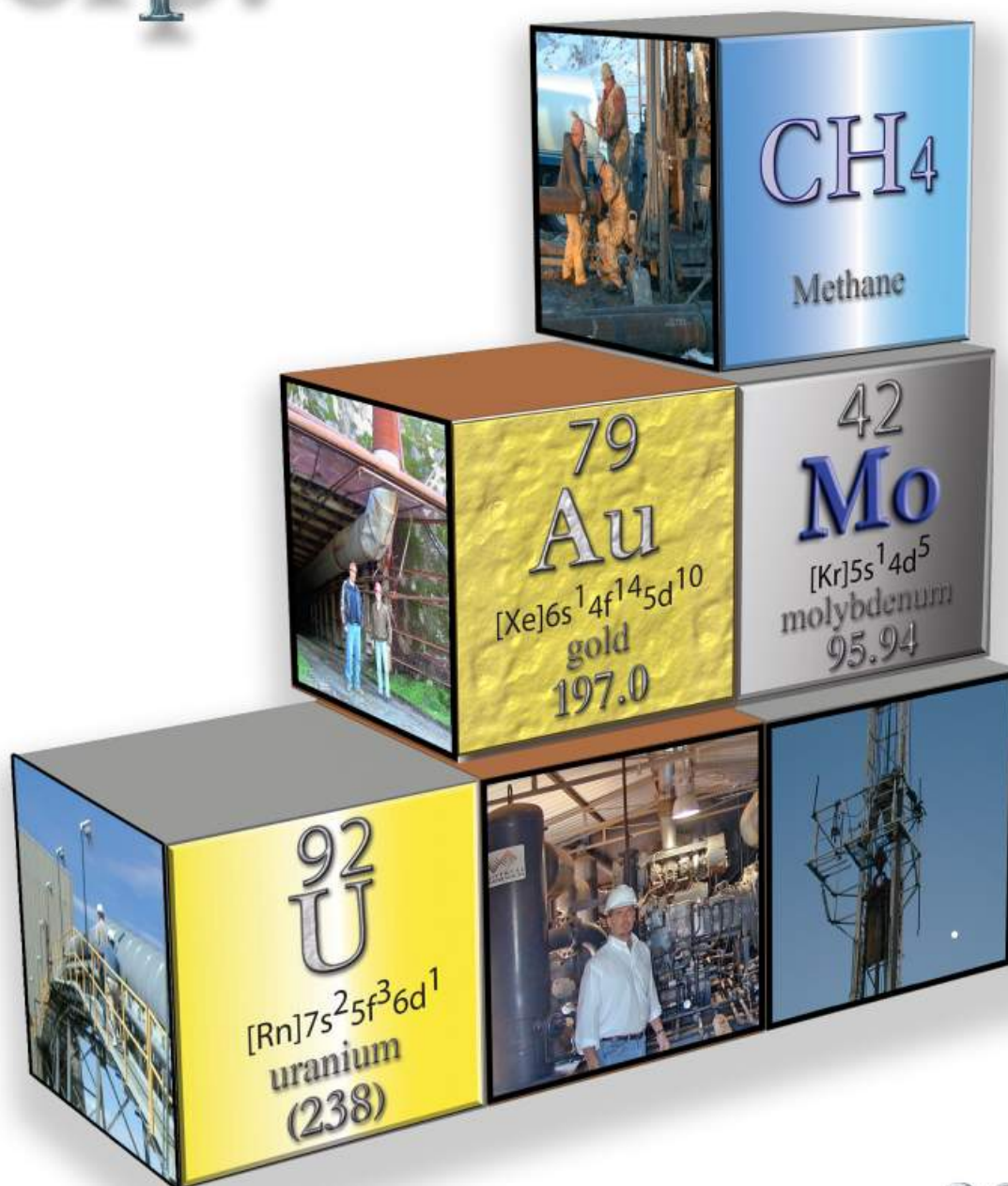


U.S. Energy Corp.



2003

Annual Report

U. S. ENERGY CORP. CORPORATE PROFILE

U. S. Energy Corp. is an independent energy company focused primarily on the exploration and production of coalbed methane natural gas in the Rocky Mountain region of the United States through its subsidiary Rocky Mountain Gas, Inc. (RMG). Other corporate mineral interests include uranium, gold and molybdenum. Currently, the Company's coalbed methane properties are located in Wyoming and Montana; uranium properties in Wyoming and Utah; gold properties in California, and molybdenum properties in Colorado.

U. S. Energy's corporate objective is to demonstrate sustainable growth in natural gas production, reserves, cash flow, earnings and asset value for its shareholders. U. S. Energy is listed on the Nasdaq Small Cap Market under the symbol "USEG".

I am pleased to report on the accomplishments management of your Company and its subsidiaries have made over the past year in its transition from a mining, contract and drilling company to a natural gas production company.

During 2003 and early into 2004, U. S. Energy Corp. (USE) made considerable progress in its goal to become a recognized natural gas producing company. Its Rocky Mountain Gas, Inc. (RMG) subsidiary participated (along with a fund managed by Credit Suisse First Boston, and other industry partners) in the formation of Pinnacle Gas Resources, Inc. (Pinnacle); the acquisition of producing and non-producing coalbed methane (CBM) properties in the Powder River Basin of Wyoming; and a recent addition of option acreage at its Oyster Ridge property in southwestern Wyoming. While we are now well poised to further the growth of our natural gas interests, I am pleased to report that all of the commodities we have interests in have experienced a significant escalation in price. They are:



Keith Larsen, President

- the price of natural gas has risen from \$3.00 per thousand cubic foot (mcf) in 2002 and has been above \$4.00 per mcf over the past 12 months. As of the date of this report, the CIG index stood at \$5.32 per mcf;
- the price of gold has risen from \$320 per ounce in April 2003 to about \$377 per oz. today;
- the price of uranium oxide (U_3O_8) has risen from \$11.00 per pound in September 2003 to \$17.60 per pound today; and
- the price of molybdenum has risen from \$6.00 per lb. to \$16.50 per lb. of molybdic oxide over the past 7 months.

The rise in the price of each of these commodities presents opportunities unlike any other time in the history of our Company. We plan to optimize the value of each, with the overall goal of directing our focus entirely towards building an industry recognized natural gas company.

USE owns 72% of Crested Corp. (Crested) and together we own interests in all four of these commodities. The following is a brief summary of the interests that USE and Crested own in these commodities and how we plan to capitalize on those interests. *Note: See charts and detailed information in this Report on all of these commodities.*

NATURAL GAS

USE owns 48% of Rocky Mountain Gas, Inc. ("RMG") and Crested owns 40% of RMG. RMG has steadily increased its holdings in coalbed methane (CBM) properties since its inception in late 1999 and now owns a direct and an indirect interest in some 400,000 gross acres and 137,000 net

acres of land prospective for CBM. The fundamentals of the natural gas market remain very strong with gas production declining in most producing regions of the U. S. and Canada. During 2003, natural gas production in the U. S. declined by 4% and this trend is expected to continue in the U. S. and Canada in 2004. These production declines, coupled with increased consumption, have led to current high prices with \$5.00+ mcf gas forecast into 2005 and beyond.

In light of the strength of the natural gas market, RMG continues to work with its investment banker, Sander Morris Harris of Houston, TX as it looks to further access the equity and debt markets. With the strength of its experience and accomplishments in its short and yet eventful history, RMG is poised for growth at a time when the markets' appetite for new energy investments is tremendous.

GOLD

Sutter Gold Mining Company (SGMC), is 78.5% owned by USE and Crested and controls some 2.25 miles of strike length in the historic Mother Lode mining district of California. The SGMC properties contain some 16 historical mines. The project now has a 2,800 foot 12' X 15' decline including 64,000 feet of diamond core drilling. In the 1990s, we mined and milled approximately 8,000 tons of ore to determine amenability to the mill process. With the current price of gold in the \$377 per ounce range, management believes sufficient grade and quantities of gold exist. In light of this, SGMC will now proceed to seek the additional capital to finance mine development and construct a mill. Today, we are continuing our efforts to finalize plans to merge SGMC with a publicly traded Canadian company and make it a stand alone, self sufficient public company. Management believes that, post merger transaction, SGMC will have the ability to raise the capital necessary to place the SGMC properties into production. After the merger, USE will be a major stockholder of the surviving company. We anticipate concluding the merger in July 2004.



URANIUM

Over the past year, USE's wholly-owned subsidiary Plateau Resources Limited (Plateau) has been in the process of initiating reclamation of its 750 ton-per-day (tpd) uranium mill and tailings cell in southeastern Utah. In April 2004, Plateau received a license amendment from the Nuclear Regulatory Commission approving the reclamation plan for the mill and nearby tailings facility. The mill and tailings reclamation will be funded by the \$6.1 million cash bond in place. However, the price of uranium has recently escalated to \$17.60 per pound. Currently, the world produces only 90 million lbs. per year while world industry consumes approximately 160 million lbs. annually. This has led to the recent run up in uranium prices. These factors have also caused management to consider other potential options. And in this regard, we have held discussions with interested parties regarding selling the uranium mill as an uranium milling operation. Plateau's objective is to monetize the asset, if possible. If negotiations are not successful and lead to a sale, reclamation of the property will continue.

MOLYBDENUM

Molybdenum (moly) prices have also risen dramatically. In management's opinion, if prices remain above \$5.00 per lb., the Company may be in a position to take advantage of the growing demand for moly. Phelps Dodge Corporation (PD), the current owner of the Mt. Emmons molybdenum property near Crested Butte, Co, initiated litigation against USE and Crested in April 2002 to force the return of the Mt. Emmons moly deposit to USE and Crested. A major issue in this litigation is the operation of a wastewater treatment plant that was constructed by AMAX on U. S. Forest Service land in 1979. USE and Crested have refused to accept the liability for the continued operations of the plant which exceed one million dollars per year to operate and will continue for an indefinite period. Over the past year, settlement discussions have been initiated, but at this point the parties are too far apart.

It is possible that the Company will again own the deposit, either with a settlement with PD or by prevailing in court, in which case we will try to take advantage of increased moly prices.

Mt. Emmons ranks amongst the highest grade world class deposits of moly in the world. (146 million tons of .43% MoS₂).

LITIGATION

Our litigation with Nukem continues, but we are confident that the end of this lengthy litigation is in sight. The final reply brief was filed by USE and Crested with the 10th Circuit Court of Appeals on April 30, 2004. It's our hope that this litigation will end this year.

Litigation with PD continues, however we are optimistic as to the outcome of both of the above cases. The resolution of these cases are a top priority of USE and Crested.

SUMMARY

The success of any business venture is dependant on many factors but most important to the Company, are the people that staff it. We have an exceptional support staff who are dedicated, hard working, and a special note of thanks is well earned by all. I also appreciate your support, continued confidence and suggestions. I accept the challenge that confronts the office of president and will continue to work towards our goal of making U. S. Energy Corp. a growing and prosperous company. We look forward to an exciting year ahead.

Respectfully yours,
U. S. ENERGY CORP.



KEITH G. LARSEN,
President and C.O.O.

Rocky Mountain Gas, Inc.



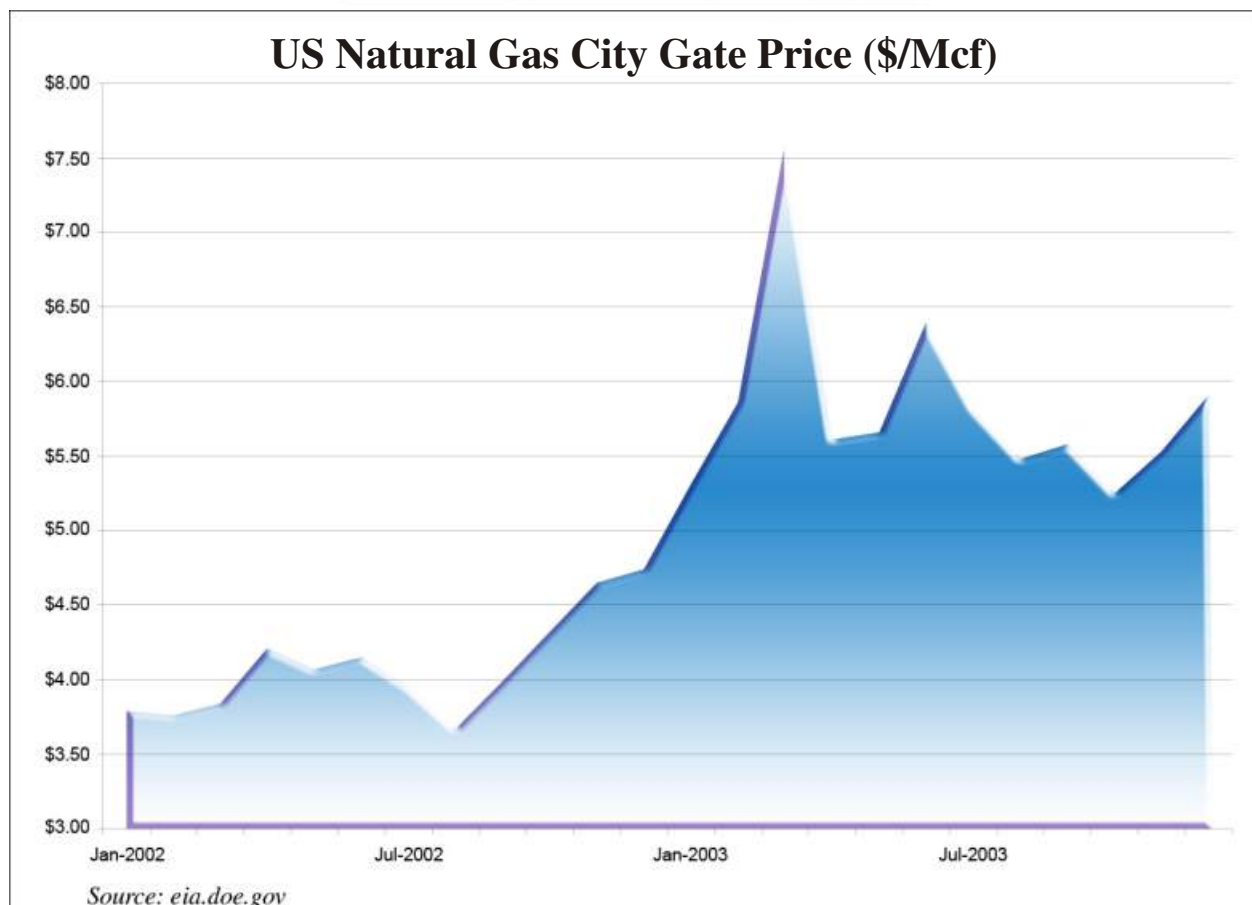
Coalbed Methane Natural Gas

Rocky Mountain Gas, Inc. ("RMG") is an independent energy company focused on the exploration and production of natural gas, primarily in the Powder River Basin ("PRB" or the "Basin") in Wyoming and Montana and the Overthrust Belt, adjacent to the Green River Basin ("GRB") in southwestern Wyoming. RMG's growth strategy is to identify, acquire, develop and produce coalbed methane ("CBM") reserves at low cost and to generate profits for its investors. RMG has made significant strides towards this endeavor in recent years.

CBM is known for its low finding and development costs, high drilling success rates, minimal geologic and operating risks and exceptional economic appreciation potential. RMG intends to maintain a balanced portfolio in the CBM business consisting of producing properties in the established PRB "Fairway", high



Mark Larsen, President and director of RMG



development potential acreage in less developed areas, and prospective development of its deeper coals. RMG currently owns direct and indirect interests in some 400,000 gross and 137,000 net acres prospective for CBM development.

RMG's major assets include: the recent acquisition of producing (currently producing 6.0 mmcf/d) and non-producing properties in the PRB, which is comprised of approximately 47,000 net mineral acres; its 16.7% interest in Pinnacle Gas Resources, Inc. ("Pinnacle"), a private CBM company, and its 81,000 net undeveloped acreage positions in Montana and adjacent to the GRB in Wyoming. RMG has 3.4 Bcf in net proved CBM reserves as well as over 3,000 potential net drilling locations based on 80-acre spacing on all of our acreage. Pinnacle was funded by Global Energy Partners, a private equity investment fund managed by Credit Suisse First Boston. RMG and its joint venture partner, Carrizo Oil and Gas, Inc. ("Carrizo"), a Houston-based public energy company, contributed certain coalbed methane assets for their respective equity stakes in Pinnacle.



Liquid Ring Compressor on a Gillette North CBM pod

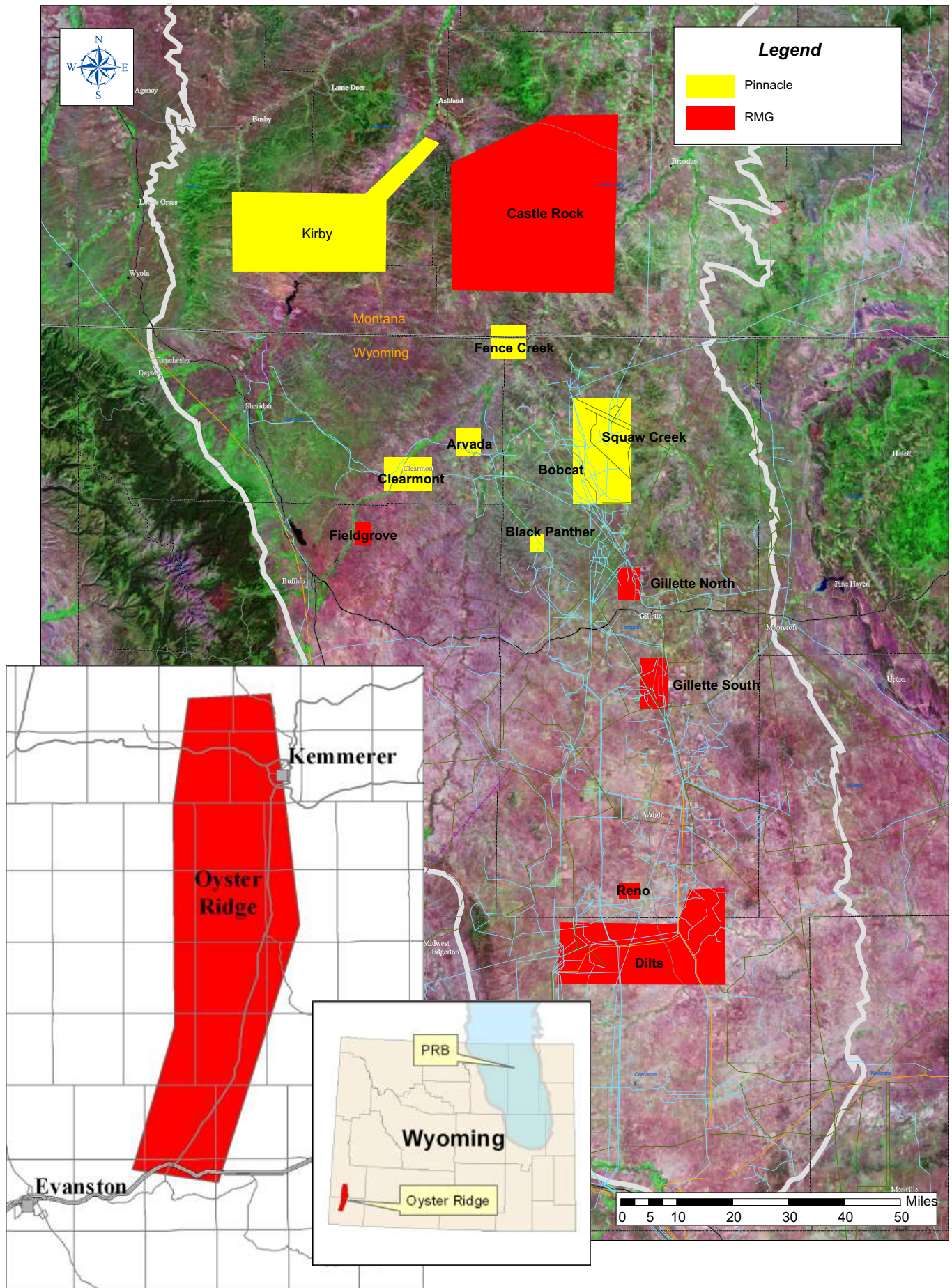
In January 2004, RMG acquired PRB assets by financing the purchase through a combination of mezzanine debt and equity funding. RMG established a \$25 million mezzanine credit facility with Petrobridge Investment Management, LLC, with an initial \$4 million borrowing base. The balance of the credit facility is earmarked for the acquisition of additional proven reserves and drilling of proven developed locations.

RMG management intends to continue to grow the company into a recognized CBM gas production company focused on creating value for its shareholders through the acquisition of producing and prospective CBM reserves and increases in production through the drillbit.

In 2004, RMG plans to enhance production through cost management and the implementation of field enhancements of its existing producing properties. We also continue to evaluate additional producing properties for acquisition. Several pilot programs will commence on our undeveloped properties in 2004 as we seek to expand our portfolio of development opportunities.

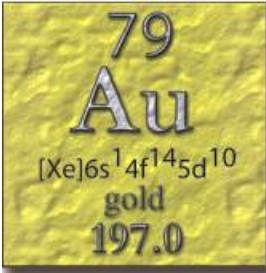


CBM Compressor on Hi-Pro Properties in the PRB



RMG's Powder River Basin and southwest Wyoming CBM acreage holdings

Sutter Gold Mining Company



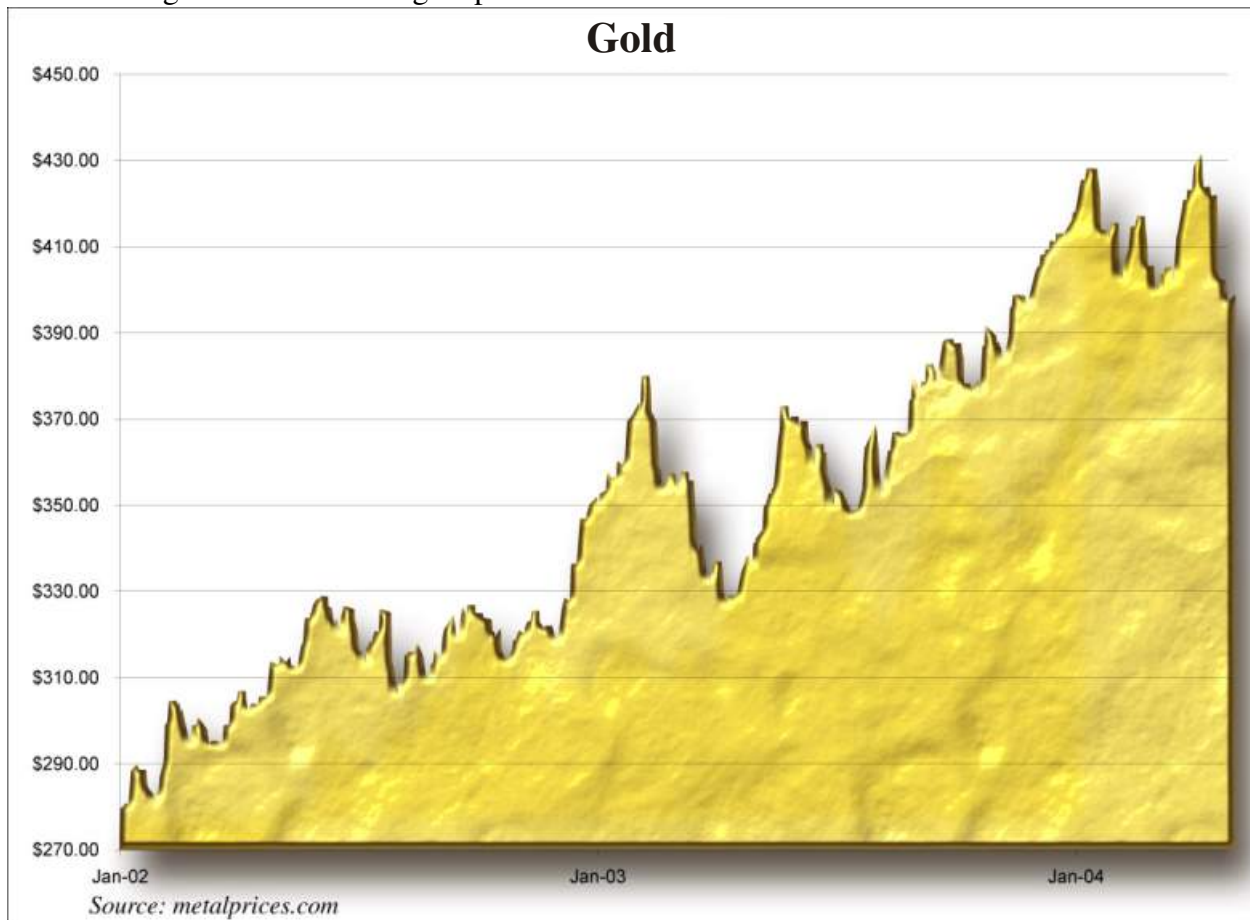
Gold

A great deal of progress has been made with the Company's majority owned subsidiary Sutter Gold Mining Company (SGMC) since our update in the last annual report to shareholders. Many of these activities are associated with our efforts to merge SGMC with Globemin Resources Inc. (Globemin), a Canadian publicly traded shell. USE and Crested currently own 9,208,215 shares of SGMC or 78.5%. The plan calls for issuing 3.8 Globemin shares for each Sutter share resulting in USE and Crested and other existing Sutter shareholders owning approximately 92.2% of the merged company.

It is anticipated that the merger will be completed by July 2004 subject to execution of final documents and approval by the TSX-V. The post-merged company will resume trading in Canada under the TSX-V symbol "GBM" until such time as the name can be changed to Sutter Gold Mining Inc. and a new trading symbol created to reflect same. The merger with Globemin will establish SGMC as a stand-alone company with the ability to finance the further development of the Sutter properties, hire additional staff, with the goal of establishing SGMC as a viable gold producer.



Hal Herron is president of SGMC and a director of USE



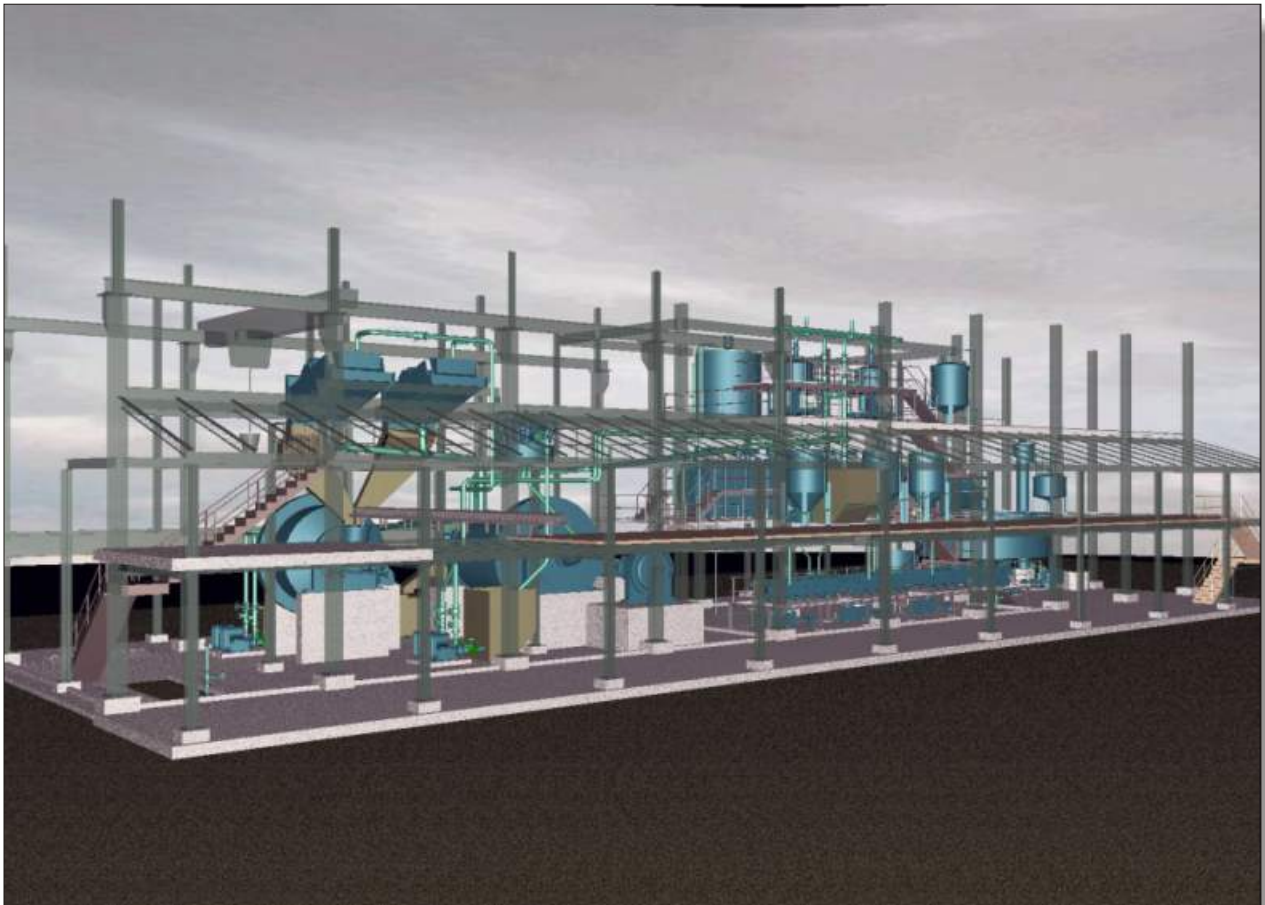


*Portal of SGMC's 12'x15' - 2,800' Decline
Stacy Rhoades, SGMC Operations Manager and
Mark Brown, President of Globemin Resources*

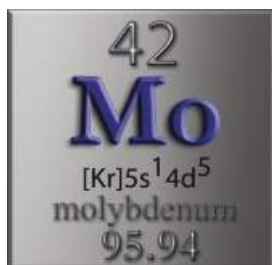


*Gold Mineralized Quartz Veins in the Sutter Mine
Mark Brown, President of Globemin Resources and
Stacy Rhoades, SGMC Operations Manager*

We are pleased to announce that Mr. Norman Anderson has agreed to serve as Chairman of the Board for SGMC and will also assume the responsibilities of Interim Mine Manager. Mr. Anderson is the former Chairman and CEO of Cominco Ltd., a substantial Canadian mining company with operations worldwide that was later merged with Teck Corporation.



Proposed Sutter 500 TPD Gold Mill



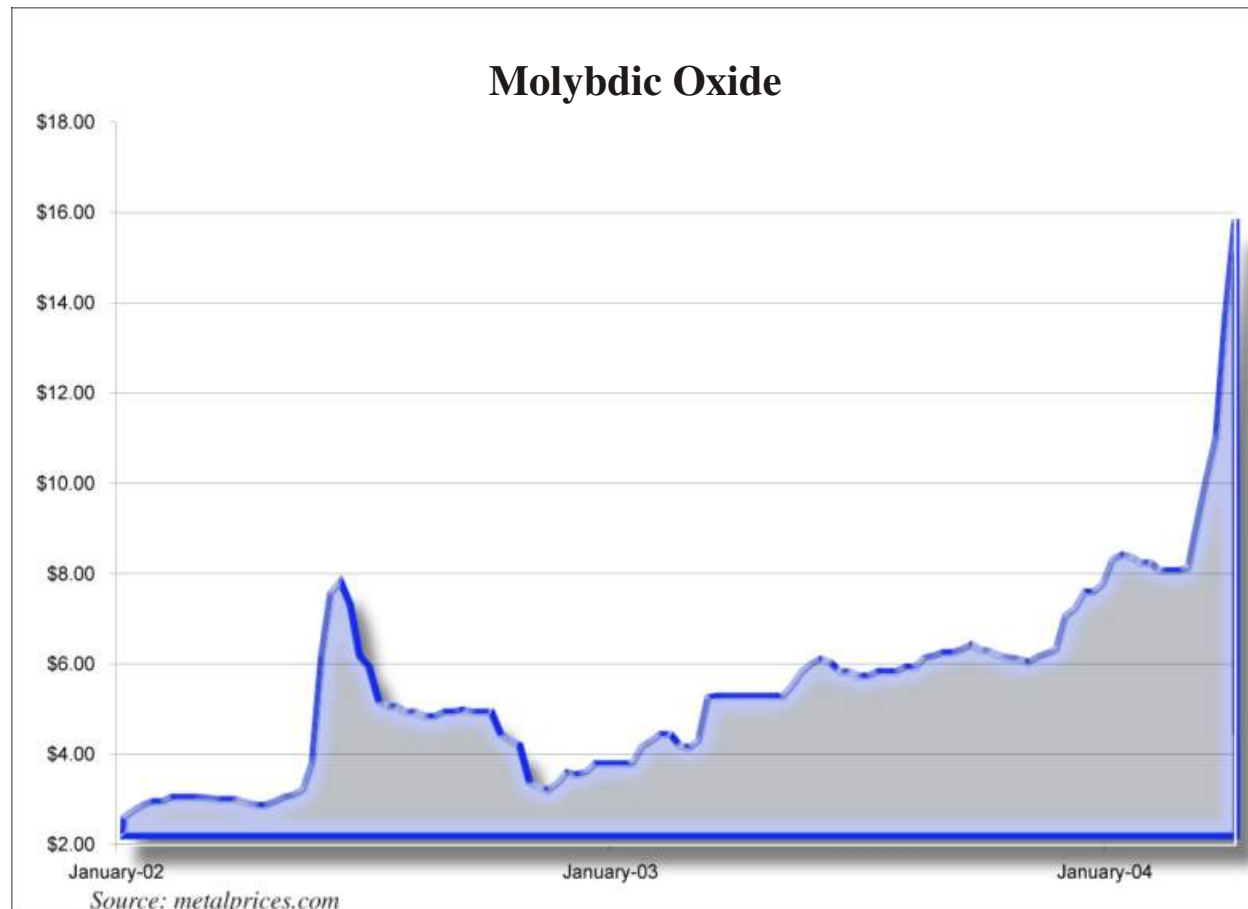
Molybdenum

In the early 1980s, USE and Crested sold their interest in the Mt. Emmons molybdenum (moly) deposit to AMAX Inc. (AMAX), which was later merged into Cyprus AMAX and subsequently acquired by Phelps Dodge Corporation (PD) in 2001 through a hostile take-over. AMAX reportedly spent in excess of \$200 million on the project to move it to production after discovering a significant primary moly resource. The deposit contains approximately 46 million tons averaging 0.43% moly disulfide (MoS_2).

Molybdenum is generally upgraded and sold as technical molybdic oxide (added to steel to produce a stronger, corrosion resistant alloy); ferromolybdenum (used by foundries as an additive to cast iron and steel); and pure molybdic oxide (used by chemical and catalyst manufacturers).

In 1979, AMAX agreed to construct a wastewater treatment plant on U.S. Forest Service properties. The plant was built pursuant to a mandate from the Colorado Health Department to remove contaminants from water seeping from the old Keystone Mine on Mt. Emmons. AMAX agreed to construct the plant as they had increased water flow from the mine by several hundred gallons per minute as a result of diamond core drilling the moly deposit inside the mine.

It is our opinion that the wastewater treatment plant was not subject to any agreement between USE and Crested and AMAX or Phelps Dodge's subsidiary Mount Emmons Mining Company (MEMCO), the current owner of the plant. The wastewater treatment plant was built on

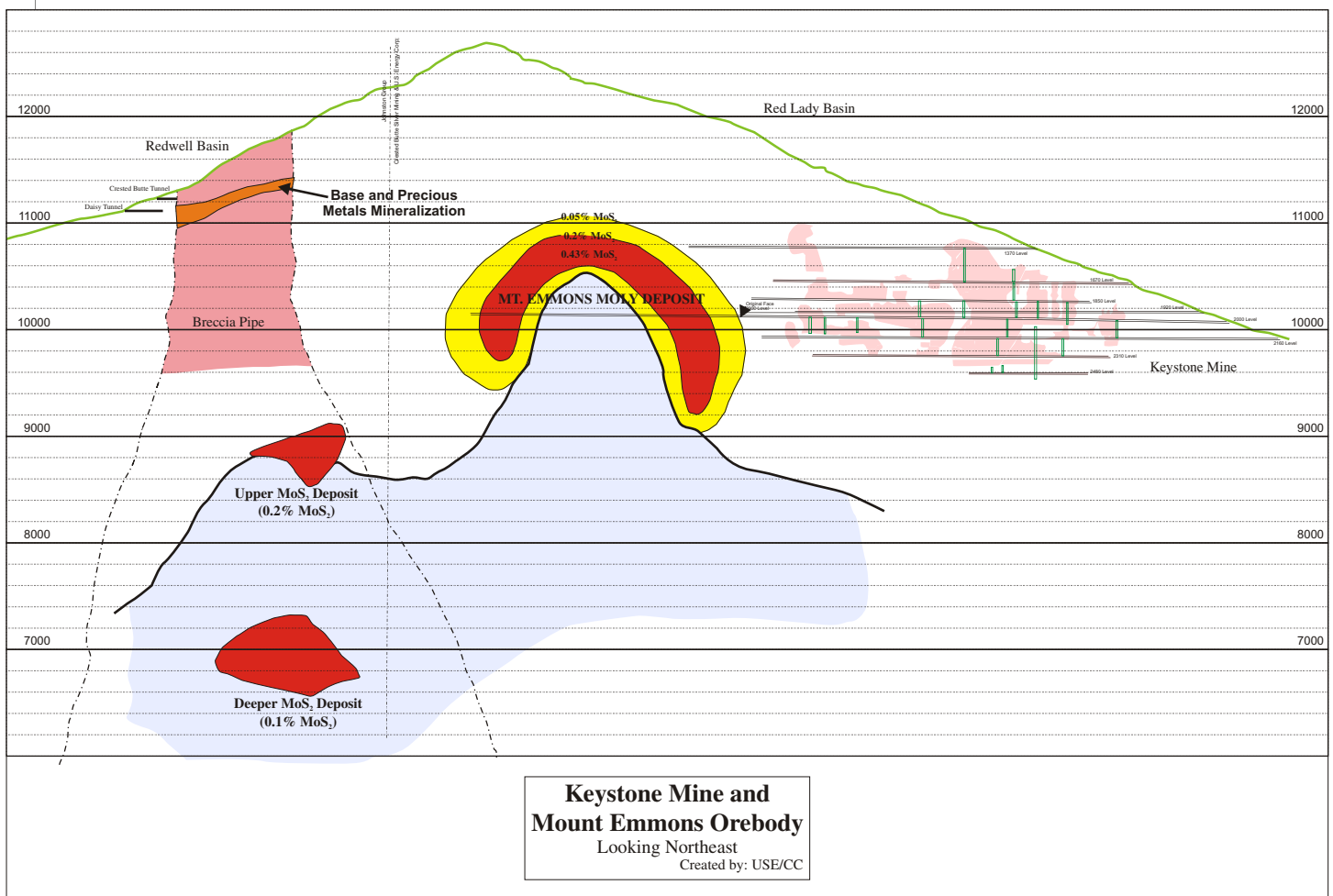


U. S. Forest Service property pursuant to the MEMCO 1979 plan of operations that was approved by the Forest Service. The plant is an improvement on U. S. Forest Service real property, not on property that USE and Crested conveyed to AMAX. Further, it is not on land that MEMCO owned. USE and Crested has refused to accept the property back as PD contends we must do.

When AMAX constructed the plant in 1979, they had to qualify financially as well as provide and have the expertise to operate such a plant before the Colorado Health Department would issue them a National Pollutant Discharge Elimination System permit. We contend that the permit cannot be transferred to USE and Crested without a written agreement between MEMCO and USE and Crested, and there is none.

In 1992, Cyprus AMAX filed for water rights to operate the mine and an application to patent approximately 151 acres of property that overlies the Mt. Emmons mineral deposit. Both the water rights for the mine and the patent have since been acquired. The patented claims are on top of Mt. Emmons and are contiguous to additional adjoining patented mining claims.

USE and Crested are diligently pursuing their counterclaims in this litigation.



Plateau Resources Limited



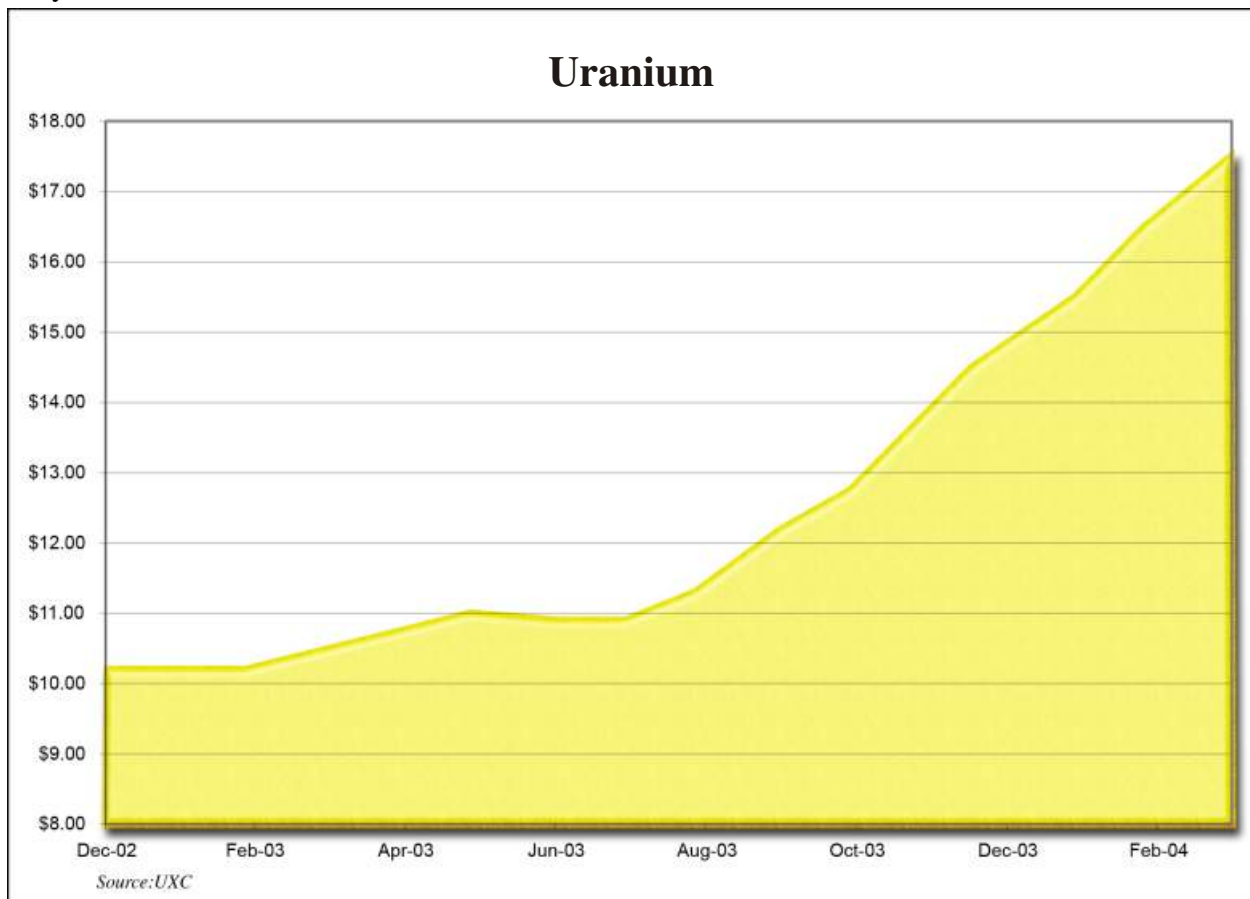
Uranium

As mentioned earlier, the price of uranium has increased from \$11.00/lb. in 2003 to \$17.60 at the time of this Report. Over the course of the last decade, we have kept shareholders apprised of uranium supply - demand dynamics as reported by independent analysts and other qualified sources. As many of you will remember, these independent sources were predicting a shortage of uranium and that prices would rise. Albeit late, their predictions are finally being proved true. Several new nuclear power plants are currently being built and more are planned for construction in China, Japan and other developed countries. We believe this will add further pressure on the price of uranium in the near future.



*Shootaring Mill
Counter Current Decant Circuit*

With these fundamentals in place, we believe that the Company's uranium assets may have unforeseen value for our



shareholders...namely our ownership of the Shootaring Uranium Mill in Utah and our 3% net royalty interest in the Round Park uranium claims in Wyoming that were previously developed by the Green Mountain Mining Venture (GMMV) with Kennecott Uranium Company (Kennecott).

The Shootaring Uranium Mill is located in Garfield County of southeastern Utah. The Mill was designed to process 750 tons-per-day (tpd) through-put, but operated only on a trial basis for two months in 1982. This mill was the last uranium mill constructed in the U. S. at a cost

of \$54 million. Currently, there are 90,000 tons (247,000 lbs. U_3O_8) of uranium mineralized material stockpiled at the mill. In addition, there is another stockpile at a nearby mine containing some 121,300 tons (363,000 lbs. U_3O_8) and additional properties in close proximity to the mill that contain an estimated 20+ million pounds of uranium. Management believes that uranium mined in the area and milled at Shootaring could be produced for less than \$15.00/lb.

As mentioned earlier, USE and Crested own a 3% net royalty interest in the Round Park uranium deposit in Wyoming which is considered by some as "world class". In addition, USE and Crested have reversionary rights should Kennecott decide to relinquish these mineral claims. Current indicated potentially mineable resources on these properties are estimated to contain 57 million lbs. of U_3O_8 averaging 0.195% uranium oxide. Overall, drilling has indicated a potential trend of uranium mineralization extending over 12 miles at this property.

Development of these properties by the Green Mountain Mining Venture (GMMV) started in 1995. GMMV was a joint venture between Kennecott, a 100% owned subsidiary of RioTinto plc of the UK and USE and Crested. The mining plan developed by GMMV called for two 16' x 16' declines to access the mineralized material and to produce up to 5,000 tons per day. In 2000, USE and Crested exchanged their interest in the GMMV to Kennecott for cash, a royalty, and the agreement of Kennecott to reclaim the properties due to low uranium prices.

In close proximity to the Round Park deposit on Green Mountain, WY are the Sheep Mountain uranium properties and associated uranium properties the Company acquired from Western Nuclear, Inc. These properties include several permitted mines that contain an estimated resource exceeding 17 million pounds of U_3O_8 .

Both the Round Park and Sheep Mountain properties would require a mill to process the ore.

In light of the recent development in the uranium market, USE and Crested will continue to explore the prospect of monetizing these assets. If a sale is not consummated in some fashion, reclamation of the properties will continue.



Conveyor to SAG Mill at Shootaring Mill



*Shootaring Mill
Solvent Extraction Ion Exchange*

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■ Common Stock

NASDAQ Small Cap Symbol "USEG"

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HAROLD F. HERRON (a)(c)
Sr. Vice President, Director

DANIEL P. SVILAR
Secretary and General Counsel

R. SCOTT LORIMER
Vice President of Finance, Chief Financial Officer,
Treasurer and Controller

DON C. ANDERSON (b)(e)
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MICHAEL T. ANDERSON (b)
Independent CPA and Consultant

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



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