In our business things aren't always black and white

Annual Report 2005

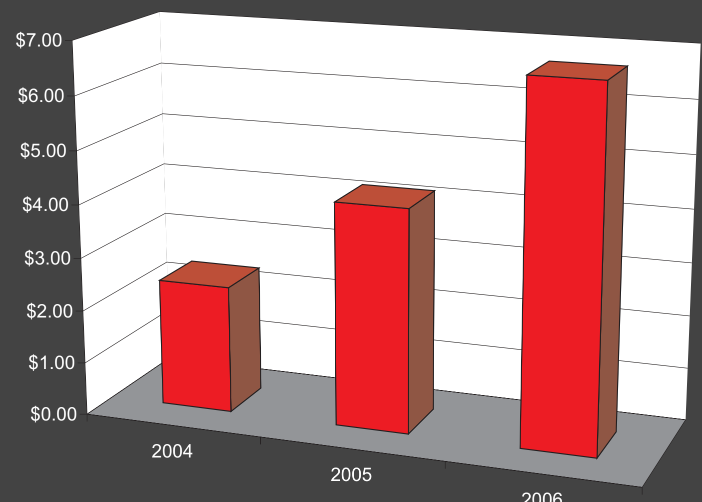
U.S. ENERGY CORP.

Since
1966

CORPORATE PROFILE

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

U. S. Energy 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 Capital Market under the symbol "USEG".



Stock Price April 27, 2003 - 2006

April 27, 2006

Dear Fellow Shareholders:

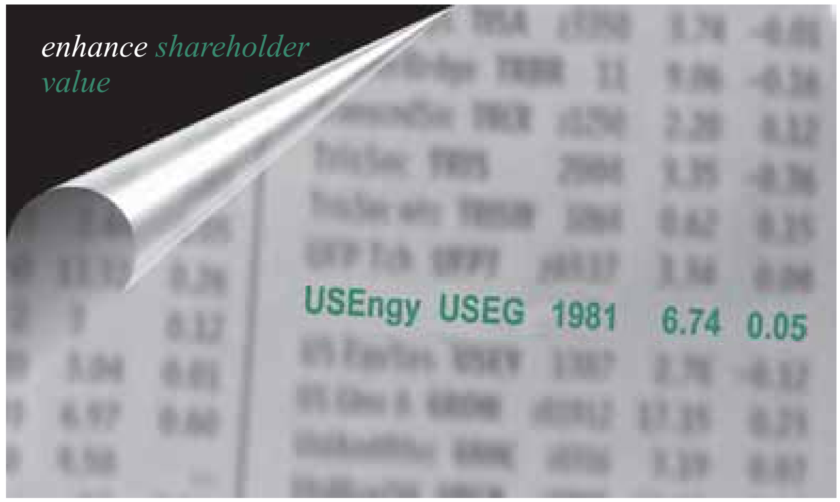
It is with great humility, pride and enthusiasm that I write my first letter to you as President of your Company. I am also pleased to announce that 2005 was a year of progress at U.S. Energy Corp. Bolstered by the sale of our Rocky Mountain Gas, Inc. subsidiary on June 1, 2005, our cash and liquidity positions have improved significantly and our outstanding debt was reduced by $11.2 million to a modest $1.2 million during 2005.

Mark J. Larsen
President

Today is a New Day

We find ourselves at a very unique time in the history of our Company, whereby the prices for all of the commodities that U.S. Energy Corp. is involved with -- uranium, molybdenum and gold – have risen to their highest levels in the past two decades. After surviving for years through prolonged commodity price troughs and economic challenges, it is truly a New Day for U.S. Energy Corp. The Company has new principal officers, a new direction, new opportunities, new enthusiasm, and even a new corporate logo. Coupled with this is a genuine and long overdue renewed interest in the practicality of nuclear power as a smart and environmentally friendly energy source, along with emerging global economies that are driving metal prices, including molybdenum and gold, to new trading highs. This presents exciting new opportunities to U.S. Energy Corp. and I am confident that the day has finally arrived, whereby the Company can realize significant value from the mineral assets it has chosen to invest in, and often struggled to safeguard, during the past 40 years.

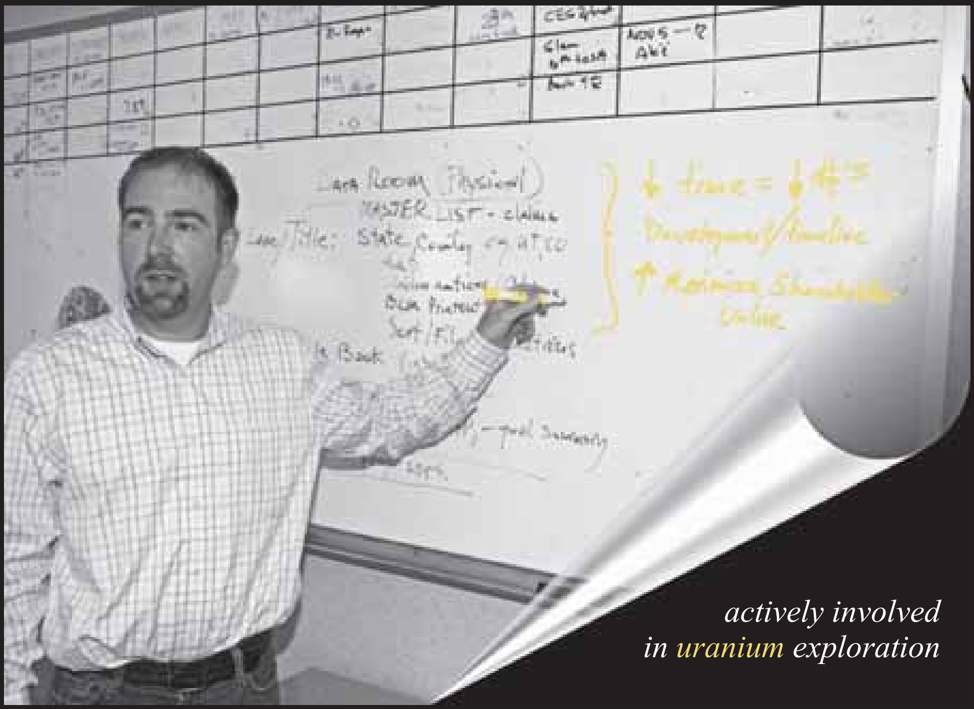
The theme of our 2005 Annual Report portrays that not everything in our business world is black and white. This is particularly true in the minerals business where value may not be readily recognized. Often times however, value is extracted in due course when foresight and drive are combined. In the past, when the metals markets were plagued by prolonged periods of low prices, the investment community has paid little attention to our Company. Conversely, with industrial demand from strong economies in China and India propelling commodity prices sharply higher, now is our time to shine. While reaching our strategic and financial goals will still require both time and great effort, I can assure you that we are working diligently to successfully execute our business plan and enhance shareholder value. Our strategy anticipates joint venture partnerships to develop our mineral resources and we are currently in discussions with a number of potential joint venture partners in several countries. By partnering with others, we look to spread our risk and take advantage of the resources of larger companies that have extensive mining experience and/or a substantial stake in the commodities in our asset portfolio. In doing so, we can also capitalize upon our resource ownership through “up front” monetary payments that will compensate our Company for the time and capital we have invested in the acquisition, initial development and retention of our mineral properties while also participating in long-term revenue streams from mining activities.



Where we are headed

During the past year, opportunities to realize value from our mineral assets have been greatly enhanced. Uranium oxide concentrates (U_3O_8) now trade at $43.50 per pound and Australia's *Resource Capital Research* estimates that the price will reach $54 per pound by the end of 2006 and $58 per pound by June 2007. In order to take advantage of this favorable market environment, we are working diligently to amend our Shootaring Canyon Uranium Mill license from “stand by” to “operational” status and to return the mill in southeast Utah to production. We are also actively involved in uranium exploration activities throughout the Colorado Plateau, a historical prolific uranium mining district that is within trucking distance of our mill. The Shootaring Canyon Mill is one of only four licensed uranium mills remaining in the United States (down from 42 in 1980), and it will play a key strategic role in U.S. Energy's emergence as a leader in domestic uranium production.

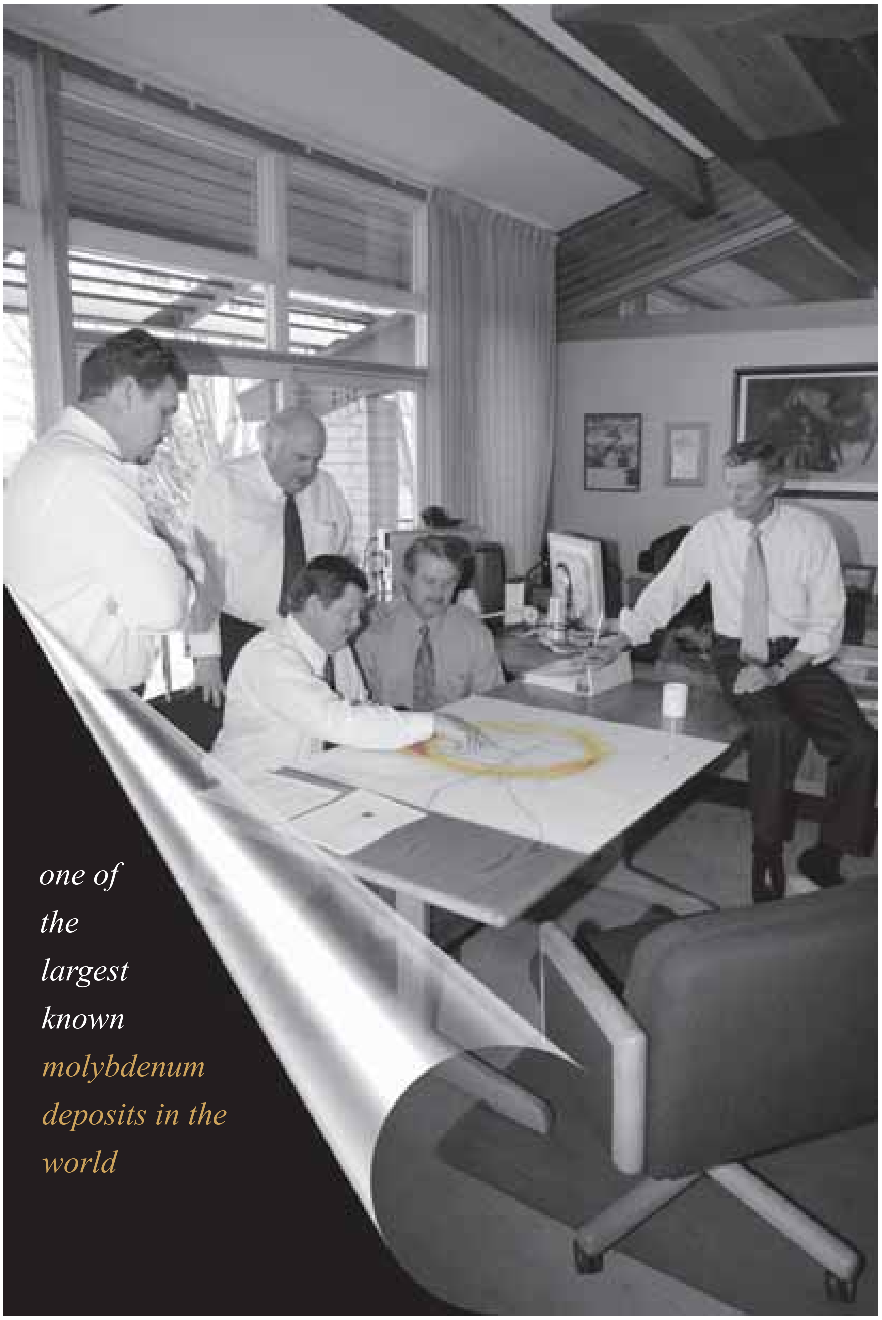
The global demand for uranium is being driven by a 25-year hiatus in new mine development and a growing recognition of the need for environmentally clean nuclear power. China has announced plans to build 30 new nuclear plants over the next 15 years, in addition to the 9 nuclear plants currently operating in the world's most populous nation. Additionally, Russia plans to be producing 25% of its electric power from nuclear energy by 2030, compared with 16% today. This will require the equivalent of 2 new Russian reactors every year, on average, during the next 20 years. Other countries are not far behind. India has 8 nuclear reactors under construction. South Korea expects 8 new reactors to come on line by 2017, and both the U.S. and several European countries are actively revisiting the fundamental need for nuclear power in their mix of energy supplies. On a global scale, 178 new nuclear reactors are either under construction, on the drawing boards, or proposed. This represents a 40% increase over the 441 reactors currently operating throughout the world. Geopolitical forces are also forcing industrial economies to look beyond traditional fossil-based fuels, and we are working diligently to become a significant beneficiary of growing demand for clean and politically "safe" energy resources.



actively involved in uranium exploration

We are equally optimistic regarding our "world-class" molybdenum asset near Crested Butte, Colorado. Formerly known as the Mt. Emmons deposit, our "Lucky Jack" project is one of the largest known molybdenum deposits in the world. It reportedly contains 155,000,000 tons of ore averaging 0.44% molybdenum disulphide (MoS_2). We regained ownership of the property from Phelps Dodge on February 28, 2006 and immediately commenced work to upgrade and improve the operation of the water treatment plant located at the mine site. We are now conducting an engineering review at the water treatment plant to determine how to improve efficiencies and reduce operating costs. Additionally, we plan to begin initial permitting efforts in 2006, and we are evaluating the commencement of a full feasibility study for a mine/mill operation in anticipation of future production activities. To open a "de novo" underground mine will require considerable work and patience. While the project has attracted opposition from certain environmental organizations, we intend to move steadily forward in light of the "intrinsic" worth of this deposit and its potential to enhance shareholder value. To achieve our goals, we must show respect for the environment, communicate effectively with all who are potentially impacted by our activities, and proceed with an economic analysis of the project. We have publicly stated our intent to seek a prominent mining partner to support our efforts to build and operate a mine that benefits all interested parties, including the local communities. We plan to work hand in hand with all parties involved and are highly confident that our efforts to secure an industry partner will be successful.

The market for molybdenum is being driven by rising global demand for industrial and building materials. The emerging economies of China and India, along with a strong U.S. economy, are leading the surge in demand for metals such as molybdenum. The price of molybdic oxide is currently near $24 per pound, compared with less than $6 per pound three years ago. Amax Inc., one



of the previous owners of the Lucky Jack project, spent in excess of $150 million to delineate a high-grade section of the molybdenum ore body that may ultimately prove to be substantially larger. Although the project was actually permitted by the U.S. Forest Service in 1980, Amax did not sign the permit due to financial troubles the company faced at that time.

In anticipation of future mining activities at the Lucky Jack project, we have begun to establish a dynamic Board of Directors for our U.S. Moly Corp. subsidiary. In addition to myself and other U.S. Energy Corp. executives, we recently welcomed to our Board two independent directors that bring a wealth of mining and permitting experience to our endeavors. Allen Winters and Jerry Danni both worked with Homestake Mining, and each has over 20 years experience in the mining industry. Mr. Danni spent several years with Cyprus Climax, which then owned the Lucky Jack deposit, where he was part of the Climax team that applied for additional water rights and patents on the mining claims over the deposit in anticipation of future production from the property. Notably, both the water rights and patents were ultimately obtained in 2002 and 2004, respectively.

Much work is yet to be done at Mount Emmons, but I believe that we will prevail in realizing significant value from the property.

U.S. Energy Corp. owns approximately 65% of Sutter Gold

The Sutter Gold Mining (SGM) gold property in the historic Mother Lode District about 50 miles southeast of Sacramento, California, also stands at the threshold of some exciting developments. As commodity prices have risen, so too have investor concerns regarding inflation. Rising worldwide demand for gold has propelled gold prices to 25 year highs of over $650 per ounce. After 12 years of permitting and defending lawsuits, SGM is now prepared to conduct new rounds of exploratory drilling to confirm additional resources at its property. To date, SGM has reported 173,544 ounces of indicated resources and 521,417 ounces of inferred resources as defined under Canadian National Instrument 43-101. SGM's goals this year are to delineate a sufficient gold resource to warrant a feasibility study on the project's economics in advance of full mine/mill startup. U.S. Energy Corp. owns approximately 65% of SGM and we are highly confident that the value of our holdings will appreciate significantly in 2006 and future years.

In addition to our mineral holdings, we also have a significant equity interest in Pinnacle Gas Resources, Inc. (PGR). When Rocky Mountain Gas, Inc. was sold in June 2005, we retained its equity ownership in PGR. In 2005 and through early 2006, PGR has continued to grow its production base, acreage position and its number of producing wells. PGR was formed through a combination of assets from RMG and its partner, Carrizo Oil and Gas, Inc. along with funding from its largest shareholder, Credit Suisse First Boston. Today, PGR has over 500,000 gross and 300,000 net acres of mineral lands prospective for coalbed methane (CBM) and produces CBM gas from an aggregate of over 600 wells. Along with our associates in PGR, we expect to realize significant value at some point in the future from PGR as it continues to grow its production base and property holdings. Meanwhile, we still own exchangeable securities of Enterra

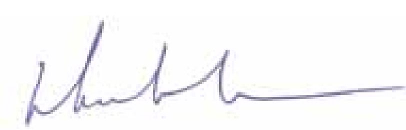
significant equity interest in Pinnacle Gas Resources, Inc.

Energy Trust that were received as partial payment for Rocky Mountain Gas last June and, if they were tradable today, would have a market value of approximately $6.8 million. The exchangeable shares will automatically convert to Enterra Energy Trust units on June 1, 2006. Currently, the monthly dividend for Enterra Energy Trust units is $0.18 per unit. After June 1, 2006, this will equate to approximately $78,500 per month in dividend income.

Altogether, we find ourselves in an enviable environment and positioned to further capitalize on the value of our natural resource assets. Our cash position and liquidity remain strong, while our debt has been reduced to very modest levels, and we intend to keep it this way. Additionally, I am pleased to report that I am surrounded by a seasoned management team and dedicated employees that share my same dedication to the enhancement of shareholder value.

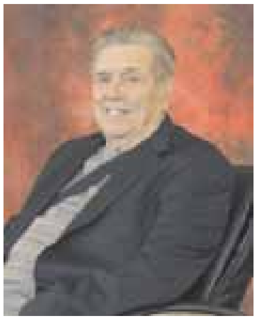
In closing, I want you to know that I am both pleased and humbled to be the new President of your Company. I will continue to work diligently on your behalf, and I am thankful for the interest and faith of our fellow shareholders in U.S. Energy Corp.

Respectfully yours,

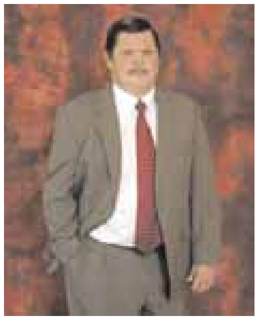


Mark J. Larsen
President

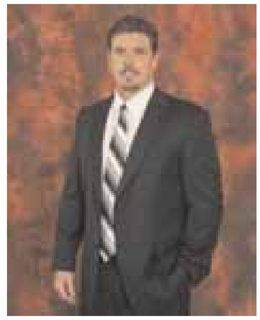
Officers and Directors



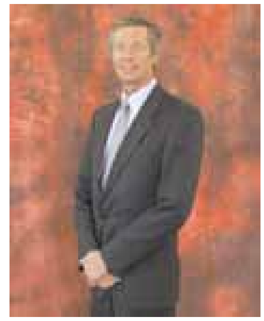
John L. Larsen
Chairman Emeritus, Sr. V.P. and Director (a)



Keith G. Larsen
Chairman, CEO and Director
(a)(b-alternate)(c)

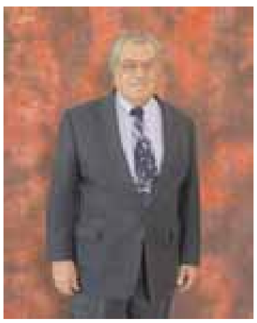


Mark J. Larsen
President, COO
(a)

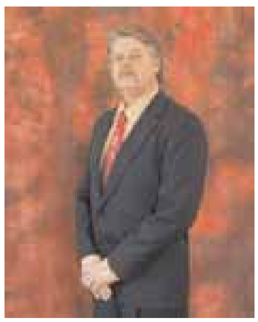


Harold F. Herron
Sr. Vice President, Director (a)(c)

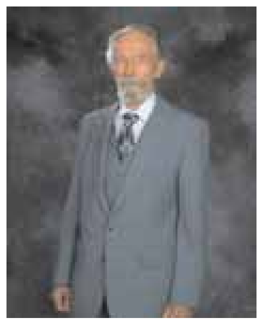
R. Scott Lorimer
V.P. Finance, CFO, Treasurer and Controller



Daniel P. Svilar
Secretary and General Counsel



Steven Youngbauer
Assoc. General Counsel



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

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

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

Not pictured

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

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

Corporate Information

Corporate Headquarters
877 North 8th West
Riverton, WY 82501
T: 307.856.9271
F: 307.857.3050

Independent Certified Public Accountants
Epstein Weber & Conover, PLC
Scottsdale, AZ 85260

Stock Transfer Agent
Computershare Trust Co., Inc.
350 Indiana Street, Suite 800
Golden, CO 80401
T: 303.262.0600
F: 303.262.0700

SEC Counsel
Steve Rounds
Denver, CO

Common Stock
NASDAQ Capital Market
Symbol "USEG"

Information About Our Stock

Shares of USE common stock are traded on the over-the-counter market, and prices are reported on a "last sale" basis on the Nasdaq Capital Market 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, 2005	High	Low
First quarter ended 3/31/05	$ 7.65	$ 2.75
Second quarter ended 6/30/05	5.95	3.52
Third quarter ended 9/30/05	4.55	3.44
Fourth quarter ended 12/31/05	4.96	3.68
Fiscal Year ended December 31, 2004		
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

At March 30, 2006 the closing market price was $7.09 per share and there were approximately 625 shareholders of record, with 19,520,430 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, 2005:

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 USE ISOP 3,250,000 shares of common stock on exercise of outstanding options	1,266,505	$2.24	-0-
2001 USE ISOP 3,341,084 shares of common stock on exercise of outstanding options	2,989,271	$3.08	351,813
Equity compensation plans not approved by security holders			
None	--	--	--
Total	4,255,776	$2.83	351,813

Sales of Unregistered Securities in 2005

During the twelve months ended December 31, 2005, pursuant to the shareholder-approved 2001 Stock Compensation Plan, 60,000 shares were issued to officers of the Company at the rate of 10,000 shares each: John L. Larsen, Keith G. Larsen, Mark J. Larsen, Harold F. Herron, Robert Scott Lorimer, and Daniel P. Svilar. The shares were issued at the closing market price of $2.89, $5.87, $3.60 and $4.62 as of January 3, 2005, April 1, 2005, July 1, 2005 and October 3, 2005, respectively.

In 2005, the Company issued 11,275 shares of its common stock to outside directors as partial compensation for serving on the board of directors. The Company also issued common shares for the following: 54,720 shares to three investors who had the right to convert their shares in RMG to shares of the Company, 135,938 shares to three investment funds for the conversion of RMG preferred shares and the payment of dividends on those RMG shares, 281,641 net shares for the exercise of employee options, 910,362 shares for the conversion of warrants by third parties, 1,942,387 shares for the retirement of $4,720,000 in convertible debt, 140,880 shares for the buy out of RMG minority shareholders interest in Pinnacle and 56,494 shares to fund the Employee Stock Ownership Plan for 2005.

Selected Financial Data

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

	December 31,					May 31,	
	2005	2004	2003	2002	2001	2002	2001
					(Unaudited)		
Current assets	$ 7,840,600	$ 5,421,500	$ 5,191,400	$ 4,755,300	$ 4,597,900	$ 4,892,600	$ 3,330,000
Current liabilities	1,232,300	6,058,000	1,909,700	2,044,400	2,563,800	1,406,400	2,396,700
Working capital (deficit)	6,608,300	(636,500)	3,281,700	2,710,900	2,034,100	3,486,200	933,300
Total assets	38,106,700	30,703,700	23,929,700	28,190,600	30,991,700	30,537,900	30,465,200
Long-term obligations[(1)]	7,949,800	13,615,300	12,036,600	14,047,300	13,596,400	13,804,300	13,836,700
Shareholders' equity	24,558,100	6,281,300	6,760,800	8,501,600	8,018,700	11,742,000	8,465,400

[(1)]Includes $5,669,000, of accrued reclamation costs on properties at December 31, 2005, $7,882,400 at December 31, 2004, $7,657,900 at December 31, 2003, and $8,906,800 at December 31, 2002, 2001, and May 31, 2002, and 2001, respectively. See Note K of Notes to Consolidated Financial Statements.

		Year Ended		Seven Months Ended		Former Fiscal Years Ended May 31,	
	December 31,	December 31,	December 31,	December 31,			
	2005	2004	2003	2002	2001	2002	2001
					(Unaudited)		
Operating revenues	$ 849,500	$ 815,600	$ 635,500	$ 673,000	$ 545,900	$ 2,004,100	$ 3,263,000
Loss from continuing operations	(6,066,900)	(4,983,100)	(5,066,800)	(3,524,900)	(3,914,900)	(7,454,200)	(7,517,800)
Other income & expenses	(484,000)	465,100	(311,500)	(387,100)	1,005,000	1,319,500	8,730,800
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(6,550,900)	(4,518,000)	(5,378,300)	(3,912,000)	(2,909,900)	(6,134,700)	1,213,000
Minority interest in loss (income) of consolidated subsidiaries	185,000	207,800	13,000	54,800	24,500	39,500	220,100
Income taxes	--	--	--	--	--	--	--
Discontinued operations, net of taxes	15,207,400	(1,938,500)	(2,060,400)	17,100	175,000	(85,900)	488,100

	December 31,	Year Ended December 31,	December 31,	Seven Months Ended December 31,		Former Fiscal Years Ended May 31,	
	2005	2004	2003	2002	(Unaudited) 2001	2002	2001
Cumulative effect of accounting change	$ --	$ --	$ 1,615,600	$ --	$ --	$ --	$ --
Preferred stock dividends	--	--	--	--	(75,000)	(86,500)	(150,000)
Net income (loss) to common shareholders	$ 8,841,500	$ (6,248,700)	$ (5,810,100)	$ (3,840,100)	$ (2,785,400)	$ (6,267,600)	$ 1,771,200
Per share financial data							
Operating revenues	$ 0.05	$ 0.05	$ 0.05	$ 0.06	$ 0.07	$ 0.22	$ 0.42
Loss from continuing operations	(0.38)	(0.38)	(0.44)	(0.33)	(0.47)	(0.80)	(0.96)
Other income & expenses	(0.03)	0.04	(0.03)	(0.03)	0.12	0.14	1.11
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	(0.39)	(0.34)	(0.48)	(0.36)	(0.35)	(0.66)	0.15
Minority interest in loss (income) of consolidated subsidiaries	--	0.02	0.00	--	--	0.01	0.03
Income taxes	--	--	--	--	--	--	--
Discontinued operations, net of tax	0.94	(0.15)	(0.18)	--	0.02	(0.01)	0.06
Cumulative effect of accounting change	--	--	0.14	--	--	--	--
Preferred stock dividends	--	--	--	--	(0.01)	(0.01)	(0.01)
Net income (loss) per share, basic	$ 0.55	$ (0.48)	$ (0.52)	$ (0.36)	$ (0.34)	$ (0.67)	$ 0.23
Net (loss) income per share, diluted	$ 0.55	$ (0.48)	$ (0.52)	$ (0.36)	$ (0.34)	$ (0.67)	$ 0.21

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is Management's Discussion and Analysis of significant factors, which have affected the Company's liquidity, capital resources and results of operations during the calendar years ended December 31, 2005, 2004 and 2003. The discussion contains forward-looking statements that involve risks and uncertainties.

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, and oil and gas. The Company also has been engaged to a limited extent in commercial real estate, but only in connection with acquiring mineral properties which included commercial real estate.

The Company manages 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, Plateau Resources Limited ("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. The Company had no production from any of its mineral properties during the year ended December 31, 2005 except its coalbed methane business which was sold on June 1, 2005.

Prior filings for previous periods, including the years ended December 31, 2004 and 2003, included the consolidated financial statements of Rocky Mountain Gas, Inc. ("RMG"). On June 1, 2005, all of the outstanding stock of RMG was sold to Enterra US Acquisitions Inc. ("Acquisitions"), a privately-held Washington corporation organized by Enterra Energy Trust ("Enterra"), for $20 million in cash and securities. Financial statements in this Annual Report for the years ended December 31, 2005, 2004 and 2003 therefore do not include the balances of RMG, as all prior reported balances of RMG are eliminated and reported as discontinued operations.

During the years ended December 31, 2003 and 2004, the Company's uranium and gold properties were shut down due to depressed metals prices. During 2005, the market prices for gold and uranium increased to levels which may allow the Company to place these properties into production or sell part or all of them to industry participants. Exploration work was resumed on the uranium properties in 2005 and new uranium properties have been acquired.

Uranium - The price of uranium concentrate has increased from a five year low of $7.25 per pound in January 2001 to a five year high of $36.25 per pound in December 2005. During the first quarter of 2006 this increase in the market price continued.

Gold - The five year low for gold was in 2001 when it hit $256 per ounce. The market price for gold has risen since that time to a high of $570 in 2005 with an average price for the year of 2005 of $445 per ounce. (Metal Prices.com).

Molybdenum - Annual Metal Week Dealer Oxide mean prices averaged $32.94 per pound in 2005, compared with $16.41 per pound in 2004, $5.32 per pound in 2003 and $3.77 per pound in 2002. (Metal Prices.com). Continued strong demand, which has outpaced supply over the past several years (deficit market conditions), has reduced inventory levels throughout the industry.

The rebound in uranium, gold and molybdenum presents an opportunity for the Company. The Company holds what we consider to be significant mineral and related properties in gold and uranium, and received a significant molybdenum property from Phelps Dodge Corporation ("PD") on February 28, 2006. In contrast to the prior five years, we now have cash on hand, and reasonably expect to receive more cash during the year ending December 31, 2006 sufficient for general and administrative expenses, the continuation of our uranium property acquisition and exploration plan, and operation of the water treatment plant on the molybdenum property.

Management's strategy to generate a return on shareholder capital is first, to demonstrate prospective value in the mineral properties sufficient to support substantial investments by large industry partners and second, to structure these investments to bring capital and long term development expertise to move the properties into production.

To demonstrate prospective value in the mineral properties and therefore bring investing industry partners into the mineral projects during the years ended December 31, 2006 and 2007, management is evaluating having feasibility studies prepared on each of the projects. Some of these studies have already begun. All the studies will be performed by independent engineering firms with the intent of proving up economic development plans for the properties based on current and projected market prices as well as existing or projected infrastructure. In some instances, significant additional exploratory drilling will have to be completed to further delineate grades as well as the extent of the minerals in the ground.

The principal uncertainties in the successful implementation of our strategy are:

- Whether the feasibility studies will show, for any of the properties, that the minerals can be mined and processed profitably. For some of the properties (like gold and uranium), commodity prices will have to be sustained at levels not materially less than current prices;

- Whether the feasibility studies will show volume and grades of mineralization, and manageable costs of mining and processing, which are sufficient to bring industry partners to the point of investment; and

- Whether we can negotiate terms with industry partners which will return a substantial profit to the Company for its retained interest and the project's development costs to that point in time.

To some extent, the economic feasibility of a particular property can be changed with modifications to the mine/processing plans (add or not add a circuit to process a particular mineral, enlarge or make smaller the mine plan, etc.). However, overall, the principal drivers to attainment of the business strategy are the quality of the minerals in the ground and international commodity prices.

Please see the risk factor disclosures elsewhere in this Report for more information on the risks and uncertainties in the business.

Forward Looking Statements

This Report on Form 10-K for the years ended December 31, 2005, 2004 and 2003 includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended ("the Exchange Act"). All statements other than statements of historical fact included in this Report are forward-looking statements. In addition, whenever words like "expect", "anticipate", or "believe" are used, we are making forward looking statements. Actual results may vary materially from the forward-looking statements and there is no assurance that the assumptions used will be realized in fact.

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.

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

All capitalized costs of mineral properties subject to amortization and the estimated future costs to develop proved reserves, are amortized using the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major construction 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.

Asset Retirement Obligations - 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, in which case the gain or loss is recognized in income. Abandonment 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.

Recent Accounting Pronouncements

SFAS 123(R) In December 2004, the FASB issued its final standard on accounting for employee stock options, FAS No. 123 (Revised 2004), "Share-Based Payment" ("FAS123(R)"). FAS 123(R) replaces FAS No. 123, "Accounting for Stock-Based Compensation” (“FAS 123"), and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees”. FAS 123(R) requires companies to measure compensation costs for all share-based payments, including grants of employee stock options, based on the fair value of the awards on the grant date and to recognize such expense over the period during which an employee is required to provide services in exchange for the award. The pro forma disclosures previously permitted under FAS 123 will no longer be an alternative to financial statement recognition. FAS 123 (R) is effective for all awards granted, modified, repurchased or cancelled after, and to unvested portions of previously issued and outstanding awards vesting after, interim or annual periods, beginning after June 15, 2005, which for us will be the first quarter of fiscal 2006. We are currently evaluating the effect of adopting FAS 123 (R) on our financial position and results of operations, and we have not yet determined whether the adoption of FAS 123 (R) will result in expenses in amounts that are similar to the current pro forma disclosures under FAS 123.

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.

Liquidity and Capital Resources

During the year ended December 31, 2005, the Company recorded a net gain of $8,841,500 and generated $3,156,200 of cash. Financing activities generated $4,176,600 primarily as a result of the exercise of warrants for the Company's common stock and third party debt, investing activities generated $5,714,300 and operating activities consumed $6,057,700.

On June 1, 2005, Enterra US Acquisitions Inc. ("Acquisitions"), a privately-held Washington corporation organized by Enterra acquired all the outstanding stock of RMG, for which Enterra paid $500,000 cash and issued $5,234,000 of Enterra units (the "Enterra Initial Units"), net of the $266,000 adjustment for the purchase of overriding royalty interests (effected May 1, 2005); and Acquisitions issued $14,000,000 of Class D shares of Acquisitions. The Enterra Initial Units and the Class D shares were issued pro rata to the RMG shareholders. The Company's and Crested's participation in the consideration received was approximately $18,341,600. The Company's consolidated subsidiary, Yellowstone Fuels, Inc. ("YSFI") also received approximately $296,700.

During the three months ended September 30, 2005, the Company and Crested sold all of the Enterra Initial Units they received as a result of the sale of RMG. As a result of the sale of these Enterra Initial Units, the Company recorded an increase of $5,916,600 in cash from investing activities and a gain of $1,038,500 from the sale of marketable securities. The Enterra Initial Units received by YSFI are reflected on the Company's consolidated balance sheet as $77,100 as current assets - marketable securities. The Class D shares of Acquisitions are carried as $13,803,200 at December 31, 2005 as investments in non-affiliates. The Company is required to hold the Class D shares of Acquisitions for a period of one year from June 1, 2005. After the holding period is satisfied, the Company can exchange these shares on a one for one basis for units in Enterra which will then be saleable on the Toronto Stock Exchange – Vancouver ("TSX-V"). The Company has valued the Class D shares of Acquisitions as a derivative pursuant to SFAS 133 at December 31, 2005. The initial carrying value of the Class D shares was $19.00 per share. Using the risk free interest rate of 4.38% and a volatility of 45.14% at December 31, 2005 the Acquisition Class D shares have a value of $19.91 per share. The Company therefore recorded a net gain on the derivative conversion right of the Class D shares of Acquisitions of $630,900. The Class D shares of Acquisitions will be revalued at each quarterly reporting period until they are converted to shares of Enterra Trust at which time they will be accounted for as marketable securities held for sale.

Although the Company's cash position increased by $3,156,200 during the year ended December 31, 2005 it is anticipated that the Company may need to sell the remaining Acquisition shares when converted to Enterra units as well as seek industry partners or equity financing to fund mine exploration and development costs and also fund reclamation and general and administrative expenses.

We believe that the current market prices for gold, uranium and molybdenum are at levels that warrant the exploration and development of the Company's mineral properties. Management of the Company anticipates these metals prices remaining at levels which will allow the properties to be produced economically. Management of the Company therefore believes that sufficient capital will be available to develop its mineral properties from strategic industry partners, debt financing, the sale of equity or a combination of the three. The successful development and production of these properties would greatly enhance the liquidity and financial position of the Company.

Capital Resources

Sale of Rocky Mountain Gas, Inc.

On June 1, 2006, the 436,586 Class D shares of Acquisitions (not traded on any exchange) owned by the Company will be exchangeable, on a one-for-one basis, for additional Enterra units (the "Enterra Additional Units"); the Enterra Additional Units will be tradable on the TSX at that time. Crested also owns an additional 245,759 of Class D shares of Acquisitions which will be available for sale on June 1, 2006. A substantial portion of any cash received by Crested from the sale of its Class D shares will likely be applied to its debt of $10,821,800 to the Company. The ultimate value of the Class D shares of Acquisitions will not be determined until they are sold.

RMG's minority equity ownership of Pinnacle Gas Resources, Inc. ("Pinnacle") was not included in the disposition of RMG, but was assigned to the Company and Crested in proportion to their ownership of RMG. The Company therefore received 65% ownership of the Pinnacle equity and Crested 35%. Enterra is entitled to be paid an amount of up to (but not more than) $2,000,000, if proceeds from a future disposition by the Company and Crested to a third party of their minority equity interest in Pinnacle exceeds $10,000,000. Currently, we have no information about whether or when Pinnacle might become a public company or might be purchased by third parties. The value of the minority equity position upon a future disposition could be more or less than $10,000,000. The boards of directors of the Company and Crested determined that the value of RMG's minority equity interest in Pinnacle is approximately $6,250,000, based only upon Pinnacle's sales of equity in 2004 and 2005 to its shareholders (RMG did not participate in those sales). Management of the Company may sell some or all of its equity in Pinnacle at such time as Pinnacle is either sold or becomes a public company.

Agreements with Uranium Power Corp.

In 2005, we received $500,000 cash from Uranium Power Corp. ("UPC") under the December 2004 Purchase and Sale Agreement for our Wyoming uranium properties. Additional cash payments are required of $1.6 million in 2006 and $3.1 million in 2007. We also have signed a Mining Venture Agreement with UPC, by which the initial $500,000 of exploration costs on individual uranium properties is to be funded by UPC. See Part 1, "Inactive Mining Properties – Uranium, UPC Purchase and Sale Agreement" and "Mining Venture Agreement."

Issuance of senior convertible debentures

Additional capital ($3,700,000) was received from the issuance of debentures on February 9, 2005. The $4,720,000 face amount of the debentures was paid in 2005 by issuing stock in the Company (see Part 1, "Capital Activities in 2005 and First Quarter 2006 - $4,720,000 Loan Repayment – 2005").

Other

During the twelve months ended December 31, 2005, the Company received $3,318,400 from the exercise of 910,362 warrants and $155,700 from the exercise of 64,325 employee options. An additional 438,545 shares underlying employee stock options were issued to the employees by the surrender of 221,229 shares of the Company's common stock directly owned by the employees.

During the first quarter of 2006, SGMI through IBK Capital of Toronto Canada, began efforts to raise U.S. $1.3 to $1.6 million (none from U.S. residents) for drilling and operational funds of the SGMI property. These funds are critical to the further delineation of the gold deposit in order that SGMI can raise sufficient funds to place the property into production. No assurance can be given that SGMI will be successful in its efforts to raise the $1.3 to $1.6 million.

The Company and Crested have a line of credit with a commercial bank in the amount of $750,000. The line of credit is secured by certain real estate holdings and equipment. This line credit is used for short term working capital needs associated with operations. At December 31, 2005, the entire amount of $750,000 under the line of credit was available to the Company and Crested.

The Company and Crested continue to pursue the settlement of a long standing arbitration/litigation regarding the Sheep Mountain Partnership ("SMP"). The litigation involves Nukem, Inc. ("Nukem") and its subsidiary Cycle Resource Investment Corp. of Danbury Connecticut. The case is currently on remand to the arbitration panel following Nukem's third appeal to the Tenth Circuit Court of Appeals. Prior to the remand, there was a $20 million judgment entered by the U.S. District Court of Colorado in favor of the Company and Crested. The timing and cost of achieving final resolution cannot be predicted. Management of the Company and Crested believe that the ultimate outcome will be positive and in favor of the Company.

Capital Requirements

The capital requirements of the Company during 2006 remain its general and administrative costs and expenses; permitting and development work on its gold property, and the ongoing maintenance, exploration and potential development of its uranium and molybdenum properties.

As a result of the RMG disposition, USECC no longer directly holds coalbed methane properties. The Company therefore is no longer liable to fund drilling programs and lease holding costs related to those properties.

Maintaining Mineral Properties

Sheep Mountain Uranium Properties

As stated above, the mining agreement with UPC is contractually committed to fund the majority of the expenses associated with maintaining the uranium properties in central Wyoming and performing exploration drilling on them. A budget of $775,400 for the first half of the year ending December 31, 2006 has been approved, relating to reclamation work at the Sheep Mountain properties, exploration drilling, geological and engineering work, and other costs. UPC has agreed to fund the first $500,000 of all approved projects up to a total of $10,000,000 and has advanced $400,000 against the 2006 approved budget. The average care and maintenance costs associated with the Sheep Mountain uranium mineral properties in Wyoming is approximately $200,000 per year of which UPC is required to pay 50% annually.

Plateau Resources Limited Uranium Properties

Plateau owns and maintains the Shootaring Canyon Uranium Mill (the "Shootaring Mill"). Due to increases in the market price for uranium during the years ended December 31, 2004 and 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 Shootaring Mill. (See the Form 8-K report filed March 31, 2005). If management's projections of placing the Shootaring Mill into production hold, reclamation on the property is not anticipated to commence until some time in 2033.

It is anticipated $31 million will be required to modify the Shootaring Mill's tailings facility to Utah standards including posting additional reclamation bonding, and complete other mill upgrades before production can begin. Additionally, a circuit to process vanadium which is contained in almost all of the mineralized material found in nearby properties may be added to the Shootaring Mill. When refurbished, the Shootaring Mill is projected to have the capacity to produce up to 1.5 million pounds of uranium concentrates annually depending on the grade of material fed to the Shootaring Mill. The Company and Crested are currently considering placing their ownership and cash flow rights in Plateau and other uranium assets into a newly formed entity, U.S. Uranium Ltd. ("USUL"). In order to fund the refurbishment of the Mill and acquire additional uranium properties from which to produce uranium bearing ores, USE and Crested are seeking joint venture partners or equity participants.

In 2003, the Company sold its interests in the Ticaboo town site ("Ticaboo") operations in southern Utah to a non-affiliated entity, The Cactus Group ("Cactus"). The Ticaboo property includes a motel, restaurant and lounge, convenience store, recreational boat storage and service facility, and improved residential and mobile home lots. Most of these properties had been acquired when the Shootaring Mill was acquired in 1993. The Company carried the loan which had a balance due at December 2005 of approximately $3.0 million at 7.5% annual interest. Cactus was to make payments of $24,000 per month until August 2008 at which time a balloon note in the amount of $2.8 million was due. Cactus became in default on its cash payments as well as its contractual covenants to maintain the properties and equipment during the fourth quarter of 2005.

On February 27, 2006 the Company re-acquired by foreclosure sale the Ticaboo properties. Management of the Company is evaluating the properties to determine the costs of deferred maintenance and operations that may be necessary until such time as the assets can be sold or leased. Until an actual detailed inspection of the properties is made it is not possible to estimate what the remedial costs and expenses may be. At the time of filing management of the Company does not anticipate operating the Ticaboo properties. Management is seeking a third party to either lease or purchase the properties. Until such an arrangement can be secured by the Company, the Company will be obligated for minimal holding costs. The Company may spend an estimated $200,000 in refurbishing costs on the properties.

Sutter Gold Mining Inc. (SGMI) Properties

Because of the recent increase in the price of gold, management of SGMI has decided to continue moving the project forward with production as the ultimate goal. 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 had sufficient capital to pay for the work done on the properties during calendar 2005. Additional financing is being sought by SGMI. Until such financing is obtained, the Company may be required to fund standby costs at the SGMI properties and legal and accounting work necessary to obtain additional equity financing. Management anticipates that during the twelve months ended December 31, 2006, this cash commitment will not exceed $250,000.

Lucky Jack Molybdenum Project

The Company and Crested re-acquired the Lucky Jack molybdenum project, formerly known as the Mt. Emmons molybdenum property, located near Crested Butte, Colorado on February 28, 2006. The property was returned to the Company and Crested by PD in accordance with a 1987 Amended Royalty Deed and Agreement between USECC and Amax Inc. ("Amax"). The Lucky Jack Project includes a total of 25 patented and approximately 520 unpatented mining claims, which together approximate 5,400 acres, or over 8 square miles of mining claims.

The Company and Crested leased various patented and unpatented mining claims on the Mt. Emmons property to Amax in 1974. In the late 1970s, Amax delineated a large deposit of molybdenum on the properties, reportedly containing approximately 155 million tons of mineralized material averaging 0.44% molybdenum disulfide (MoS_2). In 1980, Amax constructed a water treatment plant at the Mt. Emmons property to treat water flowing from old mine workings and for potential use in milling operations. By 1983, Amax had reportedly spent an estimated $150 million in the acquisition of the property, securing water rights, extensive exploration, ore body delineation, mine planning, metallurgical testing and other activities involving the mineral deposit. Amax was merged into Cyprus Minerals in 1992 to form Cyprus Amax. PD then acquired the Mt. Emmons property in 1999 through its acquisition of Cyprus Amax. Thereafter, PD acquired additional water rights to mine and mill the deposit.

The Company and Crested have decided to pursue permitting and development of the property and are now engaged in the active pursuit of a sizable mining industry partner to co-develop and mine the property. In order to do so the Company and Crested may have to obtain a mine feasibility study which is estimated will cost approximately $2.5 million. Of this total amount it is anticipated by management that approximately $1.0 million will be spent during the year ended December 31, 2006.

Conveyance of the property to the Company and Crested also includes the transfer of ownership and operational responsibility of the mine water treatment plant located on the properties. Operating costs for the water treatment plant are expected to approximate $1 million annually. In an effort to assure continued compliance, the Company and Crested have retained the technical expert and contractor hired by PD on January 2, 2006 to operate the water treatment plant.

On October 31, 2005, PD filed a motion with the District Court to recover attorney's fees and expenses in the declaratory judgment action against the Company and Crested. PD is claiming $4,050,200 in attorney's fees and expenses and $3,692,100 in costs incurred for the operation of the water treatment plant for the last three years. These claims were not part of the initial litigation with PD. The Company and Crested have filed a response with the Court denying that USECC owes PD such monies. It is not known how or when the Court will rule on these issues. Management of the Company believes that no monies are due to PD.

The Company and Crested expect to transfer the Lucky Jack molybdenum project to a new subsidiary, U.S. Moly Corp. in the near future.

Debt Payments

During the year ended December 31, 2005, the Company repaid $4,000,000 in debt plus $720,000 in interest to certain investors through the issuance of 1,942,387 shares of the Company's common stock. The sale of RMG also resulted in the repayment by Enterra of approximately $3,214,000 to Petrobridge Investment Management, a mezzanine credit facility. RMG's wholly owned subsidiary, RMG I, had used the Petrobridge loan to finance a portion of its purchase of assets from Hi-Pro Production, a Gillette, Wyoming coal bed methane company. The repayment of both the investor and Petrobridge debt did not consume any cash of the Company.

Debt to a third party lender, Geddes and Company of Phoenix, Arizona, in the amount of $3,000,000 was completely retired with cash during the quarter ended September 30, 2005. Other cash payments on third party debt totaled $380,400. These cash payments along with the non cash retirement of debt mentioned above resulted in a total reduction of debt during the year ended December 31, 2005 of $10,594,400.

Debt to non-related parties at December 31, 2005 was $1,036,800. This debt consists of debt related to the purchase of vehicles and a corporate aircraft.

Reclamation Costs

The asset retirement obligation on the Plateau uranium mining and milling properties in Utah at December 31, 2005 was $3,577,000. This liability is fully funded by cash investments that are recorded as long term restricted investments. Due to the increased market price of uranium, the reclamation of this property has been delayed significantly and is not anticipated to commence until 2033. The delay until reclamation commences resulted in recognition of a reduction of asset retirement obligation expense of $2,075,900.

The asset retirement obligation of the Sheep Mountain uranium properties in Wyoming at December 31, 2005 is $2,302,800 and is covered by a reclamation bond which is secured by a pledge of certain real estate assets of the Company and Crested. It is anticipated that $233,200 of reclamation work on the Sheep Mountain properties will be performed during 2006.

The asset retirement obligation for SGMI at December 31, 2005 is $22,400 which is covered by a cash bond. It is not anticipated that any cash resources will be used for asset retirement obligations at SGMI during the year ending December 31, 2006.

Other

The employees of the Company are not given raises on a regular basis. In consideration of this and in appreciation of the work required to develop and sell RMG, management of the Company accepted the recommendation of its Compensation Committee to pay all employees and directors a bonus upon the closing of the sale of RMG to Enterra. The board of directors has granted similar bonuses in the past. In addition, bonuses may be paid to some of the key individuals involved over the past 14 years in the Nukem case once it is resolved. See Part III of this Annual Report.

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.

Results of Operations

Year Ended December 31, 2005 Compared with the Year Ended December 31, 2004

During the years ended December 31, 2005 and 2004, the only operating revenues recorded by the Company were from real estate operations and management fees charged for management services provided for various subsidiary companies and fees associated with the management of three oil wells in Montana which are owned by the Assiniboine and Sioux tribes. Real estate revenues increased $29,900 during the year ended December 31, 2005 over those revenues from real estate recognized during the year ended December 31, 2004. Management fee revenue increased by $4,000 during the year ended December 31, 2005 as compared to the year ended December 31, 2004. The increase in real estate revenues is a as a result of increased rental rates on the Company's rental properties. The increase in management fees is a result of accounting and managerial services provided to RMG after the acquisition by Enterra.

Operating costs and expenses incurred in operations during the year ended December 31, 2005 increased $1,117,700 over those costs and expenses recognized from operations during the prior year. Expenses from real estate operations remained constant during the year ended December 31, 2005 when compared with those expenses incurred during the year ended December 31, 2004. Mineral holding costs increased during the year ended December 31, 2005 over those cost recorded during the previous year by $256,300. The increase in mine holding costs were as a result of increased activity on the properties that the Company holds for the development of uranium and gold as well as work done on the molybdenum property returned by Phelps Dodge ("PD").

General and administrative costs and expenses increased by $2,985,500 during the year ended December 31, 2005 when compared with the general and administrative costs and expenses recognized during the year ended December 31, 2004. The primary reasons for these increases were: Increased labor costs associated with additional professional staff to evaluate the Company and Crested's mineral properties and a bonus associated with the sale of RMG; increased professional services associated with the Nukem arbitration hearing as well the litigation with PD; costs associated with the adoption of Sarbanes Oxley; and work performed on the SGMI property evaluations and associated increased general and administrative expenses of SGMI.

One outside director of RMG was paid a bonus of $10,000 and another RMG director was paid a bonus of $5,000 for their work on the development of RMG, and the four outside directors of USE were paid $5,000 each for a total bonus to the directors of $35,000. The employees were paid a total bonus of $435,800 at the close of the sale of RMG. All employees of the Company participated in the bonus which was paid at the close of the sale of RMG. The bonus was paid in consideration for the dedicated work put forth by the employees in the development of RMG and due to the fact that many of the employees have not received increases in compensation for a number of years.

Officers of the Company, USE and RMG received the following bonuses: Mark Larsen, President of RMG $140,000, officers of the Company and USE – Keith Larsen and Scott Lorimer $40,000 each, and John L. Larsen, Daniel P. Svilar and Harold F. Herron $20,000 each. In addition to these Officers, Mr. Steve Youngbauer who serves as Assistant General Counsel to Mr. Svilar, received a bonus of $40,000. There were two additional members of John L. Larsen's family who received bonuses for a total compensation amount of bonuses to Mr. Larsen's family of $226,000. The total amount paid in bonuses to the directors, officers and employees for extraordinary work in closing the Enterra purchase of RMG was $470,800 which represents 2.5% of the total consideration received by the Company and its affiliates from the sale of RMG to Enterra.

As a result of increased market prices for uranium the reclamation of these properties was moved further out into the future which resulted in $2,075,900 being reversed out of asset retirement obligation expense. This reversal of cost was offset against the amount of reclamation liability accreted during the year ended December 31, 2005 which resulted in a net cost and expense reduction of $1,709,200.

During the year ended December 31, 2005, other income and expenses resulted in a loss of $484,000 while other income and expenses recognized during the year ended December 31, 2004 resulted in income of $465,100. The primary changes in other income during the year ended December 31, 2005 were (1) a gain of $1,311,200 recognized on the sale of assets, (2) a gain of $1,038,500 from the sale of marketable securities, (3) a decrease of $538,600 in the revenues recorded from the sale of investments; (4) gain on the valuation of the derivative associated with the Acquisitions Class D shares of $630,900 discussed above; (5) dividend income of $44,700; (6) an increase of $69,400 in interest income over interest income recognized during the previous year. These increases in other income were offset by a significant increase in interest expense of $3,458,900 over the interest expense recognized during the previous year to a total of $4,032,200 in interest expense during the year ended December 31, 2005.

The increase in sale of assets during the year ended December 31, 2005 was as a result of a cash payment of $500,000 and the receipt of 1,000,000 shares of UPC common stock valued at $337,800 received from UPC to enter into an agreement described above in Capital Resources and the settlement of a claim on a real estate property in Colorado. The gain on the sale of marketable securities was as a result of the Company and Crested selling 165,600 shares and 91,029 shares, respectively of Enterra Initial Units. The decrease in of $538,600 in revenues from the sale of investments is as a result of the Company selling fewer shares of Ruby Mining Company ("Ruby") shares which it holds as an investment. The Company sold its interest in Ruby several years ago but still retains a portion of the common stock. As of December 31, 2005 there was no book basis in the shares.

Interest expense increased from $573,300 during the twelve months ended December 31, 2004 by $3,458,900 to $4,032,200 during the twelve months ended December 31, 2005. The reason for the increase in interest expense is related directly to the senior convertible debentures which were issued in February 2005 in the amount of $4,000,000 with $720,000 of prepaid interest (please see Capital Resources above), and the debt to Geddes. Both of these debt instruments were retired in full during 2005. The Company recognized $164,600 in interest expense, paid with cash, and the amortization of $273,000 of the remaining discount taken on the Geddes loan for total interest related to the Geddes loan of $437,600. The senior convertible debentures had prepaid interest of $720,000 and a discount on the note of $1,029,800 due to the issue of warrants to the holder of the note and a beneficial conversion factor of $1,669,500 for total interest expense of $3,419,300. The remaining interest of $175,300, which was paid during the year ended December 31, 2005 was on various notes for equipment and the Company's aircraft.

Discontinued operations, net of taxes, during the year ended December 31, 2005 was $15,207,400. Actual consolidated income recognized by the Company for the sale of RMG was $15,768,500 less a provision for income taxes of $235,000 and a loss from discontinued operations of $326,100. Of the pre tax net income, net of the loss from discontinued operations of $15,533,500, the Company recorded a gain of $10,177,600; Crested recorded $5,716,700, and YSFI recorded a loss on the transaction of $360,800. These amounts are derived by the receipt of $500,000 cash and the Enterra Initial Units and the Class D shares of Acquisitions discussed above under Liquidity and Capital Resources less the Company and its affiliates' basis in the RMG ownership and less the closing costs of the RMG sale.

All previously reported operations of RMG are reported on this filing as discontinued operations. During the year ended December 31, 2005, the Company recorded a net loss of $326,100 from the discontinued RMG operations in comparison to a net loss of $1,938,500 from the RMG operations during the year ended December 31, 2004.

After a provision of alternative minimum taxes due on income recognized during the year ended December 31, 2005, the Company recognized a net gain of $8,841,500 or $0.55 basic per share as compared to a net loss of $6,248,700 or a loss of $0.48 basic per share for the Year ended December 31, 2004.

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

Operating Revenues:

Management fees and other revenues recognized by the Company increased during the year ended December 31, 2004. This increase came as a result of the Company entering into a purchase and sales agreement with Bell Coast Capital Corp. now named Uranium Power Corp. ("UPC"), a British Columbia corporation (TSX-V "UCP-V") for the sale to UPC of an undivided 50% interest in the Sheep Mountain properties. UPC paid $175,000 during the year ended December 31, 2004, the Company did not have any similar revenues 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.

Operating Costs and Expenses:

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 received 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 $19,800 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 $311,500 during the year ended December 31, 2003 to net income of $465,100 during the year ended December 31, 2004.

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 $151,900 from the year ended December 31, 2003 to the year ended December 31, 2004 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 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 decreased from $799,100 during the twelve months ended December 31, 2003 by $225,800 to $573,300 at December 31, 2004.

All previously reported operations of RMG are reported on this filing as discontinued operations. During the year ended December 31, 2004 the Company recorded a net loss of $1,938,500 from the discontinued RMG operations in comparison to a net loss of $2,060,400 from the RMG operations during the year ended December 31, 2003.

The Company recorded a net loss of $5,810,100 or $0.52 basic per share during the year ended December 31, 2003 as compared to a net loss of $6,248,700 or a loss of ($0.48) basic per share for the year ended December 31, 2004.

Future Operations

Management of the Company intends to take advantage of the opportunity presented by the recent and future projected market prices for all the minerals that it is involved with. The development of the Company's mineral properties will require large amounts of cash, which the Company will have to obtain from industry or equity partners. The holding costs of these properties is not beyond the Company's capital resources in the short term but to maintain the properties long term additional financing will be required.

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.

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.

Molybdenum. The price of molybdenum at December 31, 2005 was $28.00 per pound (Metal Prices.com). Production from the Lucky Jack Project will have a very long life and changes in prices of molybdenum would affect the revenues from that property. A significant decrease in the current market price would have to occur prior to the time that the Mt. Emmons property would no longer be profitable. In addition to the market risk it is not known how long the permitting process on Mt. Emmons will take or how much it will cost.

Contractual Obligations

The Company has two divisions of contractual obligations as of December 31, 2005: Debt to third parties of $1,036,800 and asset retirement obligations of $5,902,200. The debt will be paid over a period of five to seven years and the retirement obligations will be retired during the next 34 years. 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	$ 1,036,800	$ 156,500	$ 876,300	$ 4,000	$ --
Other long-term liabilities	5,902,200	233,200	621,900	2,581,000	2,466,100
Totals	$ 6,939,000	$ 389,700	$ 1,498,200	$ 2,585,000	$ 2,466,100

Report of Independent Registered Public Accounting Firm

U.S. Energy Corp. Board of Directors

We have audited the accompanying consolidated balance sheets of U.S. Energy Corp. and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. 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 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 audits 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 audits provide 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, 2005 and 2004 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ EPSTEIN WEBER & CONOVER, PLC

Scottsdale, Arizona
March 3, 2006

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
U.S. Energy Corp.

We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2003, of U.S. Energy Corp. and subsidiaries. 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 audit.

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 referred to above present fairly, in all material respects, the results of operations and cash flows of U.S. Energy Corp. and subsidiaries for the year ended December 31, 2003, 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, 2005	December 31, 2004
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,998,700	$ 3,842,500
Marketable securities, available for sale	328,700	--
Accounts receivable		
Trade, net of allowances of $32,300 and $111,300 respectively	251,400	797,500
Affiliates	14,100	66,200
Current portion of long-term note receivable, net	--	49,500
Prepaid expenses and other current assets	215,000	489,700
Inventories	32,700	176,100
Total current assets	7,840,600	5,421,500
INVESTMENTS:		
Non-affiliated companies	14,760,800	957,700
Marketable securities, held-to-maturity	6,761,200	6,773,700
Other	54,900	78,600
Total investments	21,576,900	7,810,000
PROPERTIES AND EQUIPMENT:		
Land	716,600	576,300
Mining claims	739,400	--
Buildings and improvements	5,941,100	5,922,400
Machinery and equipment	4,676,900	4,919,000
Proved oil and gas properties, full cost method	1,773,600	5,569,000
Unproved coal bed methane properties excluded from amortization	--	5,101,900
Total properties and equipment	13,847,600	22,088,600
Less accumulated depreciation, depletion and amortization	(7,481,800)	(8,322,000)
Net properties and equipment	6,365,800	13,766,600
OTHER ASSETS:		
Note receivable trade	20,800	2,971,800
Real estate held for resale	1,819,700	--
Deposits and other	482,900	733,800
Total other assets	2,323,400	3,705,600
Total assets	$ 38,106,700	$ 30,703,700

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, 2005	December 31, 2004
CURRENT LIABILITIES:		
Accounts payable	$ 433,000	$ 1,751,300
Accrued compensation expense	177,100	181,700
Asset retirement obligation	233,200	192,700
Current portion of long-term debt	156,500	3,400,100
Other current liabilities	232,500	830,100
Total current liabilities	1,232,300	6,355,900
LONG-TERM DEBT, net of current portion	880,300	3,780,600
ASSET RETIREMENT OBLIGATIONS, net of current portion	5,669,000	7,882,400
OTHER ACCRUED LIABILITIES	1,400,500	1,654,400
DEFERRED GAIN ON SALE OF ASSET	--	1,279,000
MINORITY INTERESTS	1,767,500	871,100
COMMITMENTS AND CONTINGENCIES		
FORFEITABLE COMMON STOCK, $.01 par value 442,740 shares issued, forfeitable until earned	2,599,000	2,599,000
PREFERRED STOCK, $.01 par value; 100,000 shares authorized No shares issued or outstanding	--	--
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value; unlimited shares authorized; 18,825,134 and 15,231,237 shares issued net of treasury stock, respectively	188,200	152,300
Additional paid-in capital	68,005,600	59,157,100
Accumulated deficit	(40,154,200)	(49,321,700)
Treasury stock at cost, 999,174 and 972,306 shares respectively	(2,892,900)	(2,779,900)
Unrealized loss on marketable securities	(98,100)	--
Unrealized loss on hedging activity	--	(436,000)
Unallocated ESOP contribution	(490,500)	(490,500)
Total shareholders' equity	24,558,100	6,281,300
Total liabilities and shareholders' equity	$ 38,106,700	$ 30,703,700

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2005	2004	2003
OPERATING REVENUES:			
Real estate operations	$ 286,000	$ 256,100	$ 334,300
Management fees and other	563,500	559,500	301,200
	849,500	815,600	635,500
OPERATING COSTS AND EXPENSES:			
Real estate operations	306,300	295,500	302,900
Mineral holding costs	1,376,300	1,120,000	1,095,000
Asset retirement obligations	(1,709,200)	346,700	366,700
General and administrative	6,943,000	3,957,500	3,937,700
Provision for doubtful accounts	--	79,000	--
	6,916,400	5,798,700	5,702,300
OPERATING LOSS	(6,066,900)	(4,983,100)	(5,066,800)
OTHER INCOME & (EXPENSES):			
Gain on sales of assets	1,311,200	46,300	198,200
Gain on sale of marketable securities	1,038,500	--	--
Gain (loss) on sale of investment	117,700	656,300	(32,400)
Gain from valuation of derivatives	630,900	--	--
Dividend income	44,700	--	--
Interest income	405,200	335,800	321,800
Interest expense	(4,032,200)	(573,300)	(799,100)
	(484,000)	465,100	(311,500)
LOSS BEFORE MINORITY INTEREST, PROVISION FOR INCOME TAXES, DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(6,550,900)	(4,518,000)	(5,378,300)
MINORITY INTEREST IN LOSS OF CONSOLIDATED SUBSIDIARIES	185,000	207,800	13,000
LOSS BEFORE PROVISION FOR INCOME TAXES, DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(6,365,900)	(4,310,200)	(5,365,300)
PROVISION FOR INCOME TAXES	--	--	--
LOSS BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(6,365,900)	(4,310,200)	(5,365,300)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2005	2004	2003
DISCONTINUED OPERATIONS, net of taxes			
Gain on sale of discontinued segment net of taxes of $235,000	$ 15,533,500	$ --	$ --
Loss from discontinued operations	(326,100)	(1,938,500)	(2,060,400)
	15,207,400	(1,938,500)	(2,060,400)
GAIN (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 8,841,500	$ (6,248,700)	$ (7,425,700)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	--	--	1,615,600
NET GAIN (LOSS)	$ 8,841,500	$ (6,248,700)	$ (5,810,100)
NET GAIN (LOSS) PER SHARE BASIC			
CONTINUED OPERATIONS	$ (0.39)	$ (0.33)	$ (0.48)
DISCONTINUED OPERATIONS	0.94	(0.15)	(0.18)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	--	--	0.14
	$ 0.55	$ (0.48)	$ (0.52)
NET GAIN (LOSS) PER SHARE DILUTED			
CONTINUED OPERATIONS	$ (0.39)	$ (0.33)	$ (0.48)
DISCONTINUED OPERATIONS	0.94	(0.15)	(0.18)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	--	--	0.14
	$ 0.55	$ (0.48)	$ (0.52)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	16,177,383	13,182,421	11,180,975
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	16,177,383	13,182,421	11,180,975

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP AND SUBSIDARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	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 CORP AND SUBSIDARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(continued)

	Common Stock Shares	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[(1)]	15,231,237	$ 152,300	$59,157,100		$(49,321,700)	$ (436,000)	972,306	$ (2,779,900)	$ (490,500)	$ 6,281,300

[1)] 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 & AFFILIATES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(continued)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Comprehensive Gain	Accumulated Deficit	Accumulated Total Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Unallocated ESOP Contribution	Total Shareholders' Equity
Balance December 31, 2004	15,231,237	$ 152,300	$ 59,157,100	--	$ (49,321,700)	$ (436,000)	972,306	$ (2,779,900)	$ (490,500)	$ 6,281,300
Funding of ESOP	56,494	500	262,100	--	--	--	--	--	--	262,600
Sale of Rocky Mountain Gas			(4,132,300)	--	326,100	--	--	--	--	(3,806,200)
Issuance of common stock to outside directors	11,475	100	35,500	--	--	--	--	--	--	35,600
Issuance of common stock from stock warrants	910,362	9,100	3,309,300	--	--	--	--	--	--	3,318,400
Issuance of common stock in stock compensation plan	60,000	600	254,100	--	--	--	--	--	--	254,700
Treasury stock from the sale of Rocky Mountain Gas	--	--	--	--	--	--	21,868	(92,500)	--	(92,500)
Treasury stock from payment on balance of note receivable	--	--	--	--	--	--	5,000	(20,500)	--	(20,500)
Issuance of common stock to retire debt	1,942,387	19,500	4,700,600	--	--	--	--	--	--	4,720,100
Issuance of common stock from employee stock options	281,641	2,800	170,900	--	--	--	--	--	--	173,700
Issuance of common stock to RMG investors	331,538	3,300	1,162,300	--	--	--	--	--	--	1,165,600
Issuance of common stock Warrants for services	--	--	190,300	--	--	--	--	--	--	190,300
Issuance of common stock warrants attached to company debt	--	--	2,895,700	--	--	--	--	--	--	2,895,700
Comprehensive gain:										
Net gain	--	--	--	$ 8,841,500	8,841,500	--	--	--	--	8,841,500
Unrealized loss on Marketable securities	--	--	--	(98,100)	--	(98,100)	--	--	--	(98,100)
Unrealized gain on hedging activity	--	--	--	436,000	--	436,000	--	--	--	436,000
Comprehensive gain				$ 9,179,400						
Balance December 31, 2005[1]	18,825,134	$ 188,200	$ 68,005,600		$ (40,154,100)	$ (98,100)	999,174	$ (2,892,900)	$ (490,500)	$ 24,558,200

[1]Total Shareholders' Equity at December 31, 2005 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 834,783 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,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net gain (loss)	$ 8,841,500	$ (6,248,700)	$ (5,810,100)
Adjustments to reconcile net gain (loss) to net cash used in operating activities:			
Minority interest in loss of consolidated subsidiaries	(185,000)	(397,700)	(235,100)
Amortization of deferred charge	--	343,400	--
Depreciation, depletion & amortization	386,300	381,700	454,300
Subsequent recognition and measurement of asset retirement obligations	(2,075,900)	--	--
Accretion of asset retirement obligations	366,700	346,700	366,700
Amortization of debt discount and beneficial conversion feature	3,168,700	263,700	537,700
Noncash interest expense	720,000	--	--
Noncash services	125,900	50,400	134,700
Provision for doubtful accounts	--	79,000	--
Recognition of deferred gain	--	(16,700)	--
(Gain) on sale of investment	(15,533,500)	(656,300)	--
(Gain) on sale of assets	(1,311,200)	(19,300)	(198,900)
(Gain) on sale marketable securities	(1,038,500)	--	--
(Gain) on valuation of derivatives	(630,900)	--	--
Cumulative effect of accounting change	--	--	(1,615,600)
Lease holding costs	--	--	50,000
Noncash compensation	688,500	336,900	893,500
Net changes in assets and liabilities:			
Accounts receivable	(166,000)	(16,400)	(676,000)
Other assets	183,700	(83,100)	1,430,600
Accounts payable	(700)	(67,800)	(694,400)
Accrued compensation expense	(4,600)	1,700	--
Prepaid drilling costs	--	--	(134,400)
Reclamation and other liabilities	407,300	(179,800)	(393,200)
NET CASH USED IN OPERATING ACTIVITIES	(6,057,700)	(5,882,300)	(5,890,200)

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,		
	2005	2004	2003
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds on sale of marketable securities	$ 5,916,600	$ --	$ --
Acquisition of unproved mining claims	(710,900)	--	--
Proceeds on sale of investment	--	656,300	--
Proceeds on sale of property and equipment	1,087,400	21,400	1,640,100
Sale of RMG	(270,000)	--	--
Net change in restricted investments	13,600	21,900	3,037,500
Purchase of property and equipment	(376,000)	(93,400)	(92,700)
Net change in notes receivable	53,600	11,300	--
Net change in investments in affiliates	--	(64,500)	(187,600)
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,714,300	553,000	4,397,300
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of common stock	3,492,100	601,100	1,078,900
Issuance of subsidiary stock	--	856,000	230,000
Proceeds from long term debt	4,064,900	3,311,600	2,600
Repayments of long term debt	(3,380,400)	(512,500)	(678,100)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,176,600	4,256,200	633,400
Net cash (used in) provided by operating activities of discontinued operations	(453,500)	1,330,700	216,600
Net cash (used in) provided by investing activities of discontinued operations	(215,000)	(5,628,500)	2,566,700
Net cash (used in) provided by financing activities of discontinued operations	(8,500)	5,128,600	420,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,156,200	(242,300)	2,343,800
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,842,500	4,084,800	1,741,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6,998,700	$ 3,842,500	$ 4,084,800
SUPPLEMENTAL DISCLOSURES:			
Income tax paid	$ 235,000	$ --	$ --
Interest paid	$ 257,900	$ 1,065,400	$ 799,100

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,		
	2005	2004	2003
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of stock to satisfy debt	$ 4,000,000	$ 1,072,900	$ 500,000
Issuance of stock warrants in conjunction with debt	$ 2,781,200	$ 291,500	$ --
Issuance of stock as conversion of subsidiary stock	$ 595,900	$ --	$ --
Acquisition of assets through issuance of debt	$ 113,400	$ --	$ 26,300
Issuance of stock for services	$ 100,000	$ --	$ 582,800
Issuance of stock for conversion of RMG stock	$ 569,700	$ --	$ --
Foreclosure of note receivable Cactus Group	$ 2,926,400	$ --	$ --
Satisfaction of receivable - employee with stock in company	$ 20,500	$ 20,500	$ 20,500
Issuance of stock for retired employees	$ --	$ --	$ 435,200
Issuance of stock as deferred compensation	$ --	$ --	$ 151,900
Issuance of stock warrants for services	$ --	$ --	$ 563,400

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004 and 2003

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 properties, the production of petroleum properties and marketing of minerals. Principal mineral interests are in uranium, gold and molybdenum. The Company is pursuing various financing opportunities to put its uranium and gold properties which are all in a shut down status into production. The Company also historically participated in the development and production of coalbed methane gas through a non consolidated investee, Rocky Mountain Gas, Inc. ("RMG"), which was sold during the year ended December 31, 2005. (See Note L) 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 USECC Joint Venture ("USECC") discussed below and in Note D.

The Company is engaged in the maintenance of two uranium properties, one in southern Utah, and a second group of mining claims in Wyoming known as the Sheep Mountain uranium properties. The Sheep Mountain properties were formally owned by a partnership, Sheep Mountain Partners ("SMP"), which has been involved in significant litigation. (See Note K) Sutter Gold Mining, Inc. ("SGMI"), a Canadian corporation owned 65.4% by the Company at December 31, 2005, manages the Company's interest in gold properties. The Company also owns 100% of the outstanding stock of Plateau Resources Limited ("Plateau"), which was on standby at December 31, 2005. The Company has applied with the State of Utah to change the status of the permit on the mill from standby to operational.

<u>Management's Plan</u>

The Company recorded a net gain of $8,841,500 during the year ended December 31, 2005 and had working capital of $6,608,300 at December 31, 2005. These changes in the financial condition of the Company are primarily as a result of the sale of RMG. (See Note L) At December 31, 2005, the Company on a consolidated basis held 693,276 Class D shares of Enterra US Acquisitions Inc. ("Acquisitions") which are convertible on June 1, 2006 to units of Enterra Energy Trust ("Enterra"). Of these consolidated shares the Company owns 436,586 shares and Crested Corp. ("Crested") and Yellowstone Fuels Inc. ("YSFI") own 245,759 and 10,931 shares, respectively. These Class D shares of Acquisitions were valued at $13,803,200 at December 31, 2005. The Company may sell these shares after June 1, 2006 and intends on using the proceeds to pay its portion of mineral exploration programs, general and administrative expenses and seek other acquisitions. The Company also has other assets that are unencumbered that could be sold to generate cash.

The Company plans on the following activities to increase its cash position and improve earnings:

- Seek additional funding through either sale of equity or joint venture partner to place SGMI and uranium and other mineral properties into production or sell the properties to industry partners.
- Raise additional capital through a private placement or other types of equity or debt financings.
- Convert its shares of Acquisitions into units of Enterra which may be sold.
- Successfully conclude the litigation with Nukem. See Note K.

Budgetary projections made by the Company for calendar 2006 indicate that if these efforts are successful and cost cutting procedures continue to be implemented, the Company will have ample cash resources to fund its operations and commitments.

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%), Four Nines Gold, Inc. ("FNG") (50.9%), SGMI (65.4%), Crested (71.0%), YSFI (35.9%), and the USECC Joint Venture ("USECC"), a consolidated joint venture which is equally owned by USE 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 inter-company profits, transactions and balances have been eliminated. Because of management control, YSFI 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, 2005, the Company had all 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.

Accounts Receivable

The majority of the Company's accounts receivable are due from industry partners for exploratory drilling programs, real estate rentals and management fees. 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 provides reserves for account receivable balances when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Inventories

Inventories consist of aviation fuel. Inventories are stated at lower of cost or market using the average cost method.

Marketable Securities

The Company accounts for its marketable securities under Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities , which requires certain securities to be categorized as either trading, available-for-sale or held-to-maturity. Based on the Company's intent to invest in the securities at least through the minimum holding period, the Company's available-for-sale securities are carried at fair value with net unrealized gain or (loss) recorded as a separate component of shareholders' equity. Held-to-maturity securities are valued at amortized cost. If a decline in fair value of held-to-maturity securities is determined to be other than temporary, the investment is written down to fair value.

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.

Machinery and 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
Buildings and improvements	
Service Buildings	20 years
Corporate Headquarters' Building	45 years

The Company has $1,773,600 in proved oil and gas properties that are fully depleted. From these properties the Company receives management fees based on the oil produced.

Mineral Properties

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 mineral 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).

Assets Held for Resale

The Company classifies Assets Held for Resale as assets that are not in production and management has made the decision to dispose of the assets.

The Company re-acquired by Foreclosure Sale the Ticaboo town site ("Ticaboo") located in southern Utah near Lake Powell subsequent to year end. Ticaboo includes a motel, restaurant and lounge, convenience store, recreational boat storage and service facility, and improved residential and mobile home lots. Most of these properties had been acquired when the Shootaring Mill was acquired in 1993.

The Company did not own Ticaboo at December 31, 2005 but the note was in default. The Company therefore classified Ticaboo has an Asset Held for Resale. (See Note N) Management of the Company is evaluating the properties to determine the costs of maintenance that has not been done, and operations that may be necessary until such time the decision to sell or lease the properties has been made. The Company has been approached by various third parties to purchase or lease the properties. The value of $1.8 is the cost basis of the asset after the re-acquisition and the write off of the corresponding note receivable. Management believes that the fair value of the assets received in foreclosure approximates the carrying value of the note receivable.

Long-Lived Assets

The Company evaluates its long-lived assets 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.

The fair value of derivatives associated with the sale of RMG and the receipt of Enterra Acquisition Class D shares is computed using the Black Scholes model and the volatility of the Enterra Trust units into which the Class D shares are to automatically converted at June 30, 2006. At December 31, 2005 the volatility of the Enterra Trust units was 45.14% and the market price for those shares was $16.45 per unit. The value generated by the Black Scholes model for the Class D shares of Enterra Acquisitions was $19.91 per share and the gain recognized on the derivative at December 31, 2005 was $630,900. See Notes F and L.

Asset Retirement Obligations

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. Final determinations are made during the fourth quarter of each year.

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.

At December 31, 2003 and 2004, the price of uranium concentrates was $14.50 and $20.75 per pound, respectively. During the twelve months ended December 31, 2005, the price of uranium increased dramatically to $36.25 per pound. These increases in market prices are as a result of increased interest in the expansion of nuclear power generation in India, China, Europe and the United States. Additionally, due to historical low prices there is limited uranium capacity to fill the growing demand. The lag time to start production facilities is costly and lengthy. For these reasons the Company has rethought its prior determination of reclaiming its Shootaring uranium mill in southern Utah and its Sheep Mountain uranium properties. The extension of the reclamation plan caused a reduction of $2,075,900 in the present value of the obligation. There is no remaining book basis for these uranium assets on the books of the Company. As a result of these changes in market conditions, a credit was made to earnings during the year ended December 31, 2005 for the reduction of the carrying value of the obligations..

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

	Years ended December 31,	
	2005	2004
Beginning balance	$ 8,075,100	$ 7,264,700
Adjustment to liability	--	463,700
Subsequent recognition and measurement	(2,075,900)	--
Liability settled	(463,700)	--
Accretion expense	366,700	346,700
Ending balance	$ 5,902,200	$ 8,075,100

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.

Revenue Recognition

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

Management fees are for operating and overseeing oil production on the Fort Peck Reservation in Montana and charges for services rendered to UPC and RMG. The charges to UPC are for overhead charges for drilling operations and the charges to RMG are for accounting and administrative services after RMG was sold to Enterra. Management fees are recorded when the service is provided.

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. SFAS 123 allowed 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 its options granted using the Black-Scholes pricing model and the following weighted average assumptions:

	Year Ended December 31,		
	2005	2004	2003
Risk -free interest rate	4.38%	4.82%	5.61%
Expected lives (years)	6.75	7.1	7.0
Expected volatility	78.1%	50.79%	58.95%
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 gain/(loss) and pro forma net gain/(loss) per common share would have been reported as follows:

	Year Ended December 31,		
	2005	2004	2003
Net gain (loss) to common shareholder as reported	$ 8,841,500	$ (6,248,700)	$ (5,810,100)
Deduct: Total stock based employee expense determined under fair value based method			
U.S. Energy employee opti	(3,617,900) (1)	(207,100)	(652,900)
Subsidiary employee optio	(1,013,500) (2)	--	--
Pro forma net loss	$ 1,354,200	$ (6,455,800)	$ (6,463,000)
As reported, Basic	$ 0.55	$ (0.47)	$ (0.52)
As reported, Diluted	$ 0.55	$ (0.47)	$ (0.52)
Pro forma, Basic	$ 0.08	$ (0.49)	$ (0.58)
Pro forma, Diluted	$ 0.08	$ (0.49)	$ (0.58)

(1) Includes the accelerated vesting of 804,000 employee options which were exercisable at $2.46 per share and would have vested at the rate of 268,000 shares each on July 1, 2007, 2008 and 2009. Employees who hold the options have a 21.7 year weighted average employment history with the Company and do not plan to retire. The options would not have been forfeited had they not been accelerated.

(2) On September 2, 2004, the Board of Directors of Crested adopted (and the shareholders approved) the 2004 Incentive Stock Option Plan (the "2004 ISOP") for the benefit of Crested's key employees. The 2004 ISOP reserves for issuance shares of the Company's common stock equal to 20% of the Company's shares of common stock issued and outstanding at any time and has a term of 10 years. During the year ended December 31, 2005, Crested issued 1,700,000 options under this plan to employees of USE. These options were valued for purposes of this footnote using a 4.38% Risk-free interest rate, expected lives of 9.4 years and an expected volatility of 107%.

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 carry forwards.

SFAS 109 requires recognition of deferred tax assets for the expected future effects of all deductible temporary differences, loss carry forwards and tax credit carry forwards. 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 Gain (Loss) Per Share

The Company reports net gain (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 are computed based on the weighted average number of common shares outstanding. Common shares held by the ESOP are included in the computation of earnings per share. Total shares held by the ESOP at December 31, 2005 were 455,125 shares which are allocated to participant accounts and 155,811 shares held as collateral for loans to the Company. 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 5,928,102, 5,628,820, and 3,790,370 at December 31, 2005, 2004 and 2003, 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 to the presentation for the current year.

Recent Accounting Pronouncements

SFAS 123(R) In December 2004, the FASB issued its final standard on accounting for employee stock options, FAS No. 123 (Revised 2004), "Share-Based Payment" ("FAS123(R)"). FAS 123(R) replaces FAS No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". FAS 123(R) requires companies to measure compensation costs for all share-based payments, including grants of employee stock options, based on the fair value of the awards on the grant date and to recognize such expense over the period during which an employee is required to provide services in exchange for the award. The pro forma disclosures previously permitted under FAS 123 will no longer be an alternative to financial statement recognition. FAS 123 (R) is effective for all awards granted, modified, repurchased or cancelled after, and to unvested portions of previously issued and outstanding awards vesting after, interim or annual periods, beginning after June 15, 2005, which for us will be the first quarter of fiscal 2006. We are currently evaluating the effect of adopting FAS 123 (R) on our financial position and results of operations. If no additional options are granted during the year ended December 31, 2006 the adoption of FAS 123(R) will have little effect on earnings.

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; and transacts all operating and payroll expenses through a joint venture with Crested, the USECC Joint Venture.

E. MARKETABLE SECURITIES:

The Company's investments in available for sale securities consist of shares of Uranium Power Corporation ("UPC') and units of Enterra and are reported at their fair values. Unrealized gains and losses are accumulated as a separate component of shareholders' equity and are reported as comprehensive losses.

The Company's restricted held-to-maturity securities are collateral for 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, 2005 and 2004, the cost of debt securities was a reasonable approximation of fair market value.

Investments in marketable securities consist of the following at December 31.

Available-for-sale:

	Cost	Gross Unrealized Loss	Market Value
2005			
UPC Shares	$ 337,800	$ (86,100)	$ 251,700
Enterra Units	89,000	(12,000)	77,000
	$ 426,800	$ (98,100)	$ 328,700

The Company received $5,916,000 during 2005 for the sale of Enterra units resulting in a realized a gain of $1,038,500.

Held-to-maturity:

	Amortized Cost	Market Value
2005	$ 6,761,200	$ 6,761,200
2004	$ 6,773,700	$ 6,773,700

Interest income amounted to $278,500, $108,200 and $171,300 for the years ended December 31, 2005, 2004 and 2003, respectively.

In addition, the Company received 693,276 shares of Enterra Series D Common Stock as partial consideration for the sale of RMG. These securities are restricted until May 31, 2006 at such time they convert to marketable Enterra Units. There is no ready market for the Enterra Series D Common Stock and the Company is contractually restricted from transferring these securities. The Enterra Series D Common Stock is valued in the accompanying balance sheet at December 31, 2005 at $19.00 per share, representing the estimated fair value of the shares when acquired in June 2005. The $19.00 per share is based upon the value at the time of the marketable Enterra Units. The Company determined that the conversion feature of the Enterra Series D Common Stock is a derivative in that it is a put that is to be settled with Enterra Units. The Company has separately valued that derivative using the Black-Scholes option pricing model. The original value of the derivative was determined to be $3,466,400. The value of the derivative at December 31, 2005 was $630,900. The derivative was determined to be a fair value hedge and any change in value is recognized in the statement of operations. The net change in value and loss recorded in the statement of operations was $630,900 for the year ended December 31, 2005.

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 (“PD”) in December 1999. The properties have not been placed into production as of December 31, 2005.

Amax, and later Cyprus Amax, were required to pay 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 PD authorizing the return of the Lucky Jack molybdenum project and associated water treatment plant to the Company and Crested. (Please see Note N Subsequent Event)

Sutter Gold Mining Inc.

Sutter Gold Mining Company (“SGMC”) was established in 1991 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 SGMI ("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 65.4% of the common stock of SGMI.

The spot market price for gold has recently risen to near term highs. Sustained prices above $500 per ounce may allow SGMI to produce gold from the property on an economic basis. This conclusion is based on preliminary engineering analysis completed on the property, although, economic reserves 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.

Sheep Mountain Uranium Properties

On December 8, 2004, the Company and Crested entered into a Purchase and Sale Agreement Uranium Power Corp. (“UPC”), a British Columbia corporation for the sale to UPC of an undivided 50% interest in the Sheep Mountain 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 through December 2007. As of December 31, 2005 UPC was current in its obligations under the purchase and sales agreement. During the year ended December 31, 2005 UPC had paid $850,000 and had delivered 1,000,000 shares of its common stock to the Company and Crested. UPC will also contribute up to $10,000,000 to the joint venture (at $500,000 for each of 20 exploration projects). USECC and UPC, each will be responsible for 50% of costs on each project in excess of $500,000. UPC funded $503,900 exploration projects during the year ended December 31, 2005.

USECC 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. USECC is responsible for the first $1,600,000 in reclamation costs on the properties.

Under the terms of the purchase and sale agreement the 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"). This price benchmark was attained before April 29, 2006, which resulted in which resulted in the two $1.5 million payments being required on April 29 and October 29, 2006.

Should UPC not make all its payments and deliver the stock required under the purchase and sales agreement, it will forfeit all payments made and not earn any interest in the properties. Closing of the agreement is required on or before December 29, 2007, with UPC's last payment of the initial purchase price and the increase in the cash portion. At the closing, the Company and Crested will convey a 50% ownership interest in the properties to UPC which will then be contributed to a joint venture. The Company and Crested will also contribute their remaining 50% interest into the joint venture with UPC. The Company and Crested will then own 50% of the joint venture and UPC will own the remaining 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.

The terms of the agreement with UPC were modified subsequent to December 31, 2005. (Please see Note N Subsequent Event)

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, the Shootaring Canyon Uranium Mill ("Shootaring 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 Plateau stock and agreed to assume all environmental liabilities and reclamation bonding obligations. At December 31, 2005, Plateau has a cash security in the amount of approximately $6.8 million to cover reclamation and annual licensing of the properties (see Note K). 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 effectively sold their interest in the Ticaboo Town site in southern Utah as a result of Plateau 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. Cactus made all of its payments until the fourth quarter of the year ended December 31, 2005. Subsequent to the close of the year ended December 31, 2005 the Company foreclosed on the Ticaboo town site assets. (Please see Note N Subsequent Event)

The Company and Crested are currently evaluating the best utilization of Plateau's assets. The price of uranium at December 31, 2005 was $36.25 per pound. In response to the price of uranium increases application was made with the State of Utah on December 22, 2005 to change the status of the Shootaring Mill from standby to operational. Equity or Joint Venture partners are being sought to develop surrounding mine properties and place the Shootaring Mill in operating status.

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 was engaged in the acquisition of coalbed methane gas properties and the future exploration, development and production of methane gas from those properties.

On June 1, 2005, Enterra US Acquisitions Inc. ("Acquisitions") (a privately-held Washington corporation organized by Enterra Energy Trust ("Enterra") acquired all the outstanding stock of RMG, for which Enterra paid $500,000 cash and issued $5,234,000 of Enterra units (the "Enterra Initial Units"), net of the $266,000 adjustment for the purchase of overriding royalty interests (effected May 1, 2005); and Acquisitions issued $14,000,000 of Class D shares of Acquisitions. The Enterra Initial Units and the Class D shares were issued pro rata to the RMG shareholders. USE's and Crested's participation in the consideration received was approximately $18,341,600. USE's consolidated subsidiary, Yellowstone Fuels, Inc. ("YSFI") also received approximately $296,700.

The Enterra Initial Units received by the Company and Crested were sold during the quarter ended September 30, 2005 resulting in a gain of $1,038,500. The Initial Units received by YSFC are reflected on the Company's consolidated balance sheet as $77,100 in marketable securities and the Class D shares of Acquisitions received by the Company, Crested and YSFI are carried as $13,803,200 as investments in non-affiliates. The Company is required to hold the Class D shares of Acquisitions for a period of one year from June 1, 2005. After the holding period is satisfied, the Company can exchange these shares on a one for one basis for units in Enterra which will then be saleable on the Toronto Stock Exchange – Vancouver ("TSX-V").

For further discussion of the sale of RMG please see Note L, Discontinued Operations.

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 and agreed under certain terms to fund additional acquisition and development programs.

Pinnacle is a private corporation. At December 31, 2005, the Company owned 21% and Crested owned 11.3% of the common stock of Pinnacle prior to redemption of the preferred shares held by CSFB and the exercise of outstanding warrants and options to purchase common shares of Pinnacle. Although the Company owns a consolidated 32.3% of the outstanding common stock of Pinnacle, it does not own a controlling interest due to the redeemable preferred shares held by the CSFB parties. At such time as the redeemable preferred are converted to common shares the Company's consolidated ownership interest will be below 20%. Pinnacle is therefore accounted for using the cost method. 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 among Pinnacle, RMG and the other parties to the June 2003 transaction.

G. **DEBT**

As of December 31, 2005 and 2004 the Company and its subsidiaries had current and long term liabilities associated with the comprehensive loss from hedging of coalbed methane gas, deferred rents, leases, self funding of employee health insurance, accrued holding costs of uranium properties and accrued retirement costs.

Other current liabilities:

	December 31, 2005	December 31, 2004
Comprehensive loss from hedging	$ --	$ 436,000
Employee health insurance self funding	101,200	297,900
Deferred rent	25,500	26,500
Accrued expenses	36,100	--
Mineral property lease	69,700	69,700
	$ 232,500	$ 830,100

Other long term liabilities:

	2005	2004
Accrued retirement costs	$ 43,300	$ --
Holding costs of uranium property	1,357,200	1,654,400
	$ 1,400,500	$ 1,654,400

The Company has a $750,000 line of credit from a commercial bank. The line of credit has a variable interest rate (8.25% as of December 31, 2005). The weighted average interest rate for the year ended December 31, 2005 was 7.15%. As of December 31, 2005, none of the line of credit had been borrowed. The line of credit is collateralized by certain real property and a share of the net proceeds of fees from production of certain oil wells.

Long-term Debt

The components of long-term debt as of December 31, 2005, and 2004 are as follows:

	December 31,	
	2005	2004
USECC installment notes - collateralized by equipment; interest at 5.25% to 9.0%, matures in 2006-2010	$ 969,000	$ 1,192,300
SGMC installment notes - collateralized by certain properties, interest at 8.0% maturity 2009	37,900	46,500
PLATEAU installment note - collateralized by property, interest at 6.0%	29,900	--
USE convertible note with Geddes - 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
RMG production related note with HPC - 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
	1,036,800	7,180,600
Less current portion	(156,500)	(3,400,100)
	$ 880,300	$ 3,780,500

HPC Capital Management

On February 9, 2005, USE closed a financing pursuant to a securities purchase agreement with seven accredited investors for the issuance of $4,720,000 in face amount of debentures maturing February 4, 2008, and three year warrants to purchase common stock of the company. The face amount of the debentures included simple annual interest at 6% ($720,000 in interest expense); the investors paid $4,000,000 for the debentures. A commission of 7% on the $4,000,000 was paid by the company to HPC Capital Management (a registered broker-dealer) in connection with the transaction, and the company paid $20,000 of the investors' counsel's legal fees, resulting in net proceeds to the company of $3,700,000. Net proceeds were intended to be used by the Company for general working capital.

The debentures were unsecured; the face amount of the debentures were payable every six months from February 4, 2005, in five installments of 20%, in cash or in restricted common stock of the Company 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. At any time, the debentures were convertible to restricted common stock of the company at the set price. The fair market value of the Company's common stock at closing was $3.13 per share. The difference from the conversion set price and the market price at closing, $3.13 per share, resulted in a beneficial conversion feature of $1,669,500 which was to be amortized over the life of the debenture.

The Company issued warrants to the investors, expiring February 4, 2008, to purchase 971,193 shares of restricted common stock, at $3.63 per share (equal to 110% of the NASDAQ closing price for the Company's stock 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). If in any period of 20 consecutive trading days the Company's stock price exceeds 200% of the warrants' exercise price, on each of the trading days, all of the warrants shall expire on the 30th day after the Company sends a call notice to the warrant holders. A discount of $1,029,800 was taken against the debenture balance as a result of the issuance of these warrants. The discount was to be amortized over the life of the debenture.

Warrants to purchase 100,000 shares, at the same price and for the same term as the warrants issued to the investors, have been issued to HPC Capital Management as additional compensation for its services in connection with the transaction with the investors.

The Company agreed to file with the Securities and Exchange Commission a registration statement to cover the future sale by the investors of the shares issuable in payment and/or conversion of the debentures, and the shares issuable on exercise of the warrants. The registration statement also covered the future sale by HPC Capital Management of the shares issuable on exercise of the warrants issued to HPC in connection with the transaction.

HPC converted the entire face value of the debenture of $4,720,000 for the issuance of 1,942,387 shares of the Company's common stock during the second and third quarters of the year ended December 31, 2005. The entire amount of the warrant discount and the beneficial conversion factor was expensed as of December 31, 2005.

Geddes

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. Proceeds from the credit facility were used to acquire and develop gas properties, and for general corporate purposes of the Company. On May 26, 2005 the Company and Geddes amended the credit agreement. The Company agreed to prepay the $3 million plus interest in installment payments of $250,000 each through April 1, 2006. The Company also agreed to deliver to Geddes 10,664 Enterra Acquisition shares and 53,191 shares of the Company's common stock valued at $225,000. At December 31, 2005, the entire debt to Geddes was retired and no further obligation or commitment was outstanding under the credit agreement.

H. INCOME TAXES:

The components of deferred taxes as of December 31, 2005 and 2004 are as follows:

	December 31,	
Deferred tax assets:	2005	2004
Deferred compensation	$ 60,200	$ 1,565,700
Accrued reclamation	782,900	--
Allowances for bad debts	11,000	--
Tax basis in excess of book (Pinnacle Stock)	1,799,400	--
Net operating loss carry forwards	4,530,200	4,147,400
Tax credits (AMT credit carryover)	135,000	--
Non-deductible reserves and other	--	523,000
Tax basis in excess of book basis	--	994,700
Total deferred tax assets	7,318,700	7,230,800
Deferred tax liabilities:		
Book basis in excess of tax basis	--	(1,397,900)
Book basis in excess of tax basis	(214,500)	--
Accrued reclamation	(1,083,600)	--
Development and exploration costs	--	(109,400)
Total deferred tax liabilities	(1,298,100)	(1,507,300)
	6,020,600	5,723,500
Valuation allowance	(6,020,600)	(5,723,500)
Net deferred tax asset	$ --	$ --

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 $297,100 for the year ended December 31, 2005 and $3,563,500 for the year ended December 31, 2004. The increase in the valuation allowance during 2005 includes the effect of the disposition of RMG and related deferred tax assets and valuation allowances.

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

	Year ended December 31,		
	2005	2004	2003
Expected federal income tax expense (benefit)	$ (1,967,100)	$ (2,133,800)	$ (2,405,800)
Net operating loss not previously benefited and other	--	(1,429,700)	363,700
Dividends received deduction	(1,700,000)	--	--
Interest expense adjustment	1,190,400	--	--
Valuation Allowance	2,476,700	3,563,500	2,042,100
Income tax provision	$ --	$ --	$ --

There were no taxes payable at December 31, 2005 and 2004. Total taxes paid during the year ended December 31, 2005 was $235,000 for alternative minimum tax resulting from the sale of RMG.

At December 31, 2005, the Company had available, for federal income tax purposes, net operating loss carry forwards ("NOL") of approximately $13,324,200 which will expire from 2006 to 2023. The Internal Revenue Code contains provisions which may limit the NOL carry forwards available which can be used in a given year when significant changes in Company ownership interests occur.

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:

During the years ended December 31, 2004 and 2003 the Company had business activities in coalbed methane gas property acquisition, exploration and production. The Company also had a reportable industry segment in commercial activities through motel, real estate and airport operations. The Company sold RMG on June 1, 2005 which resulted in only one business segment, commercial activities. No presentation of business segments is therefore made at December 31, 2005 as all coalbed methane gas operations are accounted for as discontinued operations.

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 until the 1998 ISOP was replaced by the 2001 ISOP.

During the years ended December 31, 2005, 2004 and 2003 the following activity occurred under the 1998 ISOP:

	2005	2004	2003
Grants			
Qualified	--	--	--
Non-Qualified	--	--	--
	--	--	--
Price of Grants			
High	--	--	--
Low	--	--	--
Exercised			
Qualified	142,907	--	77,832
Non-Qualified	55,234	--	71,453
	198,141 [1]	--	149,285
Total Cash Received	$ -	--	$ 364,200
Forfeitures/Cancellations			
Qualified	--	--	34,782
Non-Qualified	--	--	64,233
	--	--	99,015

[1] All options were exercised by the surrender and cancellation of shares of common stock of the Company owned by the employees.

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 the Company's common stock equal to 20% of the Company's 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, 2005, 2004 and 2003, the following activity occurred under the 2001 ISOP:

	Year ended December 31,		
	2005	2004	2003
Grants			
Qualified	13,160	1,272,000	--
Non-Qualified	686,840	--	--
	700,000	1,272,000	--
Price of Grants			
High	$ 3.86	$ 2.46	--
Low	$ 3.86	$ 2.46	--
Exercised			
Qualified	225,426	--	73,780
Non-Qualified	79,303	--	52,556
	304,729 (1)	--	126,336
Total Cash Received	$ 173,700	$ --	$ 284,300
Forfeitures/Cancellations			
Qualified	65,000	12,000	65,108
Non-Qualified	--	--	252,556
	65,000	12,000	317,664

(1) In addition to the 72,325 options exercised for cash, 232,404 options were exercised by the surrender of common stock of the Company.

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, 2005 that are not in employee stock option plans:

	Year ended December 31,		
	2005	2004	2003
Grants			
Qualified	--	--	--
Non-Qualified	--	--	10,000
	--	--	10,000
Price of Grants			
High	--	--	$ 2.90
Low	--	--	$ 2.90
Exercised			
Qualified	--	--	--
Non-Qualified	--	--	--
	--	--	--
Total Cash Received	--	--	--
Forfeitures/Cancellations			
Qualified	--	--	--
Non-Qualified	--	10,000	10,000
	--	10,000	10,000

A summary of the Employee Stock Option Plans activity in all plans for the year ended December 31, 2005, 2004 and 2003 is as follows:

	Year ended December 31,					
	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of the period	4,123,646	$ 2.66	2,873,646	$ 2.74	3,565,946	$ 2.76
Granted	700,000	$ 3.86	1,272,000	$ 2.46	10,000	$ 2.90
Forfeited	(65,000)	$ 2.46	(22,000)	$ 2.66	(426,679)	$ 3.17
Expired		--	--	--	--	-
Exercised	(502,870)	$ 2.50	--	--	(275,621)	$ 2.35
Outstanding at period end	4,255,776	$ 2.88	4,123,646	$ 2.66	2,873,646	$ 2.74
Exercisable at period end	4,017,776	$ 2.90	2,863,646	$ 2.74	2,873,646	$ 2.74
Weighted average fair value of options granted during the period		$ 3.64		$ 1.66		$ 0.87

The following table summarized information about employee stock options outstanding and exercisable at December 31, 2005:

Grant Price Range	Options outstanding at December 31, 2005	Weighted average remaining contractual Life in years	Weighted average exercise price	Options exercisable at December 31, 2005	Weighted average exercise price
$2.00	251,090	2.73	$ 2.00	251,090	$ 2.00
$2.01 - $2.25	468,668	5.93	$ 2.25	468,668	$ 2.25
$2.26 - $2.40	826,094	5.02	$ 2.40	826,094	$ 2.40
$2.41 - $2.46	1,142,675	8.5	$ 2.46	904,675	$ 2.46
$2.47 - $2.88	189,321	2.73	$ 2.88	189,321	$ 2.88
$2.89 - $3.86	700,000	9.78	$ 3.86	700,000	$ 3.86
$3.87 - $3.90	677,928	5.93	$ 3.90	677,928	$ 3.90
	4,255,776	6.75	$ 2.88	4,017,776	$ 2.90

Employee Stock Ownership Plan

The Board of Directors of the Company adopted the U.S. Energy Corp. 1989 Employee Stock Ownership Plan ("ESOP") in 1989, for the benefit of all the Company's employees. Employees become eligible to participate in the ESOP after one years of service which must consist of at least 1,000 hours worked. After the employee becomes a participant in the plan he or she must have a minimum of 1,000 hours of service in each plan year to be considered for allocations of funding from the Company. Employees become 20% vested after three years of service and increase their vesting by 20% each year thereafter until such time as they are fully vested after eight years of service. An employee's total compensation paid, which is subject to federal income tax, up to a limit of $150,000 annually is the basis for computing how much of the total annual funding is contributed into his or her personal account. An employee's compensation divided by the total compensation paid to all plan participants is the percentage that each participant receives on an annual basis. The Company funds 10% of all eligible compensation annually in the form of common stock and may fund up to an additional 15% to the plan in common stock. As of December 31, 2005, all shares of the Company's stock that have been contributed to the ESOP have been allocated. The estimated fair value of shares that are not vested is approximately $129,900.

During the year ended December 31, 2005 the Board of Directors of the Company contributed 56,494 shares to the ESOP at the price of $4.65 for a total expense of $262,600. This compares to contributions to the ESOP during the year ended December 31, 2004 and 2003 of 70,439 and 76,294 shares to the ESOP at prices of $2.96 and $3.10 per share, respectively. The Company has expensed $262,600, $208,500 and $236,400 during the years ended December 31, 2005, 2004, 2003 respectively related to these contributions.

During prior years the Company loaned the ESOP $1,014,300 to purchase 125,000 shares from the Company and 38,550 shares on the open market. The Company paid the ESOP 2,350 shares as dividends on the shares the ESOP had purchased. 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. During a previous year the loans were also adjusted by $436,500 to reflect their value at the time. The loans at December 31, 2005 are reflected as unallocated ESOP contribution of $490,500 in the equity section of the accompanying Consolidated Balance Sheets and are secured by 155,811 unallocated shares purchased under the loan.

Warrants to Others

As of December 31, 2005, there were 1,672,326 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, 2005 for warrants is represented in the following table:

	Year ended December 31,					
	2005		2004		2003	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at beginning of the period	1,505,174	$ 3.35	907,209	$ 3.51	990,393	$ 3.37
Granted	1,396,195	3.70	868,465	2.87	224,875	4.32
Forfeited	(316,968)	3.41	(145,500)	2.63	(176,463)	3.67
Expired	(1,713)	3.00	--	--	--	--
Exercised	(910,362)	3.65	(125,000)	2.01	(131,596)	3.55
Outstanding at period end	1,672,326	$ 3.47	1,505,174	$ 3.35	907,209	$ 3.51
Exercisable at period end	1,642,326	$ 3.49	1,044,152	$ 3.43	831,724	$ 3.41
Weighted average fair value of options granted during the period		$ 1.37		$ 0.79		$ 0.93

The following table summarized information about non employee warrants outstanding and exercisable at December 31, 2005:

Grant Price Range	Options outstanding at December 31, 2005	Weighted average remaining contractual Life in years	Weighted average exercise price	Options exercisable at December 31, 2005	Weighted average exercise price
$2.00	10,000	0.25	$ 2.00	10,000	$ 2.00
$2.25 - $2.40	40,000	5.48	$ 2.33	40,000	$ 2.33
$2.46 - $2.88	175,000	7.67	$ 2.52	145,000	$ 2.53
$3.00 - $3.30	323,113	2.07	$ 3.06	323,113	$ 3.06
$3.63 - $3.75	654,838	2.01	$ 3.64	654,838	$ 3.64
$3.81 - $3.86	225,000	6.48	$ 3.85	225,000	$ 3.85
$3.90 - $4.00	109,375	2.44	$ 3.96	109,375	$ 3.96
$4.23 - $4.30	135,000	1.23	$ 4.26	135,000	$ 4.26
	1,672,326	3.25	$ 3.47	1,642,326	$ 3.49

These 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 $171,100 of compensation expense for the year ended December 31, 2005 compared to $216,800 and $284,700 for the years ended December 31, 2004 and 2003 respectively. The accompanying balance sheet at December 31, 2005 includes a deferred charge of $151,600 of which $112,500 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, 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)
Totals			
Balance at December 31, 2003	465,880		$ 2,726,600
Shares earned	(23,140)	--	(127,600)
Balance at December 31, 2004 and December 31, 2005	442,740		$ 2,599,000

K. COMMITMENTS, CONTINGENCIES AND OTHER:

LEGAL PROCEEDINGS

Material proceedings pending at December 31, 2005, 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 immaterial.

Sheep Mountain Partners Arbitration/Litigation

In 1991, disputes arose between the Company, Crested 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 on July 2, 1991, the Company and Crested 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 against Nukem/CRIC. In February 1994, 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 April 1996, finding generally in favor of the Company 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 three CIS republics, and also awarded SMP damages of $31,355,100 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 there from; 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 the Company and Crested and against Nukem for $20,044,200. 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 its 1996 Orders 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 there from,' 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 Arbitration Panel ("Panel") held a Status Conference Hearing in Denver, Colorado on August 26, 2005 to consider the procedures, schedule and scope of the remand. On August 26, 2005, the Panel directed the parties to make written submissions to resolve the issues concerning the definition of the Constructive Trust and its components (e.g. purchase rights).

The Panel issued a written order on August 31, 2005 confirming this directive. Nukem's request to present new facts and evidence on the issue of the Constructive Trust was rejected by the Panel. All submissions are specifically limited to the facts introduced into evidence before the Panel in the 1994 and 1995 hearings, currently in the record. Initial submissions were due to the Panel on November 4, 2005 and reply submissions were due on December 6, 2005. A one day hearing was held in New York City on December 20, 2005. On January 3, 2006 the Panel entered an amended order requesting additional information concerning the CIS contracts be submitted by the parties by February 3, 2006.

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

Phelps Dodge Litigation

The Company and Crested are parties to 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 mineral properties on Lucky Jack Project (formerly the Mount Emmons molybdenum properties), near Crested Butte, Colorado.

The litigation relates to agreements from 1974 when the Company 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 the Company, Crested and Amax, if Amax sold MEMCO or its interest in the mining properties, the Company 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. The Company and Crested’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, the Company and Crested 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 the Company and Crested the \$3.75 million plus interest.

The other issues in the litigation were whether the Company and Crested must, under terms of a 1987 Royalty Deed, accept PD's and MEMCO's conveyance of the Lucky Jack Project back to the Company and Crested, 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 the Company and Crested to assume the operating costs of the water treatment plant. The Company and Crested 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 the Company and Crested’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 Lucky Jack Project includes the transfer of ownership and operational responsibility for the Water Treatment Plant, and that PD does not owe the Company and Crested any advanced royalty payments.

The Company and Crested 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 Lucky Jack Project had rights to water to develop a mine), and any other appurtenant water rights, be conveyed to the Company and Crested. The motion is pending.

PD, the Company and Crested have been engaged in settlement discussions in an attempt to resolve the remaining issues and avoid an appeal of the District Court’s Judgment. In view of the ongoing discussions and in the interest of conserving judicial and party resources, on April 5, 2005, the parties filed a Joint Motion to Stay Ruling on Motion to Amend Judgment and to Extend Stay of Execution Pending Appeal. On April 7, 2005, the Court granted the motion and entered an order staying the Company’s and Crested’s Motion to Amend Judgment until ten days after filing of written notice by PD that settlement has not been achieved. The parties have filed joint status reports which have stayed the parties’ various motions.

On October 31, 2005, PD filed a motion with the District Court to recover attorney's fees and expenses in the declaratory judgment action against the Company and Crested. PD is claiming $4,050,200 in attorney's fees and expenses and $3,692,100 in costs incurred for the operation of the water treatment plant for the last three years. These claims were not part of the initial litigation with PD. The Company and Crested have filed a response with the Court denying that USECC owes PD such monies. It is not known how or when the Court will rule on these issues. Management of the Company believes that no monies are due to PD. Resolution of these issues will not affect PD's February 28, 2006 conveyance of the Lucky Jack Project, and the water treatment plant, to the Company and Crested.

Coastline Capital Partners

On May 16, 2005, Coastline Capital Partners ("Coastline") filed a complaint against the Company in Wyoming Federal District Court, Case No. 05-CV-0143-J for breach of contract. Coastline is claiming partial performance fees for a private placement that was unsuccessful. Coastline and USE had entered into an engagement letter on July 22, 2004. The Company filed an answer and counterclaims on June 22, 2005. The parties are conducting discovery in the case. A jury trial is scheduled for April 3, 2006 on this matter.

ASSET RETIREMENT OBLIGATIONS

Sheep Mountain Uranium Properties

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 uranium 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 $2,302,800. 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 $22,400 which is covered by a cash reclamation bond. This amount was recorded by SGMI as a reclamation liability as of December 31, 2005.

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, 2005, the present value at 8% of the reclamation liability on the Plateau properties was $3,577,000. Plateau holds a cash deposit for reclamation in the amount of approximately $6.8 million.

401(K) PLAN

The Board of Directors of USE adopted the U.S. Energy Corp. 401(K) Plan ("401(K)") in 2004, for the benefit of USE employees. The Company matches 50% of an employee's salary deferrals up to a maximum Company contribution per employee of $4,000 annually. The Company expensed $52,800 and $37,900 for the years ended December 31, 2005 and 2004, respectively related to these contributions.

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 years ended December 31, 2005 and 2004 additional shares of 60,000 and 50,000 respectively were issued to the officers. The Officers have agreed not to sell the shares granted under the 2001 Stock Award Plan and the Company has agreed to pay all taxes due on the shares granted to the Officers.

The Company and Crested are committed to pay the surviving spouse or dependant children of certain of the 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. 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 $340,000 at December 31, 2005. Certain officers and employees have employment agreements with the Company and Crested.

On October 20, 2005 the Board of Directors of the Company and Crested adopted an Executive Retirement Policy for the Chairman/CEO, Chairman Emeritus, President/COO, CFO/Treasurer/V.P. Finance, Senior Vice President and General Counsel. Under the terms of the Retirement Plan, the retired executive will receive monthly installments in accordance with the normal bi-weekly payroll practices of the Company in the amount of 50% of the greater of (i) that amount of compensation the Executive Officer received as base cash pay on his/her final regular pay check or (ii) the average annual pay rate, less all bonuses, he/she received over the last five years of his/her employment with Company. To be eligible for this benefit, the executive officer must serve in one of the designated executive offices for 15 years, reach the age of 60 and be an employee of USE on December 31, 2010. The compensation expense for the year ended December 31, 2005 was $43,300.

The employees of the Company are not given raises on a regular basis. In consideration of this and in appreciation of the work required to develop and sell RMG, management of the Company accepted the recommendation of its Compensation Committee to pay all employees and directors a bonus upon the closing of the sale of RMG to Enterra. The board of directors has granted similar bonuses in the past. In addition, bonuses may be paid to some of the key individuals involved over the past 14 years in the Nukem case once it is resolved.

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 expire at various periods through January, 2007, 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 $4,213,000 as of December 31, 2005 and 2004 and accumulated depreciation amounted to $2,464,900 and $2,374,400 as of December 31, 2005 and 2004, respectively. Rental income under the agreements was $238,200, $245,000 and $256,500 for the years ended December 31, 2005, 2004 and 2003, respectively.

Future minimum receipts for non-cancelable operating leases are as follows:

Years Ending December 31,	Amount
2006	$113,700
2007	$12,500

L. DISCONTINUED OPERATIONS:

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. Subsequent to December 31, 2005, the Company foreclosed on the properties and received them back. At filing date, management of the Company does not plan on operating the properties. The Company is seeking third party management to operate the properties or another buyer for the property. See Note N.

On June 1, 2005, the Company and Crested closed on the sale of their interests in RMG to Enterra Energy Trust. The sale agreement states that the effective date of the sale to Enterra was April 1, 2005. Therefore, the revenues and expenditures presented for 2005 as discontinued operations are for the three month period ending March 31, 2005. The financial statements for all of the periods presented have been revised to present these operations as discontinued.

	Year ending December 31,		
	2005	2004	2003
Gain on sale of discontinued segment			
Gain	$ 15,768,500	$ --	$ --
Taxes paid	(235,000)	--	--
	$ 15,533,500	$ --	$ --
Loss from discontinued operations			
Rocky Mountain Gas			
Revenues	$ 1,110,100	$ 3,826,100	$ 201,900
Expenditures	(1,309,000)	(5,502,300)	(2,373,100)
Other	(127,200)	(262,300)	460,600
	$ (326,100)	$ (1,938,500)	$ (1,710,600)
Canyon Homesteads			
Revenues	$ --	$ --	$ 316,300
Expenditures	--	--	(666,100)
Other	--	--	--
	$ --	$ --	$ (349,800)
Total loss from discounted operations	$ 15,207,400	$ (1,938,500)	$ (2,060,400)

M. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

U.S. ENERGY CORP.
SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	December 31, 2005 (Restated)	September 30, 2005 (Restated)	June 30, 2005 (Restated)	March 31, 2005 (Restated)
Operating revenues	$ 157,500	$ 167,100	$ 183,500	$ 341,400
Operating loss	$ (980,400)	$ (1,481,600)	$ (2,420,900)	$ (1,184,000)
Gain (loss) from continuing operations	$ (4,503,000)	$ 1,228,600	$ (1,819,100)	$ (1,272,400)
Discontinued operations, net of tax	$ --	$ (188,100)	$ 15,721,600	$ (326,100)
Net gain (loss)	$ (4,503,000)	$ 1,040,500	$ 13,902,500	$ (1,598,500)
Gain (loss) per share, basic				
Continuing operations	$ (0.26)	$ 0.06	$ (0.12)	$ (0.09)
Discontinued operations	$ --	$ (0.01)	$ 1.02	$ (0.02)
	$ (0.26)	$ 0.06	$ 0.91	$ (0.11)
Basic weighted average shares outstanding	17,624,085	17,229,336	15,352,966	14,398,093
Gain (loss) per share, diluted				
Continuing operations	$ (0.25)	$ 0.07	$ (0.12)	$ (0.09)
Discontinued operations	$ --	$ (0.01)	$ 1.00	$ (0.02)
	$ (0.25)	$ 0.06	$ 0.88	$ (0.11)
Diluted weighted average shares outstanding	18,066,825	17,672,076	15,795,706	14,398,093

U.S. ENERGY CORP.
SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Operating revenues	$ 264,500	$ 272,300	$ 141,600	$ 137,200
Operating loss	$ (1,124,400)	$ (1,147,500)	$ (1,273,100)	$ (1,438,100)
Loss from continuing operations	$ (982,800)	$ (1,164,800)	$ (863,400)	$ (1,299,200)
Discontinued operations, net of tax	$ (277,600)	$ (439,300)	$ (745,800)	$ (475,800)
Net loss	$ (1,260,400)	$ (1,604,100)	$ (1,609,200)	$ (1,775,000)
Loss per share, basic				
Continuing operations	$ (0.07)	$ (0.09)	$ (0.07)	$ (0.10)
Discontinued operations	$ (0.02)	$ (0.03)	$ (0.06)	$ (0.04)
	$ (0.09)	$ (0.12)	$ (0.13)	$ (0.14)
Basic weighted average shares outstanding	14,023,456	13,490,917	12,873,194	12,319,657
Loss per share, diluted				
Continuing operations	$ (0.07)	$ (0.09)	$ (0.07)	$ (0.11)
Discontinued operations	$ (0.02)	$ (0.03)	$ (0.06)	$ (0.04)
	$ (0.09)	$ (0.12)	$ (0.13)	$ (0.14)
Diluted weighted average shares outstanding	14,023,456	13,490,917	12,873,194	12,319,657

U.S. ENERGY CORP.
SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Operating revenues	$ 125,600	$ 123,400	$ 171,700	$ 214,800
Operating loss	$ (1,465,500)	$ (1,836,100)	$ (814,400)	$ (950,800)
Loss earnings from continuing operations	$ (1,640,700)	$ (1,782,100)	$ (834,900)	$ (1,107,600)
Discontinued operations, net of tax	$ (264,900)	$ (199,600)	$ (1,396,600)	$ (199,300)
Cumulate effect of accounting change	$ --	$ --	$ --	$ 1,615,600
Net earnings (loss)	$ (1,905,600)	$ (1,981,700)	$ (2,231,500)	$ 308,700
(Loss) earnings per Share, basic				
Continuing operations	$ (0.15)	$ (0.16)	$ (0.07)	$ (0.10)
Discontinued operations	$ (0.02)	$ (0.02)	$ (0.13)	$ (0.02)
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	10,967,229	10,881,394
(Loss) earnings per Share, diluted				
Continuing operations	$ (0.15)	$ (0.16)	$ (0.07)	$ (0.10)
Discontinued operations	$ (0.02)	$ (0.02)	$ (0.13)	$ (0.02)
Cumulative effect of accounting change	$ --	$ --	$ --	$ 0.14
	$ (0.17)	$ (0.18)	$ (0.20)	$ 0.03
Diluted weighted average shares outstanding	11,383,576	11,127,796	10,967,229	11,385,593

N. SUBSEQUENT EVENTS

Uranium Power Corp

On January 13, 2006, USECC amended their December 8, 2004 Purchase and Sale Agreement with UPC. UPC has paid USECC $2,152,000 pursuant to the amendment.

- The original agreement required UPC to pay USECC $800,000 and issue 750,000 shares of UPC stock on June 29, 2006, and pay an additional $800,000 and issue 750,000 more shares of UPC stock on December 29, 2006. UPC has paid the $1.6 million cash and the 1.5 million shares will be issued to USE and Crested in equal amounts of 750,000 shares.

- The original agreement required UPC to pay to USECC $1.5 million on April 29, 2006, and an additional $1.5 million on October 29, 2006. This payment schedule has been extended one year, to require the payments on April 29, 2007 and October 29, 2007, provided that UPC is required to pay 50% of all money it raises after January 13, 2006 until the two $1.5 million payments are made, regardless of the one year extension.

- The amendment requires UPC to pay USECC the $152,011.89 outstanding balance for the 2005 uranium property drilling program and an additional $400,000 of $775,440 budgeted for the first half of the 2006 drilling program. UPC has paid this $552,011.89.

The original agreement required UPC to pay a total of $4,050,000 and 4 million shares of UPC stock. However, the cash portion was subject to increase by $3 million (in two $1.5 million installments) if the uranium oxide price (long term indicator) attained or exceeded $30.00/lb for four consecutive weeks. This price benchmark was achieved on June 20, 2005, which resulted in the two $1.5 million payments being required on April 29 and October 29, 2006.

The original agreement required two additional payments each of $800,000 cash and 750,000 UPC shares (total $1,600,000 cash and 1,500,000 UPC shares) due on June 29, 2007 and December 29, 2007. These payment requirements have not been amended and remain due in accordance with the original agreement.

As provided for in the original agreement, UPC would own nothing in the properties subject to the agreement if UPC fails to make any payments on time.

Plateau – Ticaboo Property

On February 27, 2006, Plateau Resources Limited ("Plateau") re-acquired by Foreclosure Sale the Ticaboo town site operations ("Ticaboo") located in southern Utah near Lake Powell. The Ticaboo property includes a motel, restaurant and lounge, convenience store, recreational boat storage and service facility, and improved residential and mobile home lots. Most of these properties had been acquired when the Shootaring Mill was acquired in 1993.

Plateau sold its interests in the Ticaboo town-site to The Cactus Group ("Cactus"), a non-affiliated entity in 2003. Plateau carried the loan, which had a balance due on February 27, 2006 of approximately $3.0 million at 7.5% annual interest. Total due by Cactus under the terms of the note including default interest and late charges was $3,772,000.

USE and Plateau will evaluate the property and determine the costs associated with the returned properties including deferred maintenance and operations that may be necessary until such time as the assets can be sold or leased. Until an actual detailed inspection of the properties is made it is not possible to estimate what the remedial costs and expenses may be.

At date of filing this Annual Report, management of the Company determined that it will not operate the property. Management is seeking proposals from third parties to either manage or purchase the properties. As a result of receiving the properties back the Company showed the remaining value of the note net of the deferred gain on the sale of the properties as a long term asset of $1,819,700 at December 31, 2005. The Company has an appraisal and cost data which exceed that amount.

Lucky Jack Molybdenum Project

The Company and Crested re-acquired the Lucky Jack molybdenum project, formerly known as the Mt. Emmons molybdenum properties, located near Crested Butte, Colorado on February 28, 2006. The property was returned to the Company and Crested by Phelps Dodge Corporation ("PD") in accordance with a 1987 Amended Royalty Deed and Agreement between the Company, Crested and Amax Inc. ("Amax"). The Lucky Jack project includes a total of 25 patented and approximately 520 unpatented mining claims, which together approximate 5,400 acres, or over 8 square miles of mining claims.

The Company and Crested leased various patented and unpatented mining claims on the Lucky Jack project to Amax in 1974. In the late 1970s, Amax delineated a large deposit of molybdenum on the properties, reportedly containing approximately 155 million tons of mineralized material averaging 0.44% molybdenum disulfide ($MoS2$). In 1980, Amax constructed a water treatment plant at the Lucky Jack project to treat water flowing from old mine workings and for potential use in milling operations. By 1983, Amax had reportedly spent an estimated $150 million in the acquisition of the property, securing water rights, extensive exploration, ore body delineation, mine planning, metallurgical testing and other activities involving the mineral deposit. Amax was merged into Cyprus Minerals in 1992 to form Cyprus Amax. PD then acquired the Lucky Jack project in 1999 through its acquisition of Cyprus Amax. Thereafter, PD acquired additional water rights to mine and mill the deposit.

Conveyance of the property to the Company and Crested also includes the transfer of ownership and operational responsibility of the mine water treatment plant located on the properties. The water treatment permit issued under the Colorado Discharge Permit System ("CDPS") was assigned to the Company and Crested by the Colorado Department of Health and Environment. Operating costs for the water treatment plant are expected to approximate $1 million annually. In an effort to assure continued compliance, the Company and Crested have retained the technical expert and contractor hired by PD on January 2, 2006 to operate the water treatment plant. The Company and Crested will also evaluate the potential use of the water treatment plant in milling operations.

In a letter dated April 2, 2004, the Bureau of Land Management (the "BLM") of the United States Department of the Interior, estimated that there were about 23 million tons of mineable reserves containing 0.689% molybdenite, and that about 267 million pounds of molybdenum trioxide was recoverable. This report covered only the high-grade mineralization which is only a portion of the total mineral deposit delineated to date. The BLM relied on a mineral report prepared by Western Mine Engineering (WME) for the U.S. Forest Service, which directed and administered the WME contract. WME's analysis was based upon a price of $4.61 per pound of molybdic oxide and was used by BLM in determining that the nine claims satisfied the patenting requirements that the mining claims contain a valuable mineral that could be mined profitably. At February 28, 2006, molybdic oxide traded at $24.00 per pound. WME consulted a variety of sources in preparation of its report, including a study prepared in 1990 by American Mine Services, Inc. and a pre-feasibility report prepared by Behre Dolbear & Company, Inc. of Denver, CO in 1998. In its 1992 patent application to the BLM, Amax stated that the size and grade of the Lucky Jack deposit was determined to approximate 220 million tons grading 0.366% molybdenite.

In the April 2, 2004 decision letter, the BLM issued patents on the nine additional mining claims, for a total of 25 patented claims which consists of approximately 350 patented or "fee" acres. A lawsuit was filed by local governmental entities and environmentalists in U.S. District Court of Colorado challenging BLM's issuance of the patents alleging BLM violated the 1872 Mining Law, applicable regulations, and the Administrative Procedures Act by overruling their protests to Lucky Jack mineral patent application, awarding the patents, and by conveying the land to Lucky Jack. The case is High Country Citizen's Alliance, Town of Crested Butte, Colorado, and The Board of County Commissioners of the County of Gunnison, Colorado v. Kathleen Clarke, Director of the Bureau of Land Management et. al., Gale Norton, Secretary of Interior, U.S. Department of the Interior; Phelps Dodge Corporation; Mt. Emmons Mining Company. USE and Crested are not parties to this litigation.

On January 12, 2005, U.S. District Court Judge Krieger dismissed the plaintiffs appeal holding 1) that the plaintiffs had no right of appeal from a decision to issue a mineral patent because the 1872 Mining Law created no private cause of action for unrelated parties to challenge the issuance of a mineral patent and 2) because the 1872 Mining Law implicitly precludes unrelated third parties from challenging mineral patent by judicial action, the Administrative Procedures Act does not constitute a waiver of sovereign immunity for purposes of this action. Plaintiffs have filed an appeal of the U.S. District Court's decision to the 10th Circuit Court of Appeals in Case No: 05-1085. Briefs have been filed by the parties and oral arguments were heard on January 9, 2006. The case is currently pending.

The Company and Crested have decided to pursue permitting and development of the property and are now engaged in the active pursuit of a sizable mining industry partner to co-develop and mine the property. The Company and Crested are considering the commissioning of a full mining feasibility study of the property in light of the fact that the price of molybdic oxide was at $24.00 per pound according to Metal Prices.com on February 24, 2006. The Company and Crested expect to transfer the Lucky Jack molybdenum project to a new subsidiary, U.S. Moly Corp. in the near future.

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM ON SCHEDULE

Board of Directors and Shareholders
U.S. Energy Corp:

In connection with our audit of the consolidated financial statements of U.S. Energy Corp. and subsidiaries referred to in our report dated February 27, 2004, which is included in the Company's annual report on Form 10-K, we have also audited Schedule II for the year ended December 31, 2003. In our opinion, this schedule presents fairly, in all material respects, the information to be set forth therein.

/s/ GRANT THORNTON LLP

Oklahoma City, Oklahoma
February 27, 2004

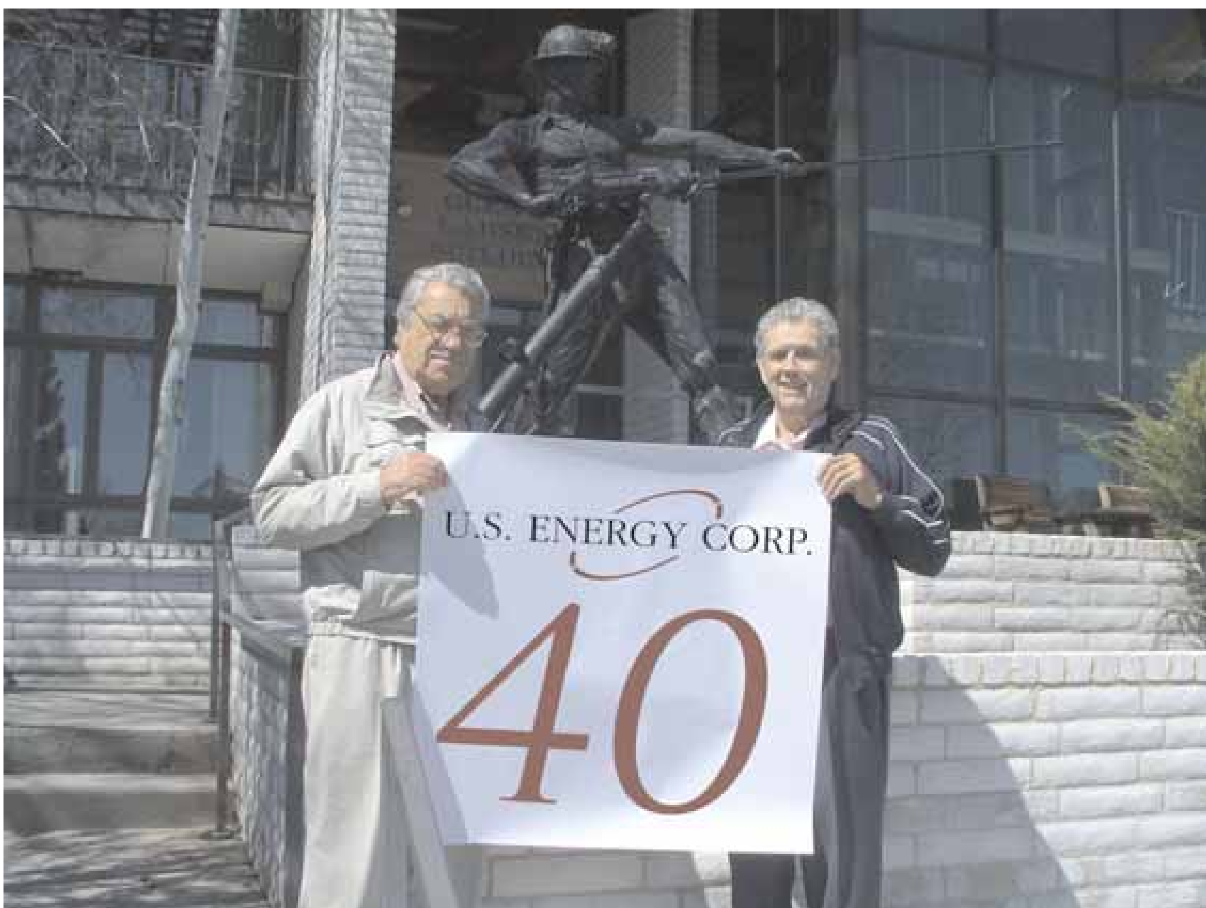
U.S. ENERGY CORP.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance beginning of period	Additions charged to expenses	Deductions and Other	Balance end of period
December 31, 2003	$ 27,800	--	--	$ 27,800
December 31, 2004	$ 111,300	--	--	111,300
December 31, 2005	$ 111,300	--	--	$ 111,300

THE U.S. ENERGY TEAM ...

with a special salute to a couple of our favorite colleagues;



Mike Svilar (General Counsel) and Jack Larsen (Founder)

U.S. ENERGY CORP.

877 North 8th West
Riverton, WY 82501
www.usnrg.com