $6,181,100 or $0.66 per share during fiscal 2002.

Seven months ended December 31, 2002 Compared to the Seven months ended December 31, 2001

Revenues:

During the seven months ended December 31, 2002, the Company recognized $673,000 in revenues as compared to $545,900 in revenues during the seven months ended December 31, 2001. This increase of $127,100 in revenues was primarily as a result of the production and sale of CBM gas during the seven months ended December 31, 2002 of $119,400 while no revenues from CBM production were recognized during the same period of the previous year.

Through the purchase of the Bobcat Field, RMG began selling CBM gas during the seven months ended December 31, 2002. As anticipated, production from these newly developed wells was lower than it will be in the future. Additionally, the market price for natural gas was very low during the summer and fall months of 2002. These reasons along with high start up and operating costs of $355,200, resulted in a loss from operations for CBM of $235,800. Management believes with increased production volumes, reduced ongoing operating costs and increased market prices for natural gas, the CBM properties will show profits and cash flows during 2003.

Costs and Expenses:

Costs and expenses during the seven months ended December 2002 were $4,197,900 as compared to costs and expenses of $4,460,800 during the seven months ended December 31, 2001. This reduction of $262,900 was as a result of a reduction in the holding costs of shut-down mineral properties and an ongoing cost cutting program. These reductions in operating costs were offset primarily by the operating costs associated with CBM.

Other Income and Expeses:

During the seven months ended December 31, 2002, the Company recognized a loss on the sale of assets of $342,600 while it recognized a gain on the sale of assets during the seven months ended December 31, 2001 of $592,600. The Company also had an increase in interest expense of $234,500 during the seven months ended December 31, 2002 over the same period of the previous year as a result of the interest on the Company's convertible debt.

Operations for the seven months ended December 31, 2002, resulted in a loss of $3,840,100 or $0.36 per share as compared to a loss of $2,785,400 or $0.34 per share for the seven months ended December 31, 2001.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB No. 123(R), *Accounting for Stock-Based Compensation,* which replaces FASB 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. The Company will be required to implement FASB 123(R) on the quarterly report for the quarter ended September 30, 2005. Under the terms of FASB 123(R) the Company will be required to expense the fair value of stock options issued to employees. The fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividends on it, and the risk-free interest rate over the expected life of the option. The fair value of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, life of the option, dividends on the stock, or the risk-free interest rate.

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 that the liability is incurred. The statement further requires that the Company review the liability each quarter and determine if a change in estimate is required as well as accrete 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. The Company has no remaining book value for these properties.

In May 2003, the FASB issued SFAS No. 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*" This Statement establishes standards for how the Company will classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires that the Company classify a financial instrument within its scope as a liability. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements." The remaining provisions of this Statement are consistent with the FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 had no material impact on the Company's financial position or results of operations.

The Company has reviewed other current outstanding statements from the Financial Accounting Standards Board and does not believe that any of those statements will have a material adverse affect on the financial statements of the Company when adopted.

Future Operations

We have generated operating losses for the years ended December 31, 2004 and 2003, the seven months ended December 31, 2002 and the fiscal year ended May 31, 2002 as a result of costs associated with shut down mineral properties. Management of the Company intends to take advantage of the opportunity presented by the recent and future projected market prices for all the minerals and coalbed methane gas that it is involved with.

Effects of Changes in Prices

Mineral operations are significantly affected by changes in commodity prices. As prices for a particular mineral increase, prices for prospects for that mineral also increase, making acquisitions of such properties costly, and sales advantageous. Conversely, a price decline facilitates acquisitions of properties containing that mineral, but makes sales of such properties more difficult. Operational impacts of changes in mineral commodity prices are common in the mining industry.

Natural Gas and Oil. Our decision to expand into the coalbed methane industry were predicated on the projections for natural gas prices. We believe that the energy demands of the United States of America will sustain higher natural prices. As a result of RMG's hedging activities, the price of gas will not materially affect our operations for fiscal 2005.

Uranium and Gold. Changes in the prices of uranium and gold will affect our operational decisions the most. Currently, both gold and uranium have experienced an increase in price. We continually evaluate market trends and data and are seeking financing or a joint venture to place the Company's gold and uranium properties in production. We are currently evaluating our gold and uranium properties as market prices have increased to the level that these properties could produce profitably. Management is evaluating how long this trend will continue and at what level market prices for gold and uranium will settle at for the long term.

Molybdenum. The price of Molybdenum at December 31, 2004 was at a 20 year high of $34 per pound. Since the U.S. District Court ruled in favor of those claims brought by Phelps Dodge, the Company and Crested believe they will receive the Mt. Emmons molybdenum property near Crested Butte, Colorado back. If the properties are received, the Company and Crested will seek financing or a joint venture partner to place the Mt. Emmons property into production. The Mt. Emmons property will have a very long life and changes in prices of molybdenum would affect the revenues from that property. The Mt. Emmons property will not be placed into production during 2005 or the near term.

Contractual Obligations

The Company has two divisions of contractual obligations as of December 31, 2004: debt to third parties of $7,180,700, and asset retirement obligations of $8,075,100. The debt will be paid over a period of five to seven years and the retirement obligations will be retired during the next 30 years. During the year ended December 31, 2004, RMG incurred new debt of $3.7 million in the acquisition of the assets of Hi-Pro, and the Company incurred $3.0 million of new debt to a private lender under a credit facility. The following table shows the schedule of the payments on the debt, and the expenditures for budgeted asset retirement obligations.

	Total	Less than one Year	One to Three Years	Three to Five Years	More than Five Years
Long-term debt obligations	$ 7,180,700	$ 3,400,100	$ 3,771,500	$ 9,100	$ --
Other long-term liabilities	8,075,100	192,700	471,100	1,946,100	5,465,200
Totals	$ 15,255,800	$ 3,592,800	$ 4,242,600	$ 1,955,200	$ 5,465,200

FINANCIAL INFORMAITON

Report of Independent Registered Public Accounting Firm

U.S. Energy Corp. Board of Directors

We have audited the accompanying consolidated balance sheet of U.S. Energy Corp. and subsidiaries as of December 31, 2004 and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S. Energy Corp. and subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has experienced significant losses from operations. In addition, the Company has a working capital deficit of $636,500 as of December 31, 2004. These factors raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regards to these matters are also described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ EPSTEIN, WEBER & CONOVER, PLC

Scottsdale, Arizona
March 9, 2005, except for Note P
as to which the date is April 11, 2005

Report of Independent Registered Public Accounting Firm

To U.S. Energy Corp.:

We have audited the accompanying consolidated balance sheet of U.S. Energy Corp and subsidiaries as of December 31, 2003 and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2003, the seven months ended December 31, 2002 and the fiscal year ended May 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of U.S. Energy Corp. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year ended December 31, 2003, the seven months ended December 31, 2002 and the fiscal year ended May 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the financial statements effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, and changed its method of accounting for asset retirement obligations.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has experienced significant losses from operations and has a substantial accumulated deficit. These factors raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regards to these matters are also described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ GRANT THORNTON LLP

Oklahoma City, Oklahoma
February 27, 2004

U.S. ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2004	December 31, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,842,500	$ 4,084,800
Accounts receivable		
Trade, net of allowance of $111,300 and $27,800	797,500	300,900
Affiliates	13,500	96,800
Other	52,700	--
Current portion of long-term notes receivable, net	49,500	102,500
Prepaid expenses	489,700	584,700
Inventories	176,100	21,700
Total current assets	5,421,500	5,191,400
INVESTMENTS:		
Non-affiliated company	957,700	957,700
Restricted investments	6,852,300	6,874,200
Total investments	7,810,000	7,831,900
PROPERTIES AND EQUIPMENT:		
Land	576,300	570,000
Buildings and improvements	5,922,400	5,777,700
Machinery and equipment	4,919,000	4,762,800
Proved oil and gas properties, full cost method	5,569,000	1,773,600
Unproved coal bed methane properties excluded from amortization	5,101,900	1,204,400
Total properties and equipment	22,088,600	14,088,500
Less accumulated depreciation, depletion and amortization	(8,322,000)	(6,901,400)
Net properties and equipment	13,766,600	7,187,100
OTHER ASSETS:		
Notes receivable trade	2,971,800	2,950,600
Deposits and other	733,800	768,700
Total other assets	3,705,600	3,719,300
Total assets	$ 30,703,700	$ 23,929,700

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2004	December 31, 2003
CURRENT LIABILITIES:		
Accounts payable	$ 1,751,300	$ 727,800
Accrued compensation expense	181,700	180,000
Asset retirement obligation	192,700	--
Current portion of long-term debt	3,400,100	932,200
Other current liabilities	532,200	69,700
Total current liabilities	6,058,000	1,909,700
LONG-TERM DEBT	3,780,600	1,317,600
ASSET RETIREMENT OBLIGATIONS	7,882,400	7,264,700
OTHER ACCRUED LIABILITIES	1,952,300	2,158,600
DEFERRED GAIN ON SALE OF ASSET	1,279,000	1,295,700
MINORITY INTERESTS	871,100	496,000
COMMITMENTS AND CONTINGENCIES		
FORFEITABLE COMMON STOCK, $.01 par value 442,740 and 465,880 shares issued, forfeitable until earned	2,599,000	2,726,600
PREFERRED STOCK, $.01 par value; 100,000 shares authorized No shares issued or outstanding	--	--
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value; unlimited shares authorized; 15,231,237 and 12,824,698 shares issued net of treasury stock, respectively	152,300	128,200
Additional paid-in capital	59,157,100	52,961,200
Accumulated deficit	(49,321,700)	(43,073,000)
Treasury stock at cost, 972,306 and 966,306 shares respectively	(2,779,900)	(2,765,100)
Accumulated comprehensive loss	(436,000)	--
Unallocated ESOP contribution	(490,500)	(490,500)
Total shareholders' equity	6,281,300	6,760,800
Total liabilities and shareholders' equity	$ 30,703,700	$ 23,929,700

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2004	Year ended December 31, 2003	Seven months ended December 31, 2002	Year ended May 31, 2002
OPERATING REVENUES:				
Real estate operations	$ 256,100	$ 334,300	$ 394,500	$ 1,276,200
Gas sales	3,205,700	287,400	119,400	--
Management fees	1,179,900	215,600	159,100	208,200
	4,641,700	837,300	673,000	1,484,400
OPERATING COSTS AND EXPENSES:				
Real estate operations	295,500	302,900	189,700	1,348,400
Gas operations	4,168,800	313,100	355,200	--
Mineral holding costs	1,466,700	1,461,700	737,200	1,707,800
General and administrative	5,291,100	5,997,500	2,915,800	3,946,800
Impairment of goodwill	--	--	--	1,622,700
Other	--	--	--	80,900
Provision for doubtful accounts	79,000	--	--	171,200
	11,301,100	8,075,200	4,197,900	8,877,800
OPERATING LOSS	(6,659,400)	(7,237,900)	(3,524,900)	(7,393,400)
OTHER INCOME & EXPENSES:				
Gain (loss) on sales of assets	46,300	198,200	(342,600)	812,700
Gain (loss) on sale of investment	656,300	(32,400)	(207,800)	--
Interest income	375,800	560,300	524,500	852,100
Interest expense	(1,065,400)	(799,100)	(361,200)	(345,300)
	13,000	(73,000)	(387,100)	1,319,500
LOSS BEFORE MINORITY INTEREST, PROVISION FOR INCOME TAXES, DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(6,646,400)	(7,310,900)	(3,912,000)	(6,073,900)
MINORITY INTEREST IN LOSS OF CONSOLIDATED SUBSIDIARIES	397,700	235,100	54,800	39,500
LOSS BEFORE PROVISION FOR INCOME TAXES, DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(6,248,700)	(7,075,800)	(3,857,200)	(6,034,400)
PROVISION FOR INCOME TAXES	--	--	--	--

(continued)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		Seven months ended December 31,	Year ended May 31,
	2004	2003	2002	2002
NET LOSS FROM CONTINUING OPERATIONS	$ (6,248,700)	$ (7,075,800)	$ (3,857,200)	$ (6,034,400)
DISCONTINUED OPERATIONS, NET OF TAX	--	(349,900)	17,100	(146,700)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	--	1,615,600	--	--
NET LOSS	(6,248,700)	(5,810,100)	(3,840,100)	(6,181,100)
PREFERRED STOCK DIVIDENDS	--	--	--	(86,500)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (6,248,700)	$ (5,810,100)	$ (3,840,100)	$ (6,267,600)
NET LOSS PER SHARE BASIC				
CONTINUED OPERATIONS	$ (0.47)	$ (0.63)	$ (0.36)	$ (0.65)
DISCONTINUED OPERATIONS	--	(0.03)	--	(0.01)
PREFERRED DIVIDENDS	--	--	--	(0.01)
EFFECT OF ACCOUNTING ACCOUNTING CHANGE	--	0.14	--	--
	$ (0.47)	$ (0.52)	$ (0.36)	$ (0.67)
NET LOSS PER SHARE DILUTED				
CONTINUED OPERATIONS	$ (0.47)	$ (0.63)	$ (0.36)	$ (0.65)
DISCONTINUED OPERATIONS	--	(0.03)	--	(0.01)
PREFERRED DIVIDENDS	--	--	--	(0.01)
EFFECT OF ACCOUNTING ACCOUNTING CHANGE	--	0.14	--	--
	$ (0.47)	$ (0.52)	$ (0.36)	$ (0.67)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	13,182,421	11,180,975	10,770,658	9,299,359
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	13,182,421	11,180,975	10,770,658	9,299,359

The accompanying notes are an integral part of these statements.

U.S. ENERGY & AFFILIATES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Unallocated ESOP Contribution	Total Shareholders' Equity
Balance May 31, 2001	8,989,047	$ 90,000	$ 38,681,600	$ (27,155,200)	949,725	$ (2,660,500)	$ (490,500)	$ 8,465,400
Funding of ESOP	70,075	700	236,200	--	--	--	--	236,900
Issuance of common stock to outside directors	3,429	--	14,400	--	--	--	--	14,400
Issuance of common stock for services rendered	45,000	500	147,600	--	--	--	--	148,100
Issuance of common stock warrants for services rendered	--	--	592,900	--	--	--	--	592,900
Treasury stock from payment on balance of note receivable	--	--	--	--	10,000	(79,900)	--	(79,900)
Issuance of common stock in exchange for preferred stock	513,140	5,100	1,846,400	--	--	--	--	1,851,500
Issuance of common stock in exchange for subsidiary stock	912,233	9,100	3,566,900	--	--	--	--	3,576,000
Issuance of common stock to purchase property	61,760	600	246,200	--	--	--	--	246,800
Issuance of common stock through private placement	871,592	8,700	2,341,800	--	--	--	--	2,350,500
Issuance of common stock for exercised stock warrants	1,205	--	4,500	--	--	--	--	4,500
Issuance of common stock from employee options [1]	253,337	2,500	600,000	--	--	--	--	602,500
Net loss	--	--	--	(6,267,600)	--	--	--	(6,267,600)
Balance May 31, 2002[2]	11,720,818	$ 117,200	$ 48,278,500	$ (33,422,800)	959,725	$ (2,740,400)	$ (490,500)	$ 11,742,000

[1] Net of 15,285 shares surrendered by employees for the exercise of 268,622 employee stock options.

[2] Total Shareholders' Equity at May 31, 2002 does not include 500,788 shares currently issued but forfeitable if certain conditions are not met by the recipients. "Basic and Diluted Weighted Average Shares Outstanding" also includes 814,496 shares of common stock held by majority-owned subsidiaries, which, in consolidation, are treated as treasury shares.

The accompanying notes are an integral part of these statements.

U.S. ENERGY & AFFILIATES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(continued)

	Common Stock		Additional	Accumulated	Treasury Stock		Unallocated ESOP	Total Shareholders'
	Shares	Amount	Paid-In Capital	Deficit	Shares	Amount	Contribution	Equity
Balance May 31, 2002	11,720,818	$ 117,200	$ 48,278,500	$ (33,422,800)	959,725	$ (2,740,400)	$ (490,500)	$ 11,742,000
Funding of ESOP	43,867	400	134,700	--	--	--	--	135,100
Issuance of common stock to outside consultants	15,000	200	60,700	--	--	--	--	60,900
Issuance of common stock warrants	--	--	325,900	--	--	--	--	325,900
Issuance of common stock for settlement of law suit	20,000	200	77,600	--	--	--	--	77,800
Issuance of common stock from employee options [1]	26,711	300	(300)	--	--	--	--	--
Net loss	--	--	--	(3,840,100)	--	--	--	(3,840,100)
Balance December 31, 2002[2]	11,826,396	$ 118,300	$ 48,877,100	$ (37,262,900)	959,725	$ (2,740,400)	$ (490,500)	$ 8,501,600

[1] Net of 44,456 shares surrendered by employees for the exercise of 71,167 employee stock options.

[2] Total Shareholders' Equity at December 31, 2002 does not include 465,880 shares currently issued but forfeitable if certain conditions are not met by the recipients. "Basic and Diluted Weighted Average Shares Outstanding" also includes 814,496 shares of common stock held by majority-owned subsidiaries, which, in consolidation, are treated as treasury shares.

The accompanying notes are an integral part of these statements.

U.S. ENERGY & AFFILIATES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(continued)

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Unallocated ESOP	Total Shareholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Contribution	Equity
Balance December 31, 2002	11,826,396	$118,300	$ 48,877,100	$ (37,262,900)	959,725	$ (2,740,400)	$ (490,500)	$ 8,501,600
Funding of ESOP	76,294	700	235,700	--	--	--	--	236,400
Issuance of common stock to outside directors	3,891	--	14,400	--	--	--	--	14,400
Issuance of common stock by release of forfeitable stock	78,286	800	434,400	--	--	--	--	435,200
Issuance of common stock from stock warrants	131,596	1,300	465,300	--	--	--	--	466,600
Issuance of common stock in stock compensation plan	100,000	1,000	309,000	--	--	--	--	310,000
Treasury stock from sale of subsidiary	--	--	--	--	1,581	(4,200)	--	(4,200)
Treasury stock from payment on balance of note receivable	--	--	--	--	5,000	(20,500)	--	(20,500)
Issuance of common stock to outside consultants	121,705	1,200	581,600	--	--	--	--	582,800
Issuance of common stock warrants to outside consultants	--	--	886,300	--	--	--	--	886,300
Issuance of common stock for settlement of lawsuit	10,000	100	49,900	--	--	--	--	50,000
Issuance of common stock in payment of debt	211,109	2,100	497,900	--	--	--	--	500,000
Issuance of common stock from employee options [1]	265,421	2,700	609,600	--	--	--	--	612,300
Net Loss	--	--	--	(5,810,100)	--	--	--	(5,810,100)
Balance December 31, 2003[2]	12,824,698	$128,200	$ 52,961,200	$ (43,073,000)	966,306	$ (2,765,100)	$ (490,500)	$ 6,760,800

[1]Net of 10,200 shares surrendered by employees for the exercise of 275,621 employee stock options.

[2]Total Shareholders' Equity at December 31, 2003 does not include 465,880 shares currently issued but forfeitable if certain conditions are not met by the recipients. "Basic and Diluted Weighted Average Shares Outstanding" also includes 814,496 shares of common stock held by majority-owned subsidiaries, which, in consolidation, are treated as treasury shares.

The accompanying notes are an integral part of these statements.

U.S. ENERGY & AFFILIATES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(continued)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Comprehensive Loss	Accumulated Deficit	Accumulated Total Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Unallocated ESOP Contribution	Total Shareholders' Equity
Balance December 31, 2003	12,824,698	$128,200	$52,961,200		$(43,073,000)		966,306	$ (2,765,100)	$ (490,500)	$ 6,760,800
Funding of ESOP	70,439	700	207,800		--	--	--	--	--	208,500
Issuance of common stock by release of forfeitable stock	23,140	200	121,700		--	--	1,000	5,700	--	127,600
Issuance of common stock from stock warrants	125,000	1,300	249,800		--	--	--	--	--	251,100
Issuance of common stock in stock compensation plan	50,000	500	127,900		--	--	--	--	--	128,400
Treasury stock from payment on balance of note receivable	--	--	--		--	--	5,000	(20,500)	--	(20,500)
Issuance of common stock to retire debt	476,833	4,700	1,068,200		--	--	--	--	--	1,072,900
Issuance of common stock warrants to RMG investors	--	--	291,500		--	--	--	--	--	291,500
Issuance of common stock to RMG investors	882,239	8,900	1,803,700		--	--	--	--	--	1,812,600
Issuance of common stock to purchase property	678,888	6,800	1,976,300		--	--	--	--	--	1,983,100
Issuance of common stock in a private placement	100,000	1,000	349,000		--	--	--	--	--	350,000
Comprehensive loss net loss	--	--	--	$ (6,248,700)	(6,248,700)	--	--	--	--	(6,248,700)
Other comprehensive loss on hedging activity	--	--	--	(436,000)		(436,000)	--	--	--	(436,000)
Comprehensive loss				(6,684,700)						
Balance December 31, 2004[2]	15,231,237	$152,300	$59,157,100		$(49,321,700)	$ (436,000)	972,306	$ (2,779,900)	$ (490,500)	$ 6,281,300

[2] Total Shareholders' Equity at December 31, 2004 does not include 442,740 shares currently issued but forfeitable if certain conditions are not met by the recipients. "Basic and Diluted Weighted Average Shares Outstanding" also includes 814,496 shares of common stock held by majority-owned subsidiaries, which, in consolidation, are treated as treasury shares.

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2004	Year Ended December 31, 2003	Seven Months Ended December 31, 2002	Year Ended May 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(6,248,700)	$ (5,810,100)	$ (3,840,100)	$(6,267,600)
Adjustments to reconcile net loss to net cash used in operating activities:				
Minority interest in loss of consolidated subsidiaries	(397,700)	(235,100)	(54,800)	(39,500)
Amortization of deferred charge	343,400	284,700	101,900	266,500
Depreciation	1,445,200	554,200	360,100	541,500
Accretion of asset retirement obligations	346,700	366,700	--	--
Amortization of debt discount	384,300	537,700	211,200	--
Impairment of goodwill	--	--	--	1,622,700
Noncash services	50,400	134,700	31,500	787,700
Noncash dividend	--	--	--	11,500
Provision for doubtful accounts	79,000	--	--	171,200
Recognition of deferred gain	(16,700)	--	--	--
(Gain) loss on sale of assets	(46,300)	(199,300)	342,600	(812,700)
(Gain) on sale investments	(656,300)	--	--	--
Write off of properties	--	--	21,500	--
Cumulative effect of accounting change	--	(1,615,600)	--	--
Noncash compensation	336,900	608,800	212,900	268,700
Lease holding costs	--	50,000	--	--
Net changes in assets and liabilities:				
Accounts receivable	64,500	(470,300)	(755,600)	799,900
Other assets	(207,300)	1,466,000	8,700	(47,500)
Accounts payable	132,400	(827,200)	609,900	(970,100)
Accrued compensation expense	1,700	--	--	90,800
Prepaid drilling costs	--	(134,400)	(107,700)	242,100
Reclamation and other liabilities	(179,800)	(393,200)	--	--
NET CASH USED IN OPERATING ACTIVITIES	(4,568,300)	(5,682,400)	(2,857,900)	(3,334,800)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

	Year Ended December 31, 2004	Year Ended December 31, 2003	Seven Months Ended December 31, 2002	Year Ended May 31, 2002
CASH FLOWS FROM INVESTING ACTIVITIES:				
Development of proved gas properties	$ (435,100)	$ --	$ --	$ --
Development of unproved gas properties	(1,385,100)	(176,400)	(233,400)	(142,100)
Acquisition of producing gas properties	(1,198,000)	--	(650,000)	--
Acquisition of undeveloped gas properties	(3,213,000)	--	(650,000)	--
Proceeds on sale of gas interests	792,100	2,813,800	1,125,000	1,125,000
Proceeds on sale of property and equipment	49,700	1,604,400	1,566,000	752,000
Proceeds from sale investments	656,300	--	--	--
Net change in restricted investments	21,900	3,037,500	66,100	(236,800)
Purchase of property and equipment	(294,500)	(92,700)	(411,200)	(82,300)
Net change in notes receivable	11,300	8,800	--	--
Net change in investments in affiliates	(64,500)	(222,600)	104,600	406,500
NET CASH (USED IN) PROVIDED BY BY INVESTING ACTIVITIES	(5,058,900)	6,972,800	1,567,100	1,822,300
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of common stock	601,100	1,078,900	--	2,957,400
Issuance of subsidiary stock	2,526,700	650,000	--	1,000,000
Proceeds from long term debt	7,460,400	2,600	892,800	631,700
Net activity on lines of credit	--	--	(200,000)	(650,000)
Repayments of long term debt	(1,203,400)	(678,100)	(225,300)	(547,800)
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,384,800	1,053,400	467,500	3,391,300
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(242,300)	2,343,800	(823,300)	1,878,800
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,084,800	1,741,000	2,564,300	685,500
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,842,500	$ 4,084,800	$ 1,741,000	$2,564,300
SUPPLEMENTAL DISCLOSURES:				
Income tax paid	$ --	$ --	$ --	$ --
Interest paid	$ 1,065,400	$ 799,100	$ 361,200	$ 345,300

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

	Year Ended December 31, 2004	Year Ended December 31, 2003	Seven Months Ended December 31, 2002	Year Ended May 31, 2002
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Initial valuation of new asset retirement obligations	$ 463,700	$ --	$ --	$ --
Acquisition of assets through issuance of stock	$ 1,983,100	$ --	$ 150,000	$ 96,800
Issuance of stock to satisfy debt	$ 1,072,900	$ 500,000	$ --	$3,568,500
Issuance of stock warrants in conjunction with debt	$ 291,500	$ --	$ 299,800	$ 592,900
Satisfaction of receivable - employee with stock in company	$ 20,500	$ 20,500	$ --	$ 79,900
Acquisition of assets through issuance of debt	$ --	$ 26,300	$ --	$ 180,600
Issuance of stock warrants for services	$ --	$ 563,400	$ 26,100	$ --
Issuance of stock for services	$ --	$ 582,800	$ 60,900	$ 14,400
Issuance of stock as deferred compensation	$ --	$ 151,900	$ --	$ 261,300
Issuance of stock for retired employees	$ --	$ 435,200	$ --	$ --
Sale of assets through issuance of a note receivable	$ --	$ --	$ --	$ 442,200
Issuance of stock to retire preferred stock	$ --	$ --	$ --	$1,840,000

The accompanying notes are an integral part of these statements.

A. BUSINESS ORGANIZATION AND OPERATIONS:

U.S. Energy Corp. was incorporated in the State of Wyoming on January 26, 1966. U.S. Energy Corp. and subsidiaries (the "Company" or "USE") engages in the acquisition, exploration, holding, sale and/or development of mineral and coalbed methane gas properties, the production of petroleum properties and marketing of minerals and methane gas. Principal mineral interests are in coalbed methane, uranium, gold and molybdenum. Only coalbed methane was being produced during the year ended December 31, 2004. The Company's uranium and gold properties are currently all in a shut down status. The Company holds various real and personal properties used in commercial activities. Most of the Company's activities are conducted through subsidiaries and through the joint venture discussed below and in Note D.

The Company was engaged in the maintenance of two uranium properties, one in southern Utah, and the second in Wyoming known as Sheep Mountain Partners ("SMP"). SMP has been involved in significant litigation (see Note K). Sutter Gold Mining Inc. ("SGMI"), a Canadian corporation owned 65.5% by the Company at December 31, 2004, manages the Company's interest in gold properties. The Company also owns 100% of the outstanding stock of Plateau Resources Limited ("Plateau"), which owns the nonoperating uranium mill in southeastern Utah. Currently, the mill is nonoperating. Rocky Mountain Gas, Inc. ("RMG") was formed in November 1999 to consolidate all methane gas operations of the Company. The Company owns and controls 91.1% of RMG as of December 31, 2004.

The Company's Board of Directors changed the Company's year end to December 31 effective December 31, 2002.

Management's Plan

The Company has generated significant net losses during recent years and has an accumulated deficit of $49,321,700 at December 31, 2004. The Company has a working capital deficit of $636,500 at December 31, 2004. This working capital deficit is primarily a result of debt of RMG being classified as current. See Note F. The Company used cash in its operating activities during all the periods ended December 31, 2004 reported in these financial statements. During the year ended December 31, 2003 and the fiscal year ended May 31, 2002 the Company experienced positive cash flow of $2,343,800 and $1,878,800 respectively. The Company experienced negative cash flow of $242,300 and $823,300, respectively, for the year ended December 31, 2004 and the seven months ended December 31, 2002.

After these work commitments are fully funded, the Company does not have sufficient capital available to fund its portion of the anticipated exploration and development activities on its coalbed methane properties. Additionally, the Company's known cash flows through December 31, 2004 from current operations and associated overhead are negative based on current projections. In order to improve liquidity of the Company, management intends to do the following:

- Sell raw land it owns. Management intends to sell this land at its fair market value. The land is not needed for the operations of the Company now or into the future.
- Seek additional funding through either sale of equity or joint venture partner to place SGMI and uranium properties into production or sell the properties to industry partners.
- Raise additional capital through a private placement.
- Reduce overhead expenses.
- Successfully conclude the litigation with Nukem. See Note K'
- Conclude the initial phase of the UPC Agreement on the SMP properties. See Note F
- Conclude the sale of RMG to Enterra. See Note P. In the event that the Enterra transaction is not closed, management will pursue private placements or a public offering of RMG commons stock.

As a result of these plans, management believes that they will generate sufficient cash flows to meet its cash requirements in calendar 2005, although there is no assurance the plans will be accomplished.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements of USE and subsidiaries include the accounts of the Company, the accounts of its majority-owned or controlled subsidiaries Plateau (100%), Energx, Ltd ("Energx") (90%), Four Nines Gold, Inc. ("FNG") (50.9%), SGMI (65.5%), Crested Corp. ("Crested") (70.1%), Yellowstone Fuels Corp. ("YSFC") (35.9%), Rocky Mountain Gas ("RMG") (91.1%) and the USECC Joint Venture ("USECC"), a consolidated joint venture which is equally owned by U.S. Energy Corp. and Crested, through which the bulk of their operations are conducted.

Investments of less than 20% are accounted for by the cost method. All material intercompany profits, transactions and balances have been eliminated. Because of management control, YSFC is consolidated into the financial statements of the Company.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in bank deposit accounts which exceed federally insured limits. At December 31, 2004, the Company had approximately 77% of its cash and cash equivalents with one financial institution. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Investments

Based on the provisions of Statement of Financial Accounting Standards No. 115 ("SFAS 115"), the Company accounts for its restricted investment in certain securities as held-to-maturity. Held-to-maturity securities are measured at amortized cost. If a decline in fair value of such investments is determined to be other than temporary, the investment is written down to fair value.

Accounts Receivable

The majority of the Company's accounts receivable are due from industry partners for operating expenses associated with coalbed methane gas wells for which RMG acts as operator and from sale of gas and properties on which the Company provided financing. The Company determines any required allowance by considering a number of factors including length of time trade accounts receivable are past due and the Company's previous loss history. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

As of December 31, 2003, the Company was due $863,200 from CCBM, Inc. ("CCBM"), a Delaware corporation, which is wholly-owned by Carrizo Oil & Gas, Inc., Houston Texas (NMS "CRZO"),under a non-recourse promissory note receivable, which arose as part of the sale of a portion of RMG's coalbed methane properties to CCBM. The note receivable was accounted for on a cash basis due to its non-recourse nature with principal payments received credited against natural gas properties in accordance with the full cost method of accounting. During the year ended December 31, 2004, CCBM notified the Company that it was electing to reduce its participation interest in certain properties which reduced proportionately the amount due under the note. At December 31, 2004, the note from CCBM had been paid in full.

Inventories

Inventories consist of aviation fuel and supplies used in developing oil and gas properties. Inventories are stated at lower of cost or market using the average cost method.

Properties and Equipment

Land, buildings, improvements, machinery and equipment are carried at cost. Depreciation of buildings, improvements, machinery and equipment is provided principally by the straight-line method over estimated useful lives ranging from 3 to 45 years. Following is a breakdown of the lives over which assets are depreciated.

Equipment	
Office Equipment	3 to 5 years
Planes	10 years
Field Tools and Hand Equipment	5 to 7 years
Vehicles and Trucks	3 to 7 years
Heavy Equipment	7 to 10 years
Building	
Service Buildings	20 years
Corporate Headquarters' Building	45 years

The Company capitalizes all costs incidental to the acquisition of mineral properties as incurred. Costs are charged to operations if the Company determines that the property is not economical. Mineral exploration costs are expensed as incurred. When it is determined that a mineral property can be economically developed as a result of establishing proved and probable reserves, costs subsequently incurred are capitalized and amortized using units of production over the estimated recoverable proved and probable reserves. Costs and expenses related to general corporate overhead are expensed as incurred.

The Company has acquired substantial mining properties and associated facilities at minimal cash cost, primarily through the assumption of reclamation and environmental liabilities. Certain of these properties are owned by various ventures in which the Company is either a partner or venturer. (See Note F).

Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties subject to amortization and the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major exploration and development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the capitalized cost of the property will be added to the costs to be amortized.

After there are proven reserves, the capitalized costs associated with those reserves are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

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 related 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 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.

Fair Value of Financial Instruments

The carrying amount of cash equivalents, receivables, other current assets, accounts payable and accrued expenses approximate fair value because of the short-term nature of those instruments. The recorded amounts for short-term and long-term debt, approximate fair market value due to the variable nature of the interest rates on the short term debt, and the fact that interest rates remain generally unchanged from issuance of the long term debt.

Revenue Recognition

Revenues from real estate operations are from the rental of office space in office buildings in Riverton, Wyoming. All these revenues are reported on a gross revenue basis and are recorded at the time the service is provided.

The Company, through its subsidiary, RMG, utilizes the entitlements method of accounting for natural gas revenues whereby revenues are recognized as the Company's share of the gas is produced and delivered to a purchaser based upon its working interest in the properties. The Company will record a receivable (payable) to the extent that it receives less (more) than its proportionate share of the gas revenues. There were no significant imbalances at December 31, 2004.

Management fees are for operating and overseeing coalbed methane production and oil production on the Fort Peck Reservation in Montana. Management fees are recorded when the service is provided.

Comprehensive Income

Unrealized gains (losses) on the hedging of gas sales are excluded from net income but are reported as comprehensive income on the consolidated statements of stockholders' equity.

Hedging Activities

The results of operations and operating cash flows are impacted by changes in market prices for oil and gas. To mitigate a portion of this exposure, the Company through RMG and its subsidiary RMG I has entered into certain derivative instruments. RMG I's derivative instruments covered approximately 92% of net gas sales for the twelve months ended December 31, 2004. All derivative instruments have been entered into and designated as cash flow hedges of gas price risk and not for speculative or trading purposes. As of December 31, 2004, RMG I's derivative instruments were comprised of swaps. For swap instruments, RMG I receives (pays) a fixed price for the hedged commodity and pays (receives) a floating market price, as defined in each instrument, to the counterparty. These instruments have been designated and have qualified as cash flow hedges. Should the Company not be able to deliver the gas under hedge, it would have to acquire the gas. In the event the market price for gas exceeded the hedge price, the Company would recognize a loss.

The carrying values of these instruments are equal to the estimated fair values. The fair values of the derivative instruments were established using appropriate future cash flow valuation methodologies. The actual contribution to future results of operations will be based on the market prices at the time of settlement and may be more or less than fair value estimates used at December 31, 2004.

Net loss on hedging activities included in gas sales on the consolidated statement of operations were $254,100 during the period ended December 31, 2004. All forecasted transactions hedged as of December 31, 2004 are expected to occur by December 2005. Approximately 30,000 mmbtu per month are hedged at $4.14 per mmbtu through December 2005 and 15,000 mmbtu per month are hedged at $8.10 per mmbtu from January 1, 2005 through March 31, 2005, resulting in an estimated fair value liability of $435,900 as of December 31, 2004.

Stock Based Compensation

SFAS 123, "Accounting for Stock-Based Compensation," ("SFAS 123") defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), provided that pro forma disclosures are made of net income or loss and net income or loss per share, assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted using the Black-Scholes pricing model and the following weighted average assumptions:

	Year Ended December 31,		Seven Months ended December 31,	Year ended May 31,
	2004	2003	2002	2002
Risk-free interest rate	4.82%	5.61%	4.4%	5.6%
Expected lives (years)	7.1	7	8.5	10
Expected volatility	50.79%	58.95%	50.38%	62.65%
Expected dividend yield	--	--	--	--

To estimate expected lives of options for this valuation, it was assumed options will be exercised at the end of their expected lives. All options are initially assumed to vest. Cumulative compensation cost recognized in pro forma net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture.

If the Company had accounted for its stock-based compensation plans in accordance with SFAS 123, the Company's net loss and pro forma net loss per common share would have been reported as follows:

	Year Ended December 31,		Seven Months ended December 31,	Year ended May 31,
	2004	2003	2002	2002
Net loss to common shareholders as reported	$(6,248,700)	$(5,810,100)	$ (3,840,100)	$ (6,267,600)
Deduct: Total stock based employee expense determined under fair value based method	(207,100)	(652,900)	(1,410,850)	(3,079,700)
Pro forma net loss	$(6,455,800)	$(6,463,000)	$ (5,250,950)	$ (9,347,300)
As reported, Basic	$ (.47)	$ (.52)	$ (.36)	$ (.67)
As reported, Diluted	(.47)	(.52)	(.36)	(.67)
Pro forma, Basic	(.49)	(.58)	(.49)	(1.01)
Pro forma, Diluted	(.49)	(.58)	(.49)	(1.01)

Weighted average shares used to calculate pro forma net loss per share were determined as described in Note B, except in applying the treasury stock method to outstanding options, net proceeds assumed received upon exercise were increased by the amount of compensation cost attributable to future service periods and not yet recognized as pro forma expense.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes". This statement requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets, liabilities and carryforwards.

SFAS 109 requires recognition of deferred tax assets for the expected future effects of all deductible temporary differences, loss carryforwards and tax credit carryforwards. Deferred tax assets are reduced, if deemed necessary, by a valuation allowance for any tax benefits which, based on current circumstances, are not expected to be realized.

Net Loss Per Share

The Company reports net loss per share pursuant to Statement of Financial Accounting Standards No. 128 ("SFAS 128"). SFAS 128 specifies the computation, presentation and disclosure requirements for earnings per share. Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock, if dilutive. Potential common shares relating to options and warrants are excluded from the computation of diluted earnings (loss) per share, because they were antidilutive, totaled 5,628,820, 3,790,370, 4,910,900 and 3,999,468 at December 31, 2004, 2003 and 2002 and May 31, 2002, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the USA 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.

Reclassifications

Certain reclassifications have been made in the prior years financial statements in order to conform with the presentation for the current year.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB No. 123(R), *Accounting for Stock-Based Compensation,* which replaces FASB 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. The Company will be required to implement FASB 123(R) on the quarterly report for the quarter ending September 30, 2005. Under the terms of FASB 123(R) the Company will be required to expense the fair value of stock options issued to employees. The fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividends on it, and the risk-free interest rate over the expected life of the option. The fair value of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, life of the option, dividends on the stock, or the risk-free interest rate.

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 that the liability is incurred. The statement further requires that the Company review the liability each quarter and determine if a change is estimate is required as well as accrete 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.

The following is a reconciliation of the total liability for asset retirement obligations:

	Year ended December 31,	
	2004	2003
Beginning balance	$ 7,264,700	$ 8,906,800
Impact of adoption of SFAS No. 143	--	(1,615,600)
Addition to Liability	463,700	--
Liability Settled	--	(393,200)
Accretion Expense	346,700	366,700
Ending balance	$ 8,075,100	$ 7,264,700

The following table shows the Company's net loss and net loss per share on a pro forma basis as if the provisions of SFAS No. 143 had been applied retroactively in all periods presented.

	Year ended December 31, 2004	Year ended December 31, 2003	Seven months ended December 31, 2002	Year ended May 31, 2002
NET LOSS:				
Reported net loss	$ (6,248,700)	$ (7,075,800)	$ (3,857,200)	$ (6,034,400)
Cumulative effect of adoption of SFAS No. 143	--	--	(200,000)	(333,000)
Adjusted net loss	$ (6,248,700)	$ (7,075,800)	$ (4,057,200)	$ (6,367,400)
PER SHARE OF COMMON STOCK:				
Reported net loss-basic	$ (0.47)	$ (0.63)	$ (0.36)	$ (0.65)
Cumulative effect of adoption of SFAS No. 143	--	--	(0.02)	(0.04)
Adjusted net loss-basic	$ (0.47)	$ (0.63)	$ (0.38)	$ (0.69)
Reported net loss-diluted	$ (0.47)	$ (0.63)	$ (0.36)	$ (0.65)
Cumulative effect of adoption of SFAS No. 143	--	--	(0.02)	(0.04)
Adjusted net loss-diluted	$ (0.47)	$ (0.63)	$ (0.38)	$ (0.69)
Weighted average - basic	13,182,421	11,180,975	10,770,658	9,299,359
Weighted average - diluted	13,182,421	11,180,975	10,770,658	9,299,359

Computed on a pro-forma basis, the provisions of SFAS No. 143 would have been $7,291,200, $7,091,200 and $6,758,200 at December 31, 2002 and May 31, 2002 and 2001, respectively.

In May 2003 the FASB issued SFAS No. 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*" This Statement establishes standards for how the Company will classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires that the Company classify a financial instrument within its scope as a liability. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements." The remaining provisions of this Statement are consistent with the FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 had no material impact on the Company's financial position or results of operations.

The Company has reviewed other current outstanding statements from the Financial Accounting Standards Board and does not believe that any of those statements will have a material adverse affect on the financial statements of the Company when adopted.

C. RELATED-PARTY TRANSACTIONS:

There are no related party disclosures related to these financial statements

D. USECC JOINT VENTURE:

The Company operates the Glen L. Larsen office complex; holds interests in various mineral operations; conducts oil and gas operations; and transacts all operating and payroll expenses through a joint venture with Crested, the USECC Joint Venture.

E. RESTRICTED INVESTMENTS:

The Company's restricted investments secure various decommissioning, reclamation and holding costs. Investments are comprised of debt securities issued by the U.S. Treasury that mature at varying times from three months to one year from the original purchase date. As of December 31, 2004 and 2003, the cost of debt securities was a reasonable approximation of fair market value. These investments are classified as held-to-maturity under SFAS 115 and are measured at amortized cost.

F. MINERAL CLAIMS TRANSACTIONS:

Phelps Dodge

During prior years, the Company and Crested conveyed interests in mining claims to AMAX Inc. (“AMAX”) in exchange for cash, royalties and other consideration. AMAX merged with Cyprus Minerals (“Cyprus Amax”) which was purchased by Phelps Dodge Mining Company (“Phelps Dodge”) in December 1999. The properties have not been placed into production as of December 31, 2004.

Amax and later Cyprus Amax paid the Company and Crested an annual advance royalty of 50,000 (25,000 lbs. to each) pounds of molybdenum (or its cash equivalent). During fiscal 2000, Phelps Dodge assumed this obligation.

Phelps Dodge filed suit against the Company and Crested on June 19, 2002 regarding these matters. On February 4, 2005, the U.S. District Court of Colorado entered Findings of Fact and Conclusions of Law in a case involving the Company, Crested and Phelps Dodge Corporation authorizing the return of the Mt. Emmons molybdenum properties and associated water treatment plant to the Company and Crested. USECC has filed a motion with the Court to amend the Order to determine that the decreed water rights be conveyed to USECC. The motion is pending. The ultimate impact of this decision on the financial statements of the Company in management’s opinion will not be measurable until such time as the final decisions are reached and the property actually transferred to the Company. (See Note K to the financial statements)

Sutter Gold Mining, Inc.

Sutter Gold Mining Company ("SGMC") was established in 1990 to conduct operations on mining leases and to produce gold from the Lincoln Project in California.

SGMC has not generated any significant revenue All acquisition and mine development costs since inception were capitalized. SGMC put the property on a shut down status and took an impairment on the associated assets due to the decline in the spot price for gold and the lack of adequate financing in prior periods. During fiscal 2000, a visitor's center was developed and became operational. SGMC has leased the visitor's center to partially cover stand-by costs of the property.

On December 29, 2004, a majority of SGMC was acquired by Sutter Gold Mining Inc. ("SGMI") (formerly Globemin Resources, Inc.) of Vancouver, B.C. SGMI is traded on the TSX Venture Exchange. Approximately 90% of SGMI's common stock was exchanged for 40,190,647 shares of SGMI common stock. At December 31, 2004, the Company owned and controlled 65.5% of the common stock of SGMI.

At December 31, 2004, the spot market price for gold had attained levels that management believes will allow SGMI to produce gold from the property on an economic basis. This conclusion is based on engineering analysis completed on the property, although, economic reserve have not been delineated. Management of SGMI is therefore pursuing the equity capital market and non-affiliated investors to obtain sufficient capital to complete the development of the mine, construct a mill and place the property into production.

SMP

During fiscal 1989, USE and Crested, through USECC, entered into an agreement to sell a 50% interest in their Sheep Mountain properties to a subsidiary of Nukem Inc., CRIC. USECC and CRIC immediately contributed their 50% interests in the properties to a newly-formed partnership, SMP. The SMP Partnership was established to further develop and mine the uranium claims on Sheep Mountain, acquire uranium supply contracts and market uranium. Certain disputes arose among USECC, CRIC and its parent Nukem, Inc. over the operation of SMP. These disputes have been in litigation/arbitration for the past fourteen years. See Note K for the status of the related litigation/arbitration.

Due to the litigation and arbitration proceedings involving SMP, the Company has expensed all of its costs related to SMP and has no carrying value of its investment in SMP at December 31, 2004 OR December 31, 2003.

On December 8, 2004, the Company and Crested entered into a Purchase and Sale Agreement (the "agreement") with Bell Coast Capital Corp. now named Uranium Power Corp. ("UPC"), a British Columbia corporation (TSX-V "UPC-V) for the sale to UPC of an undivided 50% interest in the SMP uranium properties. A summary of certain provisions in the agreement follows.

The initial purchase price for the 50% interest in the properties is $4,050,000 and 4,000,000 shares of common stock of UPC, payable by installments. All amounts are stated in US dollars.

Initial cash and equity purchase price:

October 29, 2004	$ 175,000	Non-refundable deposit against execution of the definitive agreement.
November 29, 2004	$ 175,000	Released from escrow on January 27, 2005 which was five days after TSX-V approval of the agreement.
June 29, 2005	$ 500,000	and 1,000,000 common shares of UPC stock subject to TSX-V regulations.
June 29, 2006	$ 800,000	and 750,000 common shares of UPC stock subject to TSX-V regulations.
December 29, 2006	$ 800,000	and 750,000 common shares of UPC stock subject to TSX-V regulations.
June 29, 2007	$ 800,000	and 750,000 common shares of UPC stock subject to TSX-V regulations.
December 29, 2007	$ 800,000	and 750,000 common shares of UPC stock subject to TSX-V regulations
Total	$4,050,000	4,000,000 common shares of UPC

Upward adjustment to initial cash purchase price:

The cash portion of the initial purchase price will be increased by $3,000,000 (in two $1,500,000 installments) after the uranium oxide price (long term indicator) is at or exceeds $30.00/lb for four consecutive weeks (the "price benchmark"). If the price benchmark is attained on or before April 29, 2006, the first installment will be due six months after price attainment (but not before April 29, 2006). If the price benchmark is attained after April 29, 2006, the first installment will be due six months after attainment. In either event, the second installment will be due six months after the first installment is due. These payment obligations will survive closing of the purchase of the 50% interest in the properties; if the installments are not timely paid, UPC will forfeit all of its 50% interest in the properties, and in the joint venture to be formed.

The Company and Crested and UPC, will each be responsible for paying 50% of (i) current and future Sheep Mountain reclamation costs in excess of $1,600,000, and (ii) all costs to maintain and hold the properties.

Closing of the agreement is required on or before December 29, 2007, with UPC's last payment of the initial purchase price (plus, if applicable, the increase in the cash portion). At the closing, UPC will contribute its 50% interest in the properties, and the Company and Crested will contribute their aggregate 50% interest in the properties, to a joint venture, wherein UPC and the Company and Crested each will hold a 50% interest. The joint venture generally will cover uranium properties in Wyoming and other properties identified in the Company's and Crested's uranium property data base, but excluding the Green Mountain area and Kennecott's Sweetwater uranium mill, the Shootaring Canyon uranium mill in southeast Utah (and properties within ten miles of that mill), and properties acquired in connection with a future joint venture involving that mill.

UPC will contribute up to $10,000,000 to the joint venture (at $500,000 for each of 20 exploration projects). The Company, Crested and UPC, each will be responsible for 50% of costs on each project in excess of $500,000.

PLATEAU RESOURCES LIMITED

During fiscal 1994, the Company entered into an agreement with Consumers Power Company to acquire all the issued and outstanding common stock of Plateau Resources Limited ("Plateau"), a Utah corporation. Plateau owns a uranium processing mill and support facilities and certain other real estate assets through its wholly-owned subsidiary, Canyon Homesteads, Inc., in southeastern Utah. The Company paid nominal cash consideration for the Pleateau stock and agreed to assume all environmental liabilities and reclamation bonding obligations. At December 31, 2004, Plateau has a cash security in the amount of $6.8 million to cover reclamation and annual licensing of the properties (see Note K). The Directors of the Company and Crested have agreed to divide equally the cash flows derived from operations and a portion of certain reclamation obligations.

On August 1, 2003, the Company and Crested sold interest in the Ticaboo Townsite in southern Utah as a result of Pleateau entering into a Stock Purchase Agreement to sell all the outstanding shares of Canyon Homesteads, Inc. ("Canyon") to The Cactus Group LLC, a newly formed Colorado limited liability company. The Cactus Group purchased all of the outstanding stock of Canyon for $3,370,000. Of that amount, $349,300 was paid in cash at closing and the balance of $3,120,700 is to be paid under the terms of a promissory note, which bears interest at 7.5%.

Pursuant to the note agreement, the Company and Crested received $166,000 in payments on the note receivable and $44,000 in room credits. At December 31, 2004, the note was current. The Company and Crested are to receive $10,000 per month for the months of January through March 2005 and $24,000 per month on a monthly basis after March of 2005 until August of 2008, at which time, a balloon payment of $2.8 million is due. The note is secured with all the assets of The Cactus Group and Canyon along with personal guarantees by the six principals of The Cactus Group. As additional consideration for the sale, the Company and Crested will also receive the first $210,000 in gross proceeds from the sale of either single family or mobile home lots in Ticaboo.

The Company and Crested are currently evaluating the best utilization of Plateau's assets. Evaluations are ongoing to determine when, or if, the mine and mill properties should be placed into production. The primary factor in these evaluations relates to uranium market prices.

ROCKY MOUNTAIN GAS, INC.

In 1999, the Company and Crested organized Rocky Mountain Gas, Inc. ("RMG") to enter into the coalbed methane gas/natural gas business. RMG is engaged in the acquisition of coalbed methane gas properties and the future exploration, development and production of methane gas from those properties. At December 31, 2004, RMG is owned 49.3% by the Company and 39.8% by Crested. At December 31, 2004, RMG owns 237,200 gross acres and 128,700 net acres.

CCBM

RMG sold an interest in its coalbed methane properties to CCBM. The agreement between CCBM and RMG is to finance the further development of coalbed methane acreage currently owned by RMG in Montana and Wyoming, and to acquire and develop more acreage in Wyoming and the Powder River Basin of Montana. At December 31, 2004, CCBM had completed its funding and drilling commitments. RMG assigned a 25% undivided interest in its Oyster Ridge property and a 6.25% undivided interest in its Castle Rock properties to CCBM. RMG also assigned varying interests in other properties to CCBM which were later contributed to Pinnacle Gas Resources, Inc. ("Pinnacle") see discussion below on Pinnacle.

RMG is the designated operator under a Joint Operating Agreement ("JOA") between RMG and CCBM, which will govern all operations on the properties subject to a Purchase and Sale Agreement between RMG and CCBM, subject to pre-existing JOA's with other entities, and operation or properties in the area of mutual interest ("AMI"). CCBM has the right to participate in other properties RMG may acquire under the area of mutual interest ("AMI"), until June 30, 2005.

PINNACLE

On June 23, 2003, a Subscription and Contribution Agreement was executed by RMG, CCBM and seven affiliates of Credit Suisse First Boston Private Equity ("CSFB Parties"). Under the Agreement, RMG and CCBM contributed certain of their respective interests, having an estimated fair value of approximately $7.5 million each, carried on RMG's books at a cost of $957,600, comprised of (1) leases in the Clearmont, Kirby, Arvada and Bobcat CBM project areas and (2) oil and gas reserves in the Bobcat project area, to a newly formed entity, Pinnacle Gas Resources, Inc., a Delaware corporation ("Pinnacle"). In exchange for the contribution of these assets, RMG and CCBM each received 37.5% of the common stock of Pinnacle ("Pinnacle Common Stock") as of the closing date and options to purchase Pinnacle Common Stock ("Pinnacle Stock Options"). CFSB contributed $5.0 million for 25% of the common stock of Pinnacle.

The CSFB Parties also contributed approximately $13.0 million of cash to Pinnacle in return for the Redeemable Preferred Stock of Pinnacle ("Pinnacle Preferred Stock"), and warrants to purchase Pinnacle Common Stock ("Pinnacle Warrants"). The CSFB Parties also agreed to contribute additional cash, under certain circumstances, of up to approximately $11.8 million to Pinnacle to fund future drilling, development and acquisitions. The CSFB Parties currently have greater than 50% of the voting power of the Pinnacle capital stock through their ownership of Pinnacle Common Stock and Pinnacle Preferred Stock.

At December 31, 2004 RMG and CCBM each owned 16.7% of Pinnacle and the CSFB Parties owned 66.6%.

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 I - HI-PRO

On January 30, 2004, RMG, through its wholly owned subsidiary RMG I, purchased the producing, and non-producing properties of Hi-Pro Production LLC ("Hi-Pro"), a company in the Powder River

Basin of Wyoming. The terms of the purchase were as follows:

$ 776,700	cash paid by RMG I, $75,000.
$ 588,300	net revenues from November 1, 2003 to December 31, 2003, which were retained by Hi-Pro.(1)
$ 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)
$ 600,000	by 200,000 restricted shares of USE common stock (valued at $3.00 per share).
$ 700,000	by 233,333 restricted shares of RMG common stock (valued at $3.00 per share.)(3)
$ 3,635,000	cash, loaned to RMG I under the credit facility agreement.
$ 6,800,000	
(588,300)	reverse net revenues from November 1, 2003 to December 31, 2003, which were retained by Hi-Pro
$ 6,211,700	

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(1) RMG I paid all January operating costs at closing. Net revenues from the purchased properties for January 2004 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 I otherwise would have paid at the January 30, 2004 closing.

(2) Pursuant to the terms of the promissory note, USE issued 166,667 shares as payment in full of this obligation during the first quarter of 2004.

(3) The RMG shares were convertible at Hi-Pro's sole election into restricted shares of common stock of USE. The number of USE shares to be issued were based upon (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. During the quarter ended June 30, 2004, all of these shares were converted into 312,221 shares of the Company's common stock. The Company has filed a resale registration statement with the Securities and Exchange Commission to cover public resale of these shares.

RMG I purchased these properties to continue its entry into the coalbed methane gas business and accounted for as a purchase transaction with the estimated fair value of assets and liabilities assumed in the acquisition as follows:

Estimated fair value of assets acquired	
Current assets	$ 639,400
Oil and gas properties	6,538,300
Other property and equipment	146,700
Other long term assets	145,000
Total assets acquired	$ 7,469,400

Estimated fair value of liabilities assumed		
Current liabilities	$	884,800
Asset retirement obligation		372,100
Total liabilities assumed		1,256,900
Net assets acquired	$	6,212,500

RMG I financed $3.6 million of the cash component from a $25 million credit facility arranged by Petrobridge Investment Management, LLC (Petrobridge), a mezzanine lender headquartered in Houston, TX. The properties acquired from Hi-Pro serve as the sole collateral for the credit facility. As defined by the agreement, terms under the credit facility include the following: (1) advances under the credit facility are subject to lender's approval; (2) all revenues from oil and gas properties securing the credit facility will be paid to a lock box controlled by the lender. All disbursements for lease operating costs, revenue distributions and operating expense require approval by the lender before distributions are made; and (3) RMG I must maintain certain financial ratios and production volumes, among other requirements.

Results of operations for the year ended December 31, 2004 would not be materially affected had the purchase if Hi-Pro occurred on January 1, 2004.

At December 31, 2004, RMG I was not in compliance with five of the financial covenants under the Petrobridge agreement. The ratios and production figures that RMG I is not in compliance with are:

	Terms of Loan	Actual at 12-31-04
Total Debt to EBITDA	No greater than 2 to 1	5.7 to 1
EBITDA to interest and rents	Not less than 3 to 1	1.3 to 1
Current Ratio	Not less than 1 to 1	.3 to 1
NPV of proved developed Producing reserves to debt	Not less than 1 to 1	.9 to 1
Sales Volumes	230 mmcf per quarter	182.2 mmcf

A revocable waiver was granted through January 31, 2006 by the lender. As the wavier is conditional, the entire debt is classified by RMG as current. Management of RMGI continues to seek solutions in the production of coalbed methane gas to bring the project into compliance. Due to lower than projected sales volumes, the Hi-Pro field will remain out of compliance unless (1) higher prices are realized, (2) costs are reduced and (3) the debt is paid down. It is probable that RMG I will not be in compliance with these ratios for the next reporting period. Should the lender declare the note in default, the only asset available for recourse is the Hi-Pro property owned by RMG I.

Oil and Gas Properties and Equipment Included the Following:

	December 31,			May 31,
	2004	2003	2002	2002
Oil and gas properties:				
Subject to amortization	1,773,600	1,773,600	1,773,600	1,773,600
Acquired in calendar 2004	3,785,400	--	--	--
Acquired in calendar 2003	--	--	--	--
Acquired in calendar 2002	650,000	650,000	650,000	--
	6,209,000	2,423,600	2,423,600	1,773,600
Not subject to amortization:				
Acquired in calendar 2004	4,471,100	--	--	--
Acquired in calendar 2003	265,400	265,400	--	--
Acquired in calendar 2002	508,400	508,400	508,400	--
Acquired in fiscal 2002	363,900	363,900	363,900	363,900
Acquired in fiscal 2001	1,154,500	1,154,500	1,154,500	1,154,500
Acquired in fiscal 2000	4,727,200	4,727,200	4,727,200	4,727,200
Less prior year's sales	(6,315,600)	(2,500,000)	(1,250,000)	--
	5,174,900	4,519,400	5,504,000	6,245,600
Sale of gas property interests	(563,600)	(3,815,600)	(1,250,000)	(1,250,000)
	4,611,300	703,800	4,254,000	4,995,600
Total oil and gas properties	10,820,300	3,127,400	6,677,600	6,769,200
Accumulated depreciation, depletion and amortization	(2,917,500)	(1,923,000)	(1,834,100)	(1,773,600)
Net oil and gas properties	$ 7,902,800	$ 1,204,400	$ 4,843,500	$ 4,995,600

The Company began drilling of its coalbed methane properties during 2002 and acquired producing properties in January of 2004 and June 2002.

The following sets forth costs incurred from oil and gas property acquisition and development activities:

	December 31,			May 31,
	2004	2003	2002	2002
Acquisition of properties/facilities	$ 6,613,900	$ 107,100	$ 936,200	$ 192,600
Development	1,642,600	158,300	97,200	87,400
	$ 8,256,500	$ 265,400	$ 1,033,400	$ 280,000

The results from operations of oil and gas activities for the year ended December 31, 2004 and 2003 are as follows:

	Year ended December 31, 2004	Year ended December 31, 2003	Seven Months Ended May 31, 2002
Sales to third parties	$ 2,951,600	$ 287,400	$ 199,400
Production costs	(2,322,200)	(224,200)	(335,200)
Depreciation, depletion and amortization	(994,500)	(88,900)	$ (65,200)
Loss from oil and gas production activities	$ (365,100)	$ (25,700)	$ (301,000)

Depreciation, depletion and amortization was $0.98, $1.09 and $1.14 per equivalent mcf of production for the year ended December 31, 2004, 2003 and the seven months ended December 31, 2002, respectively.

G. DEBT:

As of December 31, 2004 and 2003 the company and its affiliates had current and long term liabilities associated with the comprehensive loss from hedging of coalbed methane gas, prepaid rents, leases, self funding of employee health insurance and accrued holding costs of its uranium properties in southern Utah as follows:

Current other liabilities:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Comprehensive loss from hedging	$ 436,000	$ --
Prepaid rent	26,500	--
Mineral property lease	69,700	69,700
	$ 532,200	$ 69,700

Long term other liabilities:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Employee health insurance self funding	$ 297,900	$ 247,500
Holding cost of uranium property	1,654,400	1,911,100
	$ 1,952,300	$ 2,158,600

Lines of Credit

As of December 31, 2004, the Company had a $750,000 line of credit with a commercial bank. The line of credit bore interest at a variable rate (6.25% as of December 31, 2004). The weighted average interest rate for the year ended December 31, 2004 was 534%. As of December 31, 2004, there was no outstanding balance due under the line of credit. The line of credit expired on December 31, 2004 and has been renewed for 6 months to June 30, 2005. This line of credit is secured by a share of the net proceeds of fees from production of oil wells and certain assets of USECC.

Long-term Debt

The components of long-term debt as of December 31, 2004 and 2003 are as follows:

	December 31, 2004	December 31, 2003
USECC installment notes - collateralized by equipment; interest at 5.25% to 9.0%, matures in 2005-2009	$ 1,192,300	$ 1,407,900
SGMC installment notes - collateralized by certain properties, interest at 8.0% maturity 2009	$ 46,500	$ 62,900
PLATEAU installment note - collateralized by equipment, interest at 8.0%	$ --	$ --
USE convertible note - net of discount collateralized by equipment coalbed methane leases and 4,000,000 shares of RMG stock interest at 10%, maturity 2006	$ 3,000,000	
Discount for issuance of USE warrants	(315,800)	
Amortization of warrants discount	42,800	
	$ 2,727,000	$ --
USE convertible notes - net of discounts by equipment, interest at 8.0%, maturity 2006		$ 1,500,000
Discount for issuance of USE warrants		(969,900)
Payment of principal		(500,000)
Amortization of warrants discount		748,900
	$ --	$ 779,000
RMG production related note - collateralized by gas properties and production, interest at 11.0%	$ 3,700,000	
Additional borrowings	479,700	
Discount for issuance of USE warrants	(80,400)	
Discount for overriding royalty	(314,200)	
Payment of principal	(690,900)	
Amortization of warrant and royalty discount	120,600	
	$ 3,214,800	$ --
	7,180,600	2,249,800
Less current portion	(3,400,100)	(932,200)
	$ 3,780,500	$ 1,317,600

Principal requirements on long-term debt are $3,400,100, $2,873,100, $875,000, $23,400 and $9,000 for the years ended December 31, 2005 through 2009, respectively.

On July 30, 2004, the Company entered into a credit agreement with Geddes and Company ("Geddes"), based in Phoenix, Arizona, to borrow up to $3 million (USE convertible notes above). Proceeds from the credit facility are to be used to acquire and develop gas properties, and for general corporate purposes of USE and the Company.

Collateral for the credit facility include:

(a) the Company's coalbed methane leases in the Castle Rockproperty (located in the Montana portion of the Powder River Basin) and;

(b) 4 million shares of RMG's common stock owned by the Company.

In 2003, Caydal converted $500,000 of debt to 211,109 shares of common stock (33,333 shares at the original $3.00 conversion price, and 177,776 shares at the restructured price of $2.25). During the calendar year ended December 31, 2004, Caydal converted the balance of its debt of $500,000 into 222,220 shares of the Company's common stock. Tsunami parties (Tsunami") also converted its $500,000 in convertible debt into 222,220 shares of the Company's common stock. The Company paid $25,600 and $44,700 in interest to Caydal and Tsunami respectively by issuing 11,447 shares of common stock to Caydal and 20,946 shares of common stock to Tsunami.

H. INCOME TAXES:

The components of deferred taxes as of December 31, 2004 and 2003 are as follows:

	December 31, 2004	December 31, 2003
Deferred tax assets:		
Deferred compensation	$ 1,565,700	$ 445,400
Net operating loss carryforwards	13,978,900	11,596,000
Non-deductible reserves and other	523,000	437,200
Tax basis in excess of book basis	994,700	106,700
Total deferred tax assets	17,062,300	12,585,300
Deferred tax liabilities:		
Book basis in excess of tax basis	(1,397,900)	(486,200)
Development and exploration costs	(109,400)	(107,600)
Total deferred tax liabilities	(1,507,300)	(593,800)
	15,555,000	11,991,500
Valuation allowance	(15,555,000)	(11,991,500)
Net deferred tax liability	$ --	$ --

A valuation allowance for deferred tax assets is required when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of this deferred tax asset depends on the Company's ability to generate sufficient taxable income in the future. Management believes it is more likely than not that the net deferred tax asset will not be realized by future operating results.

The valuation allowance increased $3,563,500 for the year ended December 31, 2004 and increased $2,042,100 for the year ended December 31, 2003, increased $649,000 for the seven months ended December 31, 2002 and decreased $2,740,300 for the year ended May 31, 2002.

The income tax provision (benefit) is different from the amounts computed by applying the statutory federal income tax rate to income before taxes. The reasons for these differences are as follows:

	Year ended December 31,		Seven months ended December 31,	Year ended May 31,
	2004	2003	2002	2002
Expected federal income tax	(2,133,800)	(2,405,800)	(1,305,600)	(2,131,000)
Net operating losses not previously Benefited and other	(1,429,700)	363,700	655,700	4,871,300
Valuation allowance	3,563,500	2,042,100	649,900	(2,740,300)
Income tax provision	$ --	$ --	$ --	$ --

There were no taxes currently payable as of December 31, 2004 and December 31, 2003 related to continuing operations.

At December 31, 2004, the Company had available, for federal income tax purposes, net operating loss carryforwards of approximately $12,979,300 which will expire from 2006 to 2023. The Internal Revenue Code contains provisions which limit the NOL carryforwards available which can be used in a given year when significant changes in Company ownership interests occur. In addition, the NOL amounts are subject to examination by the tax authorities.

The Internal Revenue Service has audited the Company’s and subsidiaries tax returns through the year ended May 31, 2000. The Company’s income tax liabilities are settled through fiscal 2000.

I. SEGMENTS AND MAJOR CUSTOMERS:

The Company’s primary business activity during the year ended December 31, 2004 has been coalbed methane gas property acquisition and exploration and production (and holding shut down mining properties). The Company has no producing mines. The other reportable industry segment is commercial activities through motel, real estate and airport operations. The Company discontinued its drilling/construction segment in the third quarter of fiscal 2002. The following is information related to these industry segments:

	Year ended December 31, 2004		
	Coalbed Methane (and holding costs for inactive mining properties)	Real Estate Operations	Consolidated
Revenues	$ 3,205,700	$ 256,100	$ 3,461,800
Management fees			1,179,900
Total Revenues			$ 4,641,700
Operating loss	$ (2,429,800)	$ (39,400)	$ (2,469,200)
Management fees			1,179,900
General corporate and other expenses			(5,370,100)
Other income and expenses			13,000
Minority interest in loss of subsidiaries			397,700
Loss before income taxes			$ (6,248,700)
Identifiable assets at December 31, 2004	$ 16,285,300	$ 2,177,600	$ 18,462,900
Investments in affiliates			957,700
Corporate assets			11,283,100
Total assets at December 31, 2004			$ 30,703,700
Capital expenditures	$ 8,167,900	$ 3,600	
Depreciation, depletion and amortization	$ 1,183,500	$ 91,200	
Identifiable assets			
Net fixed assets	$ 9,280,900	$ 2,177,600	
Other investments	6,852,300	--	
Inventory	152,100	--	
	$ 16,285,300	$ 2,177,600	

	Year Ended December 31, 2003		
	Coalbed Methane (and holding costs for inactive mining properties)	Motel / Real Estate / Airport Operations	Consolidated
Revenues	$ 287,400	$ 334,300	$ 621,700
Management fees			215,600
Total revenues			$ 837,300
Operating (loss) income	$ (1,487,400)	$ 31,400	$ (1,456,000)
Management fees			215,600
General corporate and other expenses			(5,997,500)
Other income and expenses			(73,000)
Minority interest in loss of affiliates			235,100
Loss before income taxes			$ (7,075,800)
Identifiable net assets at December 31, 2003	$ 9,365,000	$ 3,030,100	$ 12,395,100
Investment in non-affiliated company			957,600
Corporate assets			10,577,100
Total assets at December 31, 2003			$ 23,929,800
Capital expenditures	$ 176,400	$ --	
Depreciation, depletion and amortization	$ 217,600	$ 102,400	

	Seven Months Ended December 31, 2002		
	Coalbed Methane(and holding costs for inactive mining properties)	Motel/ Real Estate/ Airport Operations	Consolidated
Revenues	$ 119,400	$ 749,100	$ 868,500
Management fees			159,100
Total revenues			$ 1,027,600
Operating (loss) Income	$ (973,000)	$ 221,900	$ (751,100)
Management fees			159,100
General corporate and other expenses			(2,915,800)
Other income and expenses			(387,100)
Discontinued operations, net of tax			--
Equity in loss of affiliates and minority interest in subsidiaries			54,800
Loss before income taxes			$ (3,840,100)
Identifiable net assets at December 31, 2002	$ 16,022,800	$ 4,564,700	$ 20,587,500
Corporate assets			7,603,100
Total assets at December 31, 2002			$ 28,190,600
Capital expenditures	$ 1,033,400	$ 37,800	
Depreciation, depletion and amortization	$ 94,800	$ 78,200	

	Year Ended December 31, 2002		
	Coalbed Methane(and holding costs for inactive mining properties)	Motel/ Real Estate/ Airport Operations	Consolidated
Revenues	$ --	$ 1,795,900	$ 1,795,900
Management fees			208,200
Total revenues			$ 2,004,100
Operating loss	$ (1,707,000)	$ (133,000)	$ (1,840,800)
Management fees			208,200
General corporate and other expenses			(5,821,600)
Other income and expenses			1,319,500
Discontinued operations, net of tax			(85,900)
Equity in loss of affiliates and minority interest in subsidiaries			39,500
Loss before income taxes			$ (6,181,100)
Identifiable net assets at May 31, 2002	$ 18,138,500	$ 4,351,600	$ 22,490,100
Corporate assets			8,047,800
Total assets at May 31, 2002			$ 30,537,900
Capital expenditures	$ 151,300	$ 101,500	
Depreciation, depletion and amortization	$ 167,600	$ 254,300	

J. SHAREHOLDERS' EQUITY:

Stock Option Plans

The Board of Directors adopted the U.S. Energy Corp. 1989 Stock Option Plan for the benefit of USE's key employees. The Option Plan, as amended and renamed the 1998 Incentive Stock Option Plan ("1998 ISOP"), reserved 3,250,000 shares of the Company's $.01 par value common stock for issuance under the 1998 ISOP. Options which expired without exercise were available for reissue.

During the year ended December 31, 2004 and 2003, the seven months ended December 31, 2002 and the year ended May 31, 2002 the following activity occurred under the 1998 ISOP:

	Year ended December 31, 2004	Year ended December 31, 2003	Seven months ended December 31, 2002	Year ended May 31, 2002
Grants				
Qualified	--	--	--	--
Non-Qualified	--	--	--	--
	--	--	--	--
Price of Grants				
High	--	--	--	--
Low	--	--	--	--
Exercised				
Qualified	--	77,832	71,166	243,250
Non-Qualified	--	71,453	1	55,372
	--	149,285	71,167	298,622
Total Cash Received	$ --	$ 364,200	$ 170,800	$ 742,000
Forfeitures/Cancellations				
Qualified	--	34,782	--	78,244
Non-Qualified	--	64,233	--	346,018
	--	99,015	--	424,262

In December 2001, the Board of Directors adopted (and the shareholders approved) the U.S. Energy Corp. 2001 Incentive Stock Option Plan (the "2001 ISOP") for the benefit of USE's key employees. The 2001 ISOP (amended in 2004 and approved by the shareholders) reserves for issuance shares of USE common stock equal to 20% of the USE shares of common stock issued and outstanding at any time. The 2001 ISOP has a term of 10 years.

During the years ended December 31, 2004 and 2003, the seven months ended December 31, 2002 and the year ended May 31, 2002 the following activity occurred under the 2001 ISOP:

	Year ended December 31, 2004	Year ended December 31, 2003	Seven months ended December 31, 2002	Year ended May 31, 2002
Grants				
Qualified	1,272,000	--	459,996	10,000
Non-Qualified	--	--	473,004	950,000
	1,272,000	--	933,000	960,000
Price of Grants				
High	$ 2.46	--	$ 2.25	$ 3.90
Low	$ 2.46	--	$ 2.25	$ 3.82
Exercised				
Qualified	--	73,780	--	--
Non-Qualified	--	52,556	--	--
	--	126,336	--	--
Total Cash Received	$ --	$ 284,300	$ --	$ --
Forfeitures/Cancellations				
Qualified	12,000	65,108	--	--
Non-Qualified	--	252,556	50,000	--
	12,000	317,664	50,000	--

The 2001 ISOP replaces the 1998 ISOP, however, options granted under the 1998 ISOP remain exercisable until their expiration date under the terms of that Plan.

The following table represents the activity in employee options for the periods covered by the Annual Report for the year ended December 31, 2004 that are not in employee stock option plans:

	Year ended December 31, 2004	Year ended December 31, 2003	Seven months ended December 31, 2002	Year ended May 31, 2002
Grants				
Qualified	--	--	--	10,000
Non-Qualified	--	10,000	--	--
	--	10,000	--	10,000
Price ofGrants				
High	--	$ 2.90	$ --	$ 3.82
Low	--	$ 2.90	$ --	$ 3.82
Exercised				
Qualified	--	--	--	--
Non-Qualified	--	--	--	--
	--	--	--	--
Total Cash Received	$ --	$ --	$ --	$ --
Forfeitures/Cancellations				
Qualified	--	--	--	--
Non-Qualified	10,000	10,000	100,000	200,000
	10,000	10,000	100,000	200,000

A summary of the Employee Stock Option Plans activity in all plans for the year ended December 31, 2004, 2003; the seven months ended December 31, 2002 and the year ended May 31, 2002 is as follows:

	Year ended December 31,				Seven months ended December 31,		Year ended May 31,	
	2004		2003		2002		2002	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of the period	2,873,646	$ 2.74	3,565,946	$ 2.76	2,854,113	$ 2.92	2,606,997	$ 2.69
Granted	1,272,000	2.46	10,000	2.90	933,000	2.25	970,000	3.90
Forfeited	(22,000)	2.66	(426,679)	3.17	(150,000)	2.63	(424,262)	3.30
Expired	--	--	--	--	--	--	--	--
Exercised	--	--	(275,621)	2.35	(71,167)	2.40	(298,622)	2.84
Outstanding at period end	4,123,646	--	2,873,646	2.74	3,565,946	2.76	2,854,113	2.92
Exercisable at period end	2,863,646	--	2,873,646	2.74	2,612,946	2.94	1,984,113	2.49
Weighted average fair value of options granted during the period		$ 1.66		$ 0.68		$ 1.15		$ 1.99

The following table summarized information about employee stock options outstanding and exercisable at December 31, 2004:

Weighted Average Exercise Price	Number of options outstanding at December 31, 2004	Weighted average remaining contractual Life in years	Number of options exercisable at December 31, 2004
$ 2.65	4,123,646	7.1	2,863,646

Employee Stock Ownership Plan

The Board of Directors of USE adopted the U.S. Energy Corp. 1989 Employee Stock Ownership Plan ("ESOP") in 1989, for the benefit of USE employees. During the year ended December 31, 2004 the Board of Directors of USE contributed 70,439 shares to the ESOP at the price of $2.96 for a total expense of $208,500. This compares to contributions to the ESOP during the year ended December 31, 2003, the seven months ended December 31, 2002 and fiscal year ended May 31, 2002 of 76,294, 43,867 and 70,075 shares to the ESOP at prices of $3.10, $3.08 and $3.29 per share, respectively. The Company has expensed $208,500, $236,400, $135,100 and $236,900 during the years ended December 31, 2004, 2003, the seven months ended December 31, 2002 and the fiscal year ended May 31, 2002, respectively related to these contributions. As of December 31, 2004, all shares of the USE stock that have been contributed to the ESOP have been allocated. The estimated fair value of shares that are not vested is approximately $85,500. USE has loaned the ESOP $1,014,300 to purchase 125,000 shares from the Company and 38,550 shares on the open market. During the year ended May 31, 1996, 10,089 of these shares were used to fund the Company's annual funding commitment and reduce the loan to the Company by $87,300. These loans, which are secured by pledges of the stock purchased, bear interest at the rate of 10% per annum. The loans are reflected as unallocated ESOP contribution in the equity section of the accompanying Consolidated Balance Sheets.

Executive Officer Compensation

In May 1996, the Board of Directors of USE approved an annual incentive compensation arrangement ("1996 Stock Award Program") for its CEO and four other officers of the Company payable in shares of the Company's common stock. The 1996 Stock Award Program was subsequently modified to reflect the intent of the directors which was to provide incentive to the officers of the Company to remain with USE. The shares were issued annually pursuant to the recommendation of the Compensation Committee on or before January 15 of each year, beginning January 15, 1997, as long as each officer is employed by the Company. The officers received up to an aggregate total of 67,000 shares per year for the years 1997 through 2002. The shares under the plan are forfeitable until retirement, death or disability of the officer. The shares are held in trust by the Company's treasurer and are voted by the Company's non-employee directors. As of December 31, 2003, 392,536 shares had been issued to the five officers of the Company under the 1996 Stock Award Plan and 62,536 shares had been released to the estate of one of the officers. The 1996 Stock award program was closed out in the year ended December 31, 2003.

In December 2001, the Board of Directors adopted (and the shareholders approved) the 2001 Stock Award Plan to compensate five of its executive officers and the president of RMG. Under the Plan, 10,000 shares may be issued to each officer each year. 100,000 shares were issued under the Plan during the year ended December 31, 2003. As compensation for the year ended December 31, 2003 and the seven months ended December 31, 2002. During the year ended December 31, 2004 an additional 50,000 shares were issued to the officers.

Options and Warrants to Others

As of December 31, 2004, there are 1,505,174 options and warrants outstanding to purchase shares of the Company's common stock. The Company values these warrants using the Black-Scholes option pricing model and expenses that value over the life of the warrants. Activity for the periods ended December 31, 2004 for warrants is represented in the following table:

	Year ended December 31,				Seven months ended December 31,		Year ended May 31,	
	2004		2003		2002		2002	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at beginning of the period	907,209	$ 3.51	990,383	$ 3.37	860,152	$ 3.43	314,158	$ 3.05
Granted	868,465	2.87	224,875	4.32	145,147	2.95	572,364	3.62
Forfeited	(145,500)	2.63	(176,453)	3.67	(14,916)	--	(25,165)	2.88
Expired	--	--	--	--	--	--	--	--
Exercised	(125,000)	2.01	(131,596)	3.55	--	--	(1,205)	3.75
Outstanding at period end	1,505,174	3.35	907,209	3.51	990,383	3.36	860,152	3.43
Exercisable at period end	1,044,152	3.43	831,724	3.41	979,908	3.37	860,152	3.43
Weighted average fair value of options granted during the period		$ 1.37		$ 0.68		$ 1.15		$ 1.99

The following table summarized information about employee stock options outstanding and exercisable at December 31, 2004:

Weighted Average Exercise Price	Number of options outstanding at December 31, 2004	average remaining contractual Life in years	Number of options exercisable at December 31, 2004
$ 3.35	1,505,174	3.0	1,044,152

These options and warrants are held by persons or entities other than employees, officers and directors of the Company.

Forfeitable Shares

Certain of the shares issued to officers, directors, employees and third parties are forfeitable if certain conditions are not met. Therefore, these shares have been reflected outside of the Shareholders' Equity section in the accompanying Consolidated Balance Sheets until earned. During fiscal 1993, the Company's Board of Directors amended the stock bonus plan. As a result, the earn-out dates of certain individuals were extended until retirement. The Company recorded $216,800 of compensation expense for the year ended December 31, 2004 compared to $284,700, $178,300 for the year ended December 31, 2003, the seven months ended December 31, 2002; and $298,300 for the year ended May 31, 2002, respectively. The accompanying balance sheet at December 31, 2004 includes a deferred charge of $322,600 of which $171,000 is included in prepaid expenses. A schedule of total forfeitable shares for the Company is set forth in the following table:

Issue Date	Number of Shares	Issue Price	Total Compensation
Balance at			
May 31, 2001	433,788		$ 2,748,600
May 31, 2002	67,000	$ 3.90	261,300
Balance at			
May 31, 2002 and			
December 31, 2002	500,788		3,009,900
March 24, 2003	43,378	$ 3.50	151,900
Shares earned	(78,286)	--	(435,200)
Balance at			
December 31, 2003	465,880		2,726,600
Shares earned	(23,140)	--	(127,600)
Balance at			
December 31, 2004	442,740		$ 2,599,000

K. COMMITMENTS, CONTINGENCIES AND OTHER:

Legal Proceedings

Material proceedings pending at December 31, 2004, and developments in those proceedings from that date to the date this Annual Report is filed, are summarized below. Other proceedings which were pending during the year have been settled or otherwise finally resolved.

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 July 1991, USECC filed a lawsuit against Nukem, CRIC and others in the U.S. District Court of Colorado in Civil Action 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").

The Panel entered an Order and Award in 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, and also awarded SMP damages of $31,355,070 against Nukem. Further legal proceedings ensued. On appeal, the 10th Circuit Court of Appeals ("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.

As a result of further proceedings, the U.S. District Court appointed a Special Master to conduct an accounting of the constructive trust. The U.S. District Court adopted the Special Master's report in part and rejected it in part, and entered judgment on August 1, 2003 in favor of USECC and against Nukem for $20,044,183. In early 2004, the parties appealed this judgment to the CCA.

On February 24, 2005, a three judge panel of the CCA vacated the judgment of the U.S. District Court and remanded the case to the Panel for clarification of the 1996 Order and Award. In remanding this case, the CCA stated: "The arbitration award in this case is silent as to the definition of 'purchase rights' and the 'profits therefrom,' including the valuation of either. Also unstated in the award is the duration of the constructive trust and whether and what costs should be deducted when computing the value of the constructive trust. Further, the arbitration panel failed to address whether prejudgment interest should be awarded on the value of the constructive trust. As a result, the district court's valuation of the constructive trust was based upon extensive guesswork. Therefore, a remand to the arbitration panel for clarification is necessary, despite the long and tortured procedural history of this case."

The timing and ultimate outcome of this litigation is not predicted. We believe that the ultimate outcome will not have an adverse affect on our financial condition or results of operations.

Contour Development Litigation

On July 8, 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. for substantial damages from the defendants for dealings in real estate owned by USE and Crested in Gunnison, Colorado. This litigation was settled in 2004 with USE and Crested receiving nominal cash and seven real estate lots in and near Gunnison. Two lots have been sold and five are for sale.

Phelps Dodge Litigation

USE and Crested 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 relates to agreements from 1974 when USE and Crested leased the mining claims to AMAX Inc., PD's predecessor company. The mining claims cover one of the world's largest and richest deposits of molybdenum, which was discovered by AMAX.

The June 19, 2002 complaint filed by PD and MEMCO sought 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 Mineral Co. USECC's counter and cross-claims alleged that in 1999, PD formed a wholly-owned subsidiary CAV Corporation, for the purpose of purchasing the controlling interest in Cyprus Amax and its subsidiaries (including MEMCO) and making Cyprus Amax a subsidiary of PD. Therefore, USECC asserted that the acquisition of Cyprus Amax by PD was a sale of MEMCO and the properties that triggered the obligation of Cyprus Amax to pay USECC the $3.75 million plus interest.

The other issues in the litigation were 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 sought to obligate USECC to assume the operating costs of the water treatment plant. USECC asserted counterclaims against the defendants, including a claim for nonpayment of advance royalties.

On July 28, 2004, the Court entered an Order granting certain of PD's motions and denying USECC's counterclaims and cross-claims. The case was tried in late 2004.

On February 4, 2005, the Court entered Findings and Fact and Conclusions of Law and ordered that the conveyance of the Mt. Emmons properties under Paragraph 8 of the 1987 Agreement includes the transfer of ownership and operational responsibility for the Water Treatment Plant, and that PD does not owe USECC any advanced royalty payments. However, the Order did not address the NPDES permit. NPDES permits are administered and regulated by the Colorado Department of Public Health and the Environment (“CDPHE”). The timing and scope of responsibilities for maintaining and operating the plant will be addressed by the CDPHE later in 2005.

USECC has filed a motion with the Court to amend the Order to determine that the decreed water rights from the Colorado Supreme Court opinion (decided in 2002, finding that the predecessor owners of the Mt. Emmons property had rights to water to develop a mine), and any other appurtenant water rights, be conveyed to USECC. The motion is pending.

Rocky Mountain Gas, Inc. (RMG)

Litigation involving leases on coalbed methane properties in Montana

In April 2001, RMG was served with a Second Amended Complaint, in which the Northern Plains Resource Council ("NPRC") had filed suit in the U. S. District Court of Montana, Billings Division (No. CV-01-96-BLG-RWA) against the United States Bureau of Land Management (“BLM”), RMG, certain of its affiliates (including USE and Crested) and some 20 other defendants. The plaintiff was 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.

In December 2003, Federal District Court Judge Anderson granted BLM’s and the other defendants Motion for Summary Judgment and ruled that BLM did not have to consider environmental impacts in an Environmental Impact Statement (“EIS”) prior to leasing because the 1994 Resource Management Plan (“RMP”) limited lease right to exploration and small scale development. On August 30, 2004, the Ninth Circuit Court of Appeals affirmed the District Court decision and held that the six-year statue of limitations precluded challenging the 1994 RMP and EIS. On February 10, 2005, NRPC's petition for rehearing or in the alternative petition for en banc was denied by the Ninth Circuit Court of Appeals.

All of RMG's BLM Montana leases are held by RMG and are at least four years old. There is no record of any objections being made to the issue of those leases. 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 BLM leases in Montana.

Lawsuits challenging BLM's Records of Decisions

There is a lawsuit currently pending in the Montana Federal District Court challenging BLM's Records of Decisions for the Powder River Basin Oil and Gas 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.

In April 2003 NPRC and the Northern Cheyenne Tribe and Native Action (the "Tribe") filed a suit against BLM challenging the April 2003 decision by BLM approving the Final Statewide Oil and Gas Environmental Impact Statement (FEIS) and proposed amendments to the RMP. On February 25, 2005 Federal District Court Judge Anderson dismissed all counts with the exception of the allegation that the FEIS is inadequate because it failed to consider any alternatives to full-field development and ruled that BLM's failure to analyze a phased development alternative renders the FEIS inadequate. BLM will now be required to perform a Supplemental EIS ("SEIS") examining a phased development alternative, which could take 18 months to complete.

On April 5, 2005 Federal District Court Judge Anderson rejected the Tribe's request for a complete moratorium on CBM drilling in Montana and instead accepted BLM's proposal that limited the number of Federal APDs issued by BLM to maximum of 500 wells per year, including federal, state and fee wells within a certain defined geographic area. The decision will prohibit BLM from issuing Federal wells in RMG's Castle Rock property until the SEIS is completed, because it is not located with the defined geographic area. However, the decision does not limit the number of fee and state wells that can be approved in the Castle Rock property by the State of Montana. RMG will request BLM to extend the expiration date of the Federal leases for the period of the delay.

Neither the Company nor RMG is a party to this lawsuit. However, further permitting for federal CBM wells in Montana could be impacted until the issues have been resolved.

Litigation involving drilling

A drilling company, Eagle Energy Services, LLC filed a lawsuit against RMG for drilling services claiming $49,309.50 for non-payment in Civil Action No. C02-9-341. 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 in Civil Action No. CO2-9-328 in the 4th Judicial District of Sheridan County, Wyoming. In February 2005 RMG and Community First reached a full and complete settlement of Civil Action No. C02-9-328 and a Joint Motion to Dismiss with Prejudice is currently pending with the Court. RMG has also requested Eagle Energy to join in a Motion to Dismiss in Civil Action No. C02-9-341 because the claim was settled as noted above. Management believes that the ultimate outcome of the matters will not have a material effect on the Company's financial condition or result of operations.

Reclamation and Environmental Liabilities

Most of the Company's exploration activities are subject to federal and state regulations that require the Company to protect the environment. The Company conducts its operations in accordance with these regulations. The Company's current estimates of its reclamation obligations and its current level of expenditures to perform ongoing reclamation may change in the future. At the present time, however, the Company cannot predict the outcome of future regulation or impact on costs. Nonetheless, the Company has recorded its best estimate of future reclamation and closure costs based on currently available facts, technology and enacted laws and regulations. Certain regulatory agencies, such as the Nuclear Regulatory Commission ("NRC"), the Bureau of Land Management ("BLM") and the Wyoming Department of Environmental Quality ("WDEQ") review the Company's reclamation, environmental and decommissioning liabilities, and the Company believes the recorded amounts are consistent with those reviews and related bonding requirements. To the extent that planned production on its properties is delayed, interrupted or discontinued because of regulation or the economics of the properties, the future earnings of the Company would be adversely affected. The Company believes it has accrued all necessary reclamation costs and there are no additional contingent losses or unasserted claims to be disclosed or recorded.

The majority of the Company's environmental obligations relate to former mining properties acquired by the Company. Since the Company currently does not have any properties in production, the Company's policy of providing for future reclamation and mine closure costs on a unit-of-production basis has not resulted in any significant annual expenditures or costs. For the obligations recorded on acquired properties, including site-restoration, closure and monitoring costs, actual expenditures for reclamation will occur over several years, and since these properties are all considered future production properties, those expenditures, particularly the closure costs, may not be incurred for many years. The Company also does not believe that any significant capital expenditures to monitor or reduce hazardous substances or other environmental impacts are currently required. As a result, the near term reclamation obligations are not expected to have a significant impact on the Company's liquidity.

As of December 31, 2004, estimated reclamation obligations related to the above mentioned mining properties total $8,075,100. The Company currently has three mineral properties or investments that account for most of their environmental obligations, SMP, Plateau and SGMI. The environmental obligations and the nature and extent of cost sharing arrangements with other potentially responsible parties, as well as any uncertainties with respect to joint and several liability of each are discussed in the following paragraphs:

SMP

The Company is responsible for the reclamation obligations, environmental liabilities and liabilities for injuries to employees in mining operations with respect to the Sheep Mountain properties. The reclamation obligations, which are established by regulatory authorities, were reviewed by the Company and the regulatory authorities and they jointly determined that the reclamation liability was $2,339,800. The Company is self bonded for this obligation by mortgaging certain of their real estate assets, including the Glen L. Larsen building, and by posting cash bonds.

Sutter Gold Mining Inc.

SGMI's mineral properties are currently on shut down status and have never been in production. There has been minimal surface disturbance on the Sutter properties. Reclamation obligations consist of closing the mine entry and removal of a mine shop. The reclamation obligation to close the property has been set by the State of California at $28,200 which is covered by a cash reclamation bond. This amount was recorded by SGMC as a reclamation liability as of December 31, 2004.

Plateau Resources Limited

The environmental and reclamation obligations acquired with the acquisition of Plateau include obligations relating to the Shootaring Mill. As of December 31, 2004, the reclamation liability on the Plateau properties was $5.2 million. Plateau held a cash deposit for reclamation in the amount of $6.8 million.

Executive Compensation

The Company is committed to pay the surviving spouse or dependant children of certain of their officers one years' salary and an amount to be determined by the Boards of Directors, for a period of up to five years thereafter. This commitment applies only in the event of the death or total disability of those officers who are full-time employees of the Company at the time of total disability or death. Certain officers and employees have employment agreements with the Company. The maximum compensation due under these agreements for the officers covered by the agreement for the first year after their deaths, should they die in the same year, is $311,400 at December 31, 2004.

Operating Leases

The Company is the lessor of portions of the office buildings and building improvements that it owns. The Company occupies the majority of the main office building. The leases are accounted for as operating leases and provide for minimum monthly receipts of $16,400 through December, 2006. All of the Company's leases are for two years or less.

The total costs of the office buildings and building improvements totaled $4,218,200 as of December 31, 2004 and 2003 and accumulated depreciation amounted to $2,374,400 and $2,283,200 as of December 31, 2004 and 2003, respectively. Rental income under the agreements was $245,000, $256,500, $187,000 and $375,900, for the years ended December 31, 2004 and 2003, the seven months ended December 31, 2002 and the fiscal year ended May 31, 2002.

Future minimum receipts for noncancellable operating leases are as follows:

Years Ending December 31,	Amount
2005	$196,300
2006	$199,300

The Company, through RMG, has a lease commitment until January 30, 2006 in the amount of $1,300 per month on its field office. This lease can be cancelled upon 90 day notice by either party to the lease. RMG also has a lease for a compressor through December 2005. The monthly payment under this lease is approximately $17,400 per month. The total lease expense for these and another compressor lease that expired during the year was $440,000 and $41,300 for the years ended December 31, 2004 and 2003, respectively. Future commitments are as follows:

2005	$ 224,400
2006	$ 1,300

It is anticipated that the lease obligations for the year ended December 31, 2005 will remain consistent with those experienced during the year ended December 31, 2004 unless additional operation fields are required.

L. DISCONTINUED OPERATIONS.

During the third quarter of the fiscal year ended May 31, 2002, the Company made the decision to discontinue its drilling/construction segment. The assets associated with this business segment were sold and or converted for use elsewhere in the Company. The financial statements for the fiscal year ended May 31, 2001 have been revised to present the effect of discontinued operations. There is no material income or loss from discontinued operations from the measurement date to December 31, 2004.

During the third quarter of the year ended December 31, 2003, the Company sold its motel and retail operations in southern Utah. The financial statements for all of the periods presented have been revised to present these operations as discontinued.

M. SUPPLEMENTAL NATURAL GAS RESERVE INFORMATION (UNAUDITED):

The following estimates of proved gas reserves, both developed and undeveloped, represent interests owned by the Company located solely within the United States. Proved reserves represent estimated quantities of natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed gas reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells for which relatively major expenditures are required for completion.

The Company began natural gas production in June, 2002. Disclosures of gas reserves which follow are based on estimates prepared by independent engineering consultants as of December 31, 2004. Such estimates are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves and in the projection of future rates of production and the timing of development expenditures. These estimates do not include probable or possible reserves. The information provided does not represent Management's estimate of the Company's expected future cash flows or value of proved oil and gas reserves.

RMG's sales volumes of gas produced, average sales prices received for gas sold, and average production costs for those sales for the years ended December 31, 2004 and 2003 and for the seven months ended December 31, 2002 are as follows:

	Year ended December 31, 2004	Year ended December 31, 2003	Seven months ended December 31, 2002
Sales volumes (mcf)	728,051	81,516	64,315
Average sales price per mcf	$ 4.05	$ 3.71	$ 1.86
Average cost (per mcf)	$ 3.19	$ 1.91	$ 1.91

Changes in estimated reserve quantities

The net interest in estimated quantities of proved developed and undeveloped reserves of crude oil and natural gas and changes in such quantities and discounted future net cash flow were as follows:

	(Unaudited) - Unescalated		
	MCF Cubic Feet		
	Year Ended December 31, 2004	Year Ended December 31, 2003	Seven Months Ended December31, 2002
Proved developed and Undeveloped reserves:			
Beginning of year	--	585,603	--
Revision of previous estimates	(51,862)	--	--
Purchase of minerals in place	3,404,693	--	649,918
Exchange of reserves in place (1)	--	(504,087)	--
Extensions & Discoveries	817,459	--	--
Production	(1,114,349)	(81,516)	(64,315)
End of year	3,055,941	--	585,603
Proved developed producing	1,651,666	--	489,684
Proved developed non-producing	889,051	--	--
Proved undeveloped	515,224	--	95,919
Total proved reserves	3,055,941	--	585,603

The standardized measure has been prepared assuming year end sales prices adjusted for fixed and determinable contractual price changes, current costs. No provision has been made for income taxes due to available operating loss carry forwards. No deduction has been made for depletion, depreciation or any indirect costs such as general corporate overhead or interest expense.

Standardized measure of discounted future net cash flows from estimated production of proved gas reserved:

	Year Ended December 31, 2004	Year Ended December 31, 2003	Seven Months Ended December 31, 2002
Future Cash Inflows	$ 13,125,200	--	$ 1,756,809
Future Production and development costs	(5,208,800)	--	(705,505)
Future Net Cash Flows	7,916,400	--	1,051,304
Discount Factor	(1,401,800)	--	(162,876)
Standardized measure of discounted future net cash flows	$ 6,514,600	--	$ 888,428

Changes in standard measure of discounted future net cash flows from proved gas reserves:

	Year Ended December 31, 2004	Year Ended December 31, 2003	Seven Months Ended December 31, 2002
Standardized measure - beginning of year	$ --	$ 888,428	$ --
Sale & Transfer, net of production cost	(629,400)	(63,200)	235,800
Net change in sales & transfer price, net of production cost	(58,200)	--	--
Extensions, discoveries and improved recovery, net of future production and development cost	2,671,800	--	--
Exchange or reserves in place (1)	--	(825,228)	--
Revision of quantity estimate	(110,500)	--	--
Purchase of reserve in place	7,056,400	--	652,628
Change in production rate & other	(2,415,500)	--	--
Standardized measure - end of period	$ 6,514,600	$ --	$ 888,428

(1) During June 2003, RMG contributed proved and unproved properties in exchange for a 37.5% interest in Pinnacle. At December 31, 2004, RMG owned 16.7% of Pinnacle.

N. TRANSITION PERIOD COMPARATIVE DATA

The following table presents certain financial information for the seven months ended December 31, 2002 and 2001, respectively:

	Seven Months Ended December 31,	
	2002	2001
	(Unaudited)	
Revenues	$ 673,000	$ 545,900
Costs and expenses	(4,197,900)	(4,460,800)
Operating loss	(3,524,900)	(3,914,900)
Other income and expenses	(387,100)	1,005,000
Loss before minority interest	(3,912,000)	(2,909,900)
Minority interest in loss of subsidiaries	54,800	24,500
Loss before income taxes	(3,857,200)	(2,885,400)
Provision for income taxes	--	--
Net loss from continuing operations	(3,857,200)	(2,885,400)
Discontinued operations, net of tax	17,100	175,000
Net loss	(3,840,100)	(2,710,400)
Preferred stock dividends	--	(75,000)
Net loss available to common stock shareholders	$ (3,840,100)	$ (2,785,400)
PER SHARE DATA:		
Revenues	$ 0.06	$ 0.07
Operating loss	(0.33)	(0.47)
Loss from continuing operations	(0.36)	(0.35)
Net loss	(0.36)	(0.33)
Preferred Stock dividends	--	(0.01)
Net loss available to common stock shareholders	$ (0.36)	$ (0.34)
Weighted average common shares outstanding		
Basic	10,770,658	8,386,672
Diluted	10,770,658	8,386,672

O. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	December 31, 2004	September 30, 2004	June 30, 2004	March 31 2004
Operating revenues	$ 1,140,500	$ 1,266,300	$ 1,367,400	$ 867,500
Operating loss	$ (1,624,500)	$ (1,421,200)	$ (1,742,400)	$ (1,871,300)
Loss from continuing operations	$ (1,238,400)	$ (1,626,100)	$ (1,609,200)	$ (1,775,000)
Discontinued operations, net of tax	$ --	$ --	$ --	$ --
Net loss	$ (1,260,300)	$ (1,604,200)	$ (1,609,200)	$ (1,775,000)
Loss per share, basic				
Continuing operations	$ (0.09)	$ (0.12)	$ (0.13)	$ (0.14)
Discontinued operations	$ --	$ --	$ --	$ --
	$ (0.09)	$ (0.12)	$ (0.13)	$ (0.14)
Basic weighted average shares outstanding	14,468,336	13,490,917	12,873,194	12,319,657
Loss per share, diluted				
Continuing operations	$ (0.09)	$ (0.12)	$ (0.13)	$ (0.14)
Discontinued operations	$ --	$ --	$ --	$ --
	$ (0.09)	$ (0.12)	$ (0.13)	$ (0.14)
Diluted weighted average shares outstanding	14,468,336	13,490,917	12,873,194	12,319,657

	Three Months Ended			
	December 31, 2003	September 30, 2003	June 30 2003	March 31 2003
Operating revenues	$ 109,000	$ 119,300	$ 241,300	$ 367,700
Operating loss	$ (1,664,800)	$ (1,988,400)	$ (2,418,800)	$ (1,165,900)
Loss earnings from continuing operations	$ (1,780,800)	$ (1,893,000)	$ (2,214,100)	$ (1,187,900)
Discontinued operations, net of tax	$ (124,800)	$ (88,700)	$ (17,400)	$ (119,000)
Net earnings (loss)	$ (1,905,600)	$ (1,981,700)	$ (2,231,500)	$ 308,700
Earnings per Share, basic				
Continuing operations	$ (0.16)	$ (0.17)	$ (0.20)	$ (0.11)
Discontinued operations	$ (0.01)	$ (0.01)	$ --	$ (0.01)
Cumulative effect of accounting change	$ --	$ --	$ --	$ 0.15
	$ (0.17)	$ (0.18)	$ (0.20)	$ 0.03
Basic weighted average shares outstanding	11,383,576	11,127,796	10,916,971	10,881,394
Earnings per Share, diluted				
Continuing operations	$ (0.34)	$ (0.17)	$ (0.20)	$ (0.10)
Discontinued operations	$ (0.02)	$ (0.01)	$ --	$ (0.01)
Cumulative effect of accounting change	$ --	$ --	$ --	$ 0.14
	$ (0.36)	$ (0.18)	$ (0.20)	$ 0.03
Diluted weighted average shares outstanding	11,383,576	11,127,796	10,916,971	11,385,593

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On December 17, 2004, the Company dismissed the audit firm Grant Thornton LLP (“GT”). GT had audited the company’s financial statements for more than the last two fiscal years.

The Company has engaged the independent audit firm Epstein, Weber & Conover, Scottsdale, Arizona, to audit the company’s financial statements for the year ended December 31, 2004.

GT’s audit report on the financial statements for the year ended December 31, 2003, the seven months ended December 31, 2002, and the (former) fiscal year ended May 31, 2002, contained a qualification of uncertainty as to whether the Company will continue as a going concern. The audit report did not contain an adverse opinion or a disclaimer of opinion, and was not otherwise qualified or modified as to audit scope or accounting principles.

The decision to change audit firms was recommended by the Company’s audit committee, and approved by that committee and the board of directors.

There has not been, during the two most recent fiscal years, or during any subsequent interim period preceding the change of audit firms, any disagreement with GT on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of GT, would have caused it to make reference to the subject matter of the disagreement in connection with its report.

In addition, during the two most recent fiscal years, there were no disagreements between the Company and GT which constituted “reportable events” under item 304(a)(1)(v) of Regulation S-K. Disclosure of such “reportable events” would be required even if the Company and GT did not express a difference of opinion regarding the event.

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Common Stock

NASDAQ Small Cap Symbol "USEG"

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Keith G. Larsen (a)
President, Chief Operating Officer and Director

Harold F. Herron (a)(c)
Sr. Vice President, Director

Daniel P. Svilar
Secretary and General Counsel

R. Scott Lorimer
Vice President of Finance, Chief Financial Officer, Treasurer and Controller

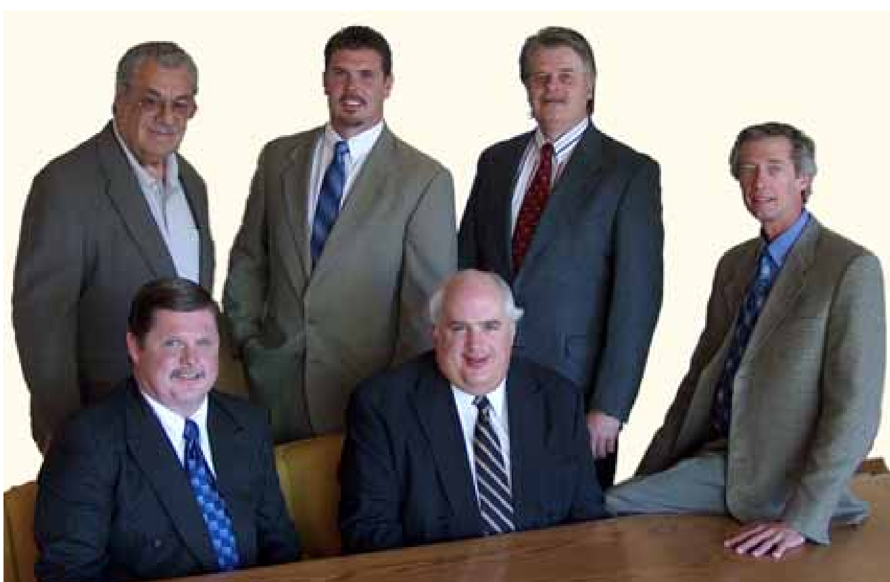
Don C. Anderson (b)(d)(e)
Retired Geologist, Director

Michael H. Feinstein (b)(d)(e)
Financial and Business Consultant, Director

H. Russell Fraser (a)(b)(d)(e)
Former President and Director of American Capital Access, Inc., Director

Michael T. Anderson (b)(d)
Independent CPA and Consultant, Director

(a) Executive committee member
(b) Audit committee member
(c) ESOP trustee
(d) Compensation committee member
(e) Nominating committee member



U.S. Energy Management Team: (clockwise from top left:) Daniel P. Svilar, General Counsel; Mark Larsen, President-USMC; Steven R. Youngbauer, Associate General Counsel; Harold F. "Hal" Herron, Senior Vice President; R. Scott Lorimer, Vice President-Finance; Keith G. Larsen, President.

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