

US ENERGY CORP
Form S-4
September 18, 2007

As filed with the Securities and Exchange Commission on September __, 2007

Registration No. 333-
Securities and Exchange Commission
Washington, D.C. 20549 - 2001

FORM S-4

Registration Statement
Under the Securities Act of 1933

U.S. ENERGY CORP.

(Exact name of registrant as specified in its charter)

Wyoming	1094	83-0205516
<i>State or other jurisdiction of incorporation</i>	<i>Primary Standard Industrial Classification Code Number</i>	<i>I.R.S. Employer Identification Number</i>

877 North 8th West, Riverton, Wyoming 82501; Tel. 307.856.9271
(Address, including zip code, and telephone number, including area code,
of issuer's principal executive offices)

Robert Scott Lorimer, 877 North 8th West
Riverton, WY 82501; Tel. 307.856.9271

(Name, address, including zip code, and telephone number of agent for service)

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Approximate date of commencement and end of proposed sale to the public: At the effective time of the merger described in this registration statement, which shall occur as soon as practicable after the effective date of this registration statement and the satisfaction or waiver of all conditions to closing such merger.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: []

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities	Amount of Securities to be Registered in Offering	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Dollar Price of Securities to be Registered	Amount of Fee
Common Stock	2,876,188	\$ 2.27	\$ 6,528,950	\$ 200.44

(1) Pursuant to rule 457(f)(1), the maximum aggregate offering price is based on the average of the high and low sales prices of Crested Corp. common stock as reported on OTCBB for the five trading days preceding September 17, 2007, and computed based on the estimated maximum number of 2,876,188 shares of U.S. Energy Corp. common stock that may be exchanged for the Crested Corp. common stock. The fee rate is \$30.70 per million dollars of the aggregate offering market price.

(2) Represents the maximum number of shares issuable by U.S. Energy Corp. upon consummation of the merger with Crested Corp. U.S. Energy Corp. shall be the surviving entity in the merger.

Delaying amendment under rule 473(a): The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to section 8(a), may determine.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**PRELIMINARY PROXY STATEMENT/PROSPECTUS
DATED SEPTEMBER [], 2007, SUBJECT TO COMPLETION
MERGER PROPOSED—YOUR VOTE IS IMPORTANT**

Dear Shareholders:

The boards of directors of Crested Corp. (“Crested”) and U.S. Energy Corp. (“USE”) have approved a merger of Crested with and into USE.

If the merger is completed, Crested shareholders (other than USE) will receive 1 share of USE’s common stock (par value \$0.01 per share) for each 2 shares of Crested’s common stock (par value \$0.001 per share), for a total of 2,876,188 shares of USE common stock. USE will receive no shares in the merger. The implied value of one share of Crested common stock on August 21, 2007, the last practicable trading day before the distribution of this proxy statement/prospectus, was \$2.37, based on the \$4.74 per share closing price of USE common stock on that date. This value will fluctuate prior to the completion of the merger. Crested’s common stock is traded on the Over-the-Counter Bulletin Board under the symbol “CBAG”.

USE has agreed to file an application with the Nasdaq Capital Market to have the shares of USE common stock issuable pursuant to the merger listed on Nasdaq under the symbol “USEG.”

A maximum of 2,876,188 shares of USE common stock will be issued to Crested shareholders in the merger. These shares will represent approximately 12.1% of the outstanding common stock of USE after the merger on a pro forma basis as of August 21, 2007. We cannot complete the merger unless the holders of a majority of the shares of Crested common stock not held by USE and its directors and officers approve the merger agreement. Crested will hold a special meeting of its shareholders to vote on this proposal. Your vote is important. The place, date and time of the special meeting is as follows:

Crested Corp.
877 N. 8th W.
Riverton, Wyoming 82501
_____, 2007
10:00 a.m., Local Time

The Crested directors unanimously recommend that the Crested shareholders vote “FOR” the adoption of the merger agreement.

Your participation in the special meeting, in person or by proxy, is encouraged. Whether or not you plan to attend the special meeting in person, we encourage you to complete, sign, date and return the enclosed proxy card promptly in the accompanying postage paid envelope. If you do not vote, you will have effectively voted against the merger.

USE, two affiliates of USE (Sutter Gold Mining Inc. and Plateau Resources Limited Inc.), and the USE officers and directors, current and retired, who own Crested stock, and the Crested directors have entered into a voting agreement with Crested. They have agreed to vote all shares of Crested's stock held by them consistent with the vote of the holders of a majority of the minority Crested shares. At August 21, 2007 USE, on a consolidated basis, owns approximately 70.1%, of the outstanding shares of Crested. The USE officers and directors and Crested directors own approximately 1.3% of Crested, and also own options to purchase another 1,170,000 shares of Crested stock (at \$1.71 per share); on a fully-diluted basis, the Crested and USE officers and directors own 3.0% of Crested's common stock.

This proxy statement/prospectus describes the special meeting, the merger, documents related to the merger and other related matters. **Please read this entire proxy statement/prospectus carefully, including the section discussing Risk Factors beginning on page __.** You may also obtain information about USE and Crested from documents that the companies have each previously filed with the Securities and Exchange Commission, as described under "WHERE YOU CAN FIND MORE INFORMATION" on page __ of this proxy statement/prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the USE common stock to be issued under this proxy statement/ prospectus or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The date of this proxy statement/prospectus is _____, 2007, and it is first being mailed or otherwise delivered to Crested shareholders on or about _____, 2007.

ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about USE from documents that are incorporated by reference but not delivered with this proxy statement/prospectus. You can obtain documents incorporated by reference in this proxy statement/prospectus by requesting them in writing or by telephone from USE.

**U.S. Energy Corp.
Attn: Robert Scott Lorimer, CFO/Treasurer
877 N. 8th W.
Riverton, Wyoming 82501
Telephone 307.856.9271**

Documents containing business and financial information about Crested which are not contained in this proxy statement/prospectus, but which are contained in exhibits filed with the Form S-4 registration statement, of which this proxy statement/prospectus is a part, may be obtained by writing or calling Crested at the address and telephone number listed above. No information about Crested is incorporated by reference into this proxy statement/prospectus.

You will not be charged for any of the documents you request. Crested shareholders requesting documents should do so not later than _____, 2007, in order to receive them before the special meeting].

Important Proxy Submission Information

Crested shareholders of record may submit their proxies by returning them to Crested Corp., 877 N. 8th W., Riverton, Wyoming 82501, Attn. Robert Scott Lorimer, CFO/Treasurer, in the return envelope provided to them. Crested shareholders may also vote their proxies at the meeting to be held at Crested's office, 877 N. 8th W., Riverton, Wyoming 82501, at 10:00 a.m., local time, on _____, 2007.

CRESTED CORP.
877 N. 8th W.
Riverton, Wyoming 82501
NOTICE OF SPECIAL MEETING OF CRESTED SHAREHOLDERS
TO BE HELD ON _____, 2007

Dear Shareholders:

NOTICE IS HEREBY GIVEN that a special meeting of Crested shareholders will be held at the offices of Crested, 877 N. 8th W., Riverton, Wyoming, at 10:00 a.m., local time, on _____, 2007. The purpose of the meeting is to consider and vote upon the following matters:

- a proposal to adopt the Agreement and Plan of Merger, dated as of January 23, 2007, and as amended on July __, 2007, by and between Crested Corp., a Colorado corporation, and U.S. Energy Corp. (“USE”), a Wyoming corporation; and
- such other business as may properly come before the special meeting or any adjournment or postponement thereof.

In the merger, each 2 shares of Crested common stock will be converted into the right to receive 1 share of USE common stock, or a total of 2,876,188 shares, including 197,202 shares to be issued for the Crested shares underlying options to buy Crested shares held by employees, officers, directors and a retired officer of USE. Your attention is directed to the proxy statement/prospectus accompanying this notice for a discussion of the merger. A copy of the merger agreement is included as Appendix A to the accompanying proxy statement/prospectus.

Crested has fixed the close of business on _____, 2007 as the record date for the Crested special meeting. Only Crested shareholders of record at such date will be entitled to receive notice of, and to vote at, the special meeting or any adjournment or postponement thereof. In order to adopt the merger agreement, holders of a majority of the outstanding shares of Crested common stock which are not held by USE, by its officers and directors, or by two subsidiaries of USE (Plateau Resources Limited, Inc. and Sutter Gold Mining Inc.), must vote to adopt the merger agreement. **Your vote is important.**

USE, its subsidiaries, its officers and directors and Crested’s directors who own shares in Crested, have entered into a voting agreement (see Appendix B to this proxy statement/prospectus) by which they have agreed to vote all of their shares of Crested common stock consistent with the vote of the holders of a majority of the minority shareholders of Crested with respect to adoption of the merger agreement. Such shareholders hold approximately 71.4% of Crested’s outstanding shares on a non-diluted basis (72.0% on a fully-diluted basis). A list of Crested shareholders entitled to vote at the special meeting will be available for inspection by any shareholder during regular business hours at Crested’s offices, located at 877 N. 8th W., Riverton, Wyoming 82501, for 10 days prior to the date of the special meeting and will also be available at the special meeting.

All Crested shareholders entitled to notice of, and to vote at, the Crested special meeting are cordially invited to attend the Crested special meeting in person. **However, to ensure your representation at the special meeting, please submit your proxy by mail with voting instructions.** The submission of your proxy will not prevent you from voting in person. Any holder of Crested shares entitled to vote that is present at the Crested special meeting may vote in person instead of by proxy, thereby canceling any previous proxy. In any event, a proxy may be revoked in writing at any time before the vote is taken at the Crested special meeting.

All of Crested's directors have unanimously determined that the merger agreement and the merger are advisable, fair to, and in the best interests of Crested and its shareholders, and unanimously recommend that Crested shareholders vote "FOR" the adoption of the merger agreement.

YOUR VOTE IS IMPORTANT.

BY ORDER OF THE BOARD OF DIRECTORS,
Harold F. Herron, President and Director
_____, 2007

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are some questions you may have about the merger, and brief answers to those questions. You should read the remainder of this proxy statement/prospectus, and the attached documents and the documents that are incorporated by reference because the information in this section does not provide all the information that might be important to you with respect to the merger. The answers only summarize some of the information.

Q: Why am I receiving this proxy statement/prospectus?

A: Crested and USE have agreed to the acquisition of Crested by USE pursuant to the terms of a merger agreement, as amended, that is described in this proxy statement/prospectus. A copy of the merger agreement and the amendment is attached to this proxy statement/prospectus as Appendix A. In order to complete the merger, Crested shareholders holding a majority of the outstanding Crested shares, excluding the Crested shares owned by USE, by its subsidiaries, and by its officers and directors, must adopt the merger agreement and the transactions contemplated thereby. This proxy statement/prospectus contains important information about the merger, the merger agreement and the special meeting, which you should read carefully. The enclosed voting materials allow you to vote your shares without attending the special meeting. **Your vote is important.** USE, its subsidiaries, its officers and directors and Crested's directors who own Crested shares, have entered into a voting agreement with Crested, by which they have agreed to vote all of their shares of Crested common stock in line with the vote of the holders of a majority of the minority shares of Crested (i.e., all shares not held by USE, by its subsidiaries, and by its officers and directors), with respect to adoption of the merger agreement. A copy of the voting agreement is attached to this proxy statement/prospectus as Appendix B. At August 21, 2007 the minority Crested shareholders hold approximately 29.9% of the outstanding shares of Crested. We encourage you to vote or tender your proxy as soon as possible.

Q: Why is Crested proposing the merger?

A: Crested is proposing to merge for several reasons, including the belief of its board of directors that the merger is the best strategic alternative available for Crested. For more information, please see "Crested's Reasons for the Merger; Recommendation of Crested's Board of Directors."

Q: What will happen in the merger?

A: In the merger, Crested will merge into USE. USE will continue after the merger as the surviving entity, and Crested will cease to exist.

Q: As a Crested shareholder, what will I receive in the merger?

A: If the merger is completed, for every 2 shares of Crested common stock you own, you will receive 1 share of USE common stock.

If you own 500 or fewer Crested shares, you may elect to receive cash instead of shares of USE. The amount of cash would be based on the value of the USE shares you would receive, multiplied by the closing price of USE shares on the day the merger is completed. USE may determine to pay cash or issue shares to all Crested shareholders who have made such an election: If you make this election, and USE decides to pay cash, then USE will pay cash to everyone with 500 or fewer Crested shares who makes the election; if USE decides not to pay cash, then all of the electing persons will receive USE shares.

If none of the Crested minority shareholders elect to receive cash, then all of the Crested minority shareholders, and the employees and directors and officers of USE who now hold options to purchase Crested stock, will receive a total of 2,876,188 USE shares.

Q: Will any of the officers, directors and employees of USE, or the independent directors of Crested, receive Crested shares in the merger?

A: Yes. The following table shows the number of Crested shares currently owned by USE officers and one retired USE officer as of August 21, 2007. The table also shows the ownership of Crested shares, if the merger with USE is successful, by (i) USE employees, (ii) USE officers, (iii) USE directors, (iv) a retired USE officer, (v) Crested directors, (vi) USE and (vii) USE consolidated subsidiaries. Percentage ownership of each group mentioned above is also shown before the merger and what it would be after the merger. Shares owned by USE employees, officers and directors post merger include shares which would be issued on a cashless exercise basis for options held by those individuals.

	Shares of Crested Directly Owned	Crested Options	Shares of Crested from Cashless Exercise of Options	Diluted Number of Shares to be Owned	Basic %	Diluted %
USE Employees	-	330,000	86,769	86,769	0.0%	0.5%
Officers of USE	18,466	850,000	223,491	241,957	0.1%	1.4%
Directors of USE		90,000	23,664	23,664	0.0%	0.1%
Retired USE Officer and Director	147,850 ⁽¹⁾	230,000 ⁽²⁾	60,474	208,324	0.9%	1.2%
	166,316	1,500,000	394,398	560,714	1.0%	3.2%
Directors of Crested	55,925	-	-	55,925	0.3%	0.3%
Crested shares owned by:						
USE Plateau Resources, Ltd.	12,024,733	-	-	12,024,733	69.2%	67.6%
Sutter Gold Mining Inc.	60,000	-	-	60,000	0.3%	0.3%
	100,000	-	-	100,000	0.6%	0.6%
	12,184,733	-	-	12,184,733	70.1%	68.5%

USE Consolidated Ownership						
Total USE, USE Subsidiary, Employees, Officers and Directors of Crested and USE	12,406,974 ⁽³⁾	1,500,000	394,398	12,801,372	71.4%	72.0%

(1) Shares directly owned by Daniel P. Svilar, retired USE and Crested General Counsel.

(2) Includes Daniel P. Svilar (200,000 options) who served as General Counsel until retirement at January 12, 2007 and Don Anderson (30,000 options) who served as a Director until retirement on January 6, 2007.

(3) Subject to Voting Agreement to be voted with majority of minority shareholders of Crested.

Immediately following, and as a result of the merger, the Crested minority shareholders (other than the officers, directors, and employees of USE, directors of Crested and USE consolidated subsidiaries) are expected to own about 10.4% of the total USE shares to be outstanding (on a pro forma basis as of August 21, 2007, when USE had 20,937,053 shares outstanding).

Q: What are the principal risks relating to the merger?

A: If all of the conditions to the merger are not met, the merger will not occur. The merger agreement contains certain termination rights for both USE and Crested which, if exercised, could result in reimbursement to the other party of legal and advisory fees actually incurred relating to the merger. These and other risks are explained in the section entitled "Risk Factors—Risks Relating to the Merger" beginning on page 19 of this proxy statement/prospectus.

Q: Can the value of the transaction change between now and the time the merger is completed?

A: Yes. The value of the merger consideration (the USE shares) can change. The exchange ratio is fixed, meaning that every 2 issued and outstanding shares of Crested's common stock held by the minority shareholders will be converted into the right to receive 1 USE share, regardless of the trading price of USE common stock at the effective time of the merger. Because the market value of the USE shares to be issued in the merger may increase or decrease substantially as USE's trading price fluctuates, the value you receive may be worth more or less than it was when the merger agreement was signed, when you vote, when the merger is completed, or when you actually receive your shares. The future market price of USE shares is not predicted.

Q: When and where will the special meeting take place?

A: The Crested meeting will take place on _____, 2007, at 877 N. 8th W., Riverton, Wyoming 82501, at 10:00 am local time.

Q: Who is entitled to vote at the special meeting?

A: Holders of record of Crested shares as of the close of business on _____, 2007 (the record date), are entitled to vote at the meeting. Each shareholder has one vote for each share of Crested that the shareholder owns on the record date.

Q: What vote is required to adopt the merger agreement?

A: The affirmative vote of the holders of a majority of Crested shares is required to adopt the merger agreement. The following table shows how we have calculated the vote required to approve the merger. Because the Crested options will not be exercised until after all Crested shareholders vote at the meeting, the shares underlying the Crested options are not shown in the table.

Number of Crested shares	
Outstanding at August 21, 2007	17,382,704
Deduct shares owned by:	
U.S. Energy Corp.	12,024,733
USE Officers	18,466
Retired USE Officer	147,850
Crested Directors	55,925
Plateau Resources, Ltd.	60,000
Sutter Gold Mining Company	100,000
	12,406,974
Crested shares owned by minority shareholders	4,975,730
Majority of Crested Minority Shareholders	2,487,866

Therefore, the affirmative vote of Crested minority shareholders (not including those who have entered into the voting agreement) holding 2,487,866 shares is needed to approve the merger. See “THE VOTING AGREEMENT” beginning on page 94.

Q: How does the Crested board of directors recommend that Crested shareholders vote?

A: The Crested board of directors unanimously recommended that Crested shareholders vote “**FOR**” the adoption of the merger agreement. The two Crested shares for one USE share exchange ratio was negotiated between special committees of independent directors of the boards of Crested and USE, and approved by the full boards of directors of both companies.

Q: Did the Crested and USE Boards receive opinions from financial advisors?

A. Yes. Neidiger, Tucker, Bruner, Inc. (“NTB”) delivered its written opinion, dated January 22, 2007, to the special committee of the independent directors of Crested, to the board of directors of Crested, to the effect that, as of such date and based upon and subject to the factors, qualifications, limitations and assumptions set forth therein. NTB’s opinion states that exchange ratio is fair and reasonable from a financial point of view to the minority shareholders of Crested. NTB has been paid a fee by Crested, none of which is contingent upon consummation of the merger.

Navigant Capital Advisors, LLC (“Navigant Capital”) delivered its written opinion, dated January 23, 2007, to the board of directors of USE, to the effect that, as of such date and based upon and subject to the factors, qualifications, limitations and assumptions set forth therein, the exchange ratio is fair, from a financial point of view, to the shareholders of USE. Navigant Capital has been paid a fee by USE, none of which is contingent upon consummation of the merger.

The full text of the written opinions of NTB and Navigant Capital, which set forth the respective assumptions, matters considered and limitations on the reviews undertaken in connection with the opinions, are attached as Appendices C and D. Crested shareholders should read NTB's opinion in its entirety. Neither NTB's nor Navigant Capital's opinion is a recommendation as to how any holder of Crested shares should vote on the merger agreement.

Q: What do I need to do now?

A: After you have carefully read this entire document and such other information you deem appropriate, please vote your shares of Crested common stock. You may do this by completing, signing, dating and mailing the enclosed proxy card. A return envelope is enclosed. This will enable your shares to be represented and voted at the Crested special meeting.

Q: What if I do not vote, do not fully complete my proxy card, or fail to instruct my broker?

A: If you do not submit a proxy or instruct your broker how to vote your shares if your shares are held in "street name," and you do not vote in person at the special meeting, the effect will be the same as if you voted "AGAINST" the adoption of the merger agreement. If you submit a signed proxy without specifying the manner in which you would like your shares to be voted, your shares will be voted "FOR" the adoption of the merger agreement.

Q: If my shares are held in "street name" by my broker, will my broker automatically vote my shares for me?

A: No. Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, and you should follow the directions your broker provides. Please refer to the voting form used by your broker to see if it offers telephone or Internet voting.

Q: What if I fail to instruct my broker?

A: If you fail to instruct your broker to vote your shares and the broker submits an unvoted proxy, the resulting broker "non-vote" will be counted toward a quorum at the respective special meeting, but the effect will be the same as if you voted "AGAINST" the adoption of the merger.

Q: Can I attend the special meeting and vote my shares in person?

A: Yes. Holders of record of Crested common stock are invited to attend the special meeting and to vote in person at the meeting. If a broker holds your shares, then you are not a record holder and you must ask your broker how you can vote in person at the special meeting.

Q: Can I change my vote?

A: Yes. If you have not voted through your broker, there are three ways you can change your proxy instructions after you have submitted your proxy card.

- First, you may send a written notice revoking your proxy to the person to whom you submitted your proxy.
- Second, you may complete and submit a new proxy card. The latest proxy actually received from a Crested shareholder before the meeting will be counted, and any earlier proxy will automatically be revoked.
- Third, you may attend the Crested special meeting and vote in person. Any earlier proxy will thereby be automatically revoked. However, simply attending the meeting without voting will not revoke your proxy.
- If you have instructed a broker to vote your shares, you must follow the directions you receive from your broker in order to change or revoke your vote.

Q: When do you expect to complete the merger?

A: We expect to complete the merger in the fourth quarter of 2007. However, we cannot guarantee when or if the merger will occur.

Q: Will I have appraisal rights as a result of the merger?

A: Yes. Under Sections 7-113-101 to 7-113-302 of the Colorado Business Corporation Act, under certain circumstances, you are entitled to dissent from the merger and have the value of your Crested shares appraised.

Q: What are the tax consequences of the merger to me?

A: The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), so that for U.S. federal income tax purposes, you will not recognize gain or loss on the receipt of USE shares. Each of USE's and Crested's obligations under the merger agreement are conditioned on the receipt of opinions that the merger will qualify as a reorganization for United States federal income tax purposes.

For a more complete discussion of the United States federal income tax consequences of the merger, see "MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER" on page 97.

The tax consequences of the merger to you will depend on your particular facts and circumstances. Please consult your own tax advisor to determine your own tax consequences from the merger.

Q: Should I send in my stock certificates now?

A: No, you should not send in your stock certificates at this time. Crested shareholders will need to exchange their Crested stock certificates for USE shares after we complete the merger. USE will send you instructions for exchanging stock certificates at that time.

Q: How will Crested shareholders receive the merger consideration?

A: Following the merger, you will receive a letter of transmittal and instructions on how to obtain the merger consideration in exchange for your Crested common stock. You must return the completed letter of transmittal and your Crested stock certificates as described in the instructions, and you will receive the merger consideration as soon as practicable after USE receives your completed letter of transmittal and Crested stock certificates. If you hold shares through a brokerage account, your broker will handle the surrender of stock certificates and the receipt of your merger consideration.

Q: Who will help answer my questions?

A: If you have any questions about the transaction or how to submit your proxy, or if you need additional copies of this proxy statement/prospectus, the enclosed proxy card, voting instructions, or the election form, you should contact Robert Scott Lorimer, CFO/Treasurer, Crested Corp., 877 N. 8th W., Riverton, Wyoming 82501, telephone 307.856.9271.

SUMMARY

This summary generally highlights selected information from this proxy statement/prospectus. It does not contain all of the information that may be important to you. You should read carefully the entire document and the other documents referred to in this proxy statement/prospectus to fully understand the merger.

Information about the joint venture between U.S. Energy Corp. and Crested Corp. is set forth below. Some of the other items in the summary refer to the page where the subject is discussed in more detail. Other items are discussed only in the summary.

Summary information about USE follows. Detailed information can be found in the documents about USE that are incorporated by reference. See “WHERE YOU CAN FIND MORE INFORMATION.” Detailed information about Crested is set forth under the caption “INFORMATION ABOUT CRESTED.”

Information on USE’s Internet website www.usnrg.com is not part of this proxy statement/prospectus and you should not rely on that information in deciding whether to adopt the merger agreement and approve the related transactions.

Parties to the Merger

The parties to the merger agreement are U.S. Energy Corp., a Wyoming corporation, and Crested Corp., a Colorado corporation. The companies share the same principal executive office and employees. Their address is:

U.S. Energy Corp. and Crested Corp.
877 N. 8th W.
Riverton, Wyoming 82501
307.856.9271

U.S. Energy Corp. – Selected Information

The following summarizes some information about USE. For detailed information on its business, properties, and management, financial statements and management’s discussion and analysis of financial condition and results of operations, please see the information incorporated by reference into this proxy statement/prospectus entitled “WHERE YOU CAN FIND MORE INFORMATION”.

General

USE was formed in 1966 and is in the business of acquiring, exploring, developing and/or selling or leasing mineral and other properties. These properties have principally consisted of uranium, gold, molybdenum, and oil and gas.

Almost all of USE's business is conducted through a joint venture with Crested. USE and Crested were originally independent companies, with two common affiliates, John L. Larsen and Max T. Evans. Mr. Evans died in February 2002 and Mr. Larsen died in September 2006. In 1980, USE and Crested formed a joint venture (the "USECC Joint Venture", "USECC" or the "Joint Venture") to do business together unless one or the other elected not to pursue a specific project. Since 1993, USE has funded substantially all of Crested's obligations under the USECC Joint Venture because Crested has not had the capital to pay its share. Historically, Crested paid a portion of the advances from USE by issuing its common stock to USE. As of June 30, 2007, Crested owed USE a total of \$3,250,800. As of July 31, 2007, all of this amount was paid by Crested to USE with the cash proceeds it received from the sale of uranium assets, which Crested had jointly owned with USE. For a further discussion of the joint venture arrangement, see "The USECC Joint Venture" section below.

Typically, properties are acquired as part of specific mineral projects. Properties are initially acquired, financed and operated by and through the USECC Joint Venture. Management's strategy has been, and will continue to be, demonstrating prospective value in the properties sufficient to support substantial investments by investment groups, financial institutions and/or large industry partners, and then bring on long term development expertise to move the properties into production. Sales of the properties or subsidiaries also is a continuing alternative, as was effected with the 2005 sale of Rocky Mountain Gas, Inc. ("RMG"), and as was recently effected in April 2007 by the sale of the uranium assets to sxr Uranium One Inc. ("sxr" or "Uranium One," headquartered in Toronto, Canada with offices in South Africa and Australia (Toronto Stock Exchange and Johannesburg Stock Exchange, "SXR")), as discussed further below.

To demonstrate prospective value, management may have feasibility studies conducted by independent engineering firms, to determine the economic feasibility, calculated at commodity prices existing at the time, of various mine plans and processing (milling) facilities. In some instances, significant additional exploratory drilling may have to be done to further delineate grades as well as the extent of the minerals in the ground, if any.

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

- whether feasibility studies will show, for any of the properties, that the minerals can be mined and processed profitably;
- commodity prices for gold, uranium, molybdenic oxide, as well as oil and gas must be at levels so the properties can be exploited at a profit; and
- whether the feasibility studies will show volume and grades of mineralization, and manageable costs of development, mining and processing, which are sufficient to bring industry partners to the point of investment.

To some extent, the economic feasibility of a particular property can change with modifications to the mine processing plans (for example, to add or not add a circuit to process a particular mineral, enlarge or reduce the production rate and/or the mine plan, etc.) Overall, however, the principal drivers to attainment of the business strategy are the quality of the minerals in the ground, the cost to extract the minerals, and international commodity prices.

Some of the projects are transferred to new companies, with the objective of obtaining capital from an outside source for further development and/or joint venturing with other companies. Examples include: Sutter Gold Mining, Inc. ("SGMI") for gold, and RMG for coalbed methane gas ("CBM") which was sold in 2005.

As of the date of this proxy statement/prospectus, the only remaining substantial mineral asset is the Lucky Jack molybdenum property (the “Lucky Jack Property”), in which Kobex Resources Ltd. (“Kobex”) has an option to acquire a substantial interest by funding mine development costs and other expenditures. If Kobex does not exercise its option to acquire an interest in the Lucky Jack Property, USE and Crested will pursue other alternatives for that property, including sale to third parties, a joint venture with another company, and raising capital for USE and Crested to continue development and exploitation on their own. If the merger of Crested is not consummated, Crested, as a result of its ownership percentage of the Lucky Jack Property, will participate in these activities, but its lack of capital may limit its ability to do so. If the merger is unsuccessful, USE may elect to not continue funding Crested’s portion of costs which may cause Crested to either raise its own participating capital or become diluted.

USE and Crested intend to remain active in the minerals industry, and now are exploring various opportunities to acquire additional mineral properties, and other business opportunities. USE recently entered into a contract to acquire oil and gas leases with an industry partner. These properties are currently under evaluation for drilling and development of producing oil and gas wells. In the event that the merger with Crested is not closed, USE has agreed to offer, on a cost basis, a 50% interest in the oil and gas properties to Crested. Except for real estate in Gillette, Wyoming which has been purchased to develop multifamily housing to serve the demographics of the energy business in Wyoming and the oil and gas leases owned by USE, there are no contracts or agreements in principle to acquire mineral properties or participate in other business opportunities by USECC, or USE and Crested jointly or separately.

The USECC Joint Venture

Under the USECC Joint Venture as originally conceived, if either USE or Crested had a business opportunity, the proposal would be presented to the other party with the opportunity to participate equally on a 50%-50% basis. The USECC Joint Venture was signed in 1982 and has not been amended since that time. Mineral or other assets have been acquired by the USECC Joint Venture and the companies have shared exploration and development costs. From time to time, USECC or USE and Crested have contributed a group of assets to a newly formed corporation for equal equity stakes, then the new corporation had the potential of raising debt or additional equity capital to continue exploration and development of the assets, and acquire more assets.

Examples of the operation of the USECC Joint Venture have been SGMI, RMG (sold in 2005), uranium properties, and the Lucky Jack Property. Historically, a disproportionate amount of the costs for each of these projects have been paid by USE. USE’s interests in RMG and SGMI were increased to reflect its funding in these projects: USE and Crested own 48.8% and 5.7% of SGMI, and the proceeds as between USE and Crested from the 2005 sale of RMG reflected their disproportionate interests in RMG (65% and 35%) at the time of sale.

As of June 30, 2007, Crested owed USE \$3,250,800 as a result of USE paying Crested’s share of expenses related to RMG, SGMI, the uranium properties and the Lucky Jack Property, as well as Crested’s shares of administrative and legal costs (including the legal costs for the 15 -year litigation with Nukem Inc. over a partnership owned by Nukem, USE and Crested), and other business activities. This amount is net of Crested issuing a total of 6,666,666 shares of common stock (during its former fiscal year ended May 31, 2001) to USE, for which it received a \$3,000,000 reduction of its debt to USE. The Crested shares were issued at the then-current market prices for Crested stock. USE has not charged interest on the debt incurred by Crested. As of July 31, 2007, Crested completely paid off the remaining debt to USE with cash proceeds Crested received from the sale of its interests in uranium assets to Uranium One. See “sxr Uranium One – Uranium Assets” below.

This table shows the amounts owed by Crested to USE at July 31, 2007, June 30, 2007, March 31, 2007, December 31, 2006, 2005, 2004, 2003, and 2002, and at May 31, 2002. Crested and USE changed their fiscal year end from May 31 to December 31 in 2002.

July 31, 2007	\$ -
June 30, 2007	\$ 3,250,800
March 31, 2007	\$ 12,963,900
December 31, 2006	\$ 13,277,200
December 31, 2005	\$ 10,821,800
December 31, 2004	\$ 9,650,900
December 31, 2003	\$ 9,480,300
December 31, 2002	\$ 8,553,900
May 31, 2002	\$ 7,560,700

Crested has no employees, and relies on USE employees for all services. USE funds payroll and benefits for all employees, and charges Crested one-half of the amount it pays for payroll expenses each year. The only compensation arrangement in place for Crested as a stand-alone company is its incentive stock option plan, adopted in 2004, under which the Crested and USE officers, directors, and employees hold options, which are in addition to any options held under the USE incentive stock option plan.

If the merger is consummated, Crested will cease to exist, and all of its assets and liabilities will belong to USE, and the Joint Venture will be terminated and all its assets and liabilities will belong to USE. If the merger is not consummated, Crested may need to seek other sources of capital.

Recent Significant Transactions

Sutter Gold Mining Inc. USE and Crested organized a limited liability company in 1994 to hold and develop its California gold properties. The assets were transferred to Sutter Gold Mining Company, and activities were funded by continued capital from USE and third party investors. In 2004, the corporation completed a reverse takeover of Globemin Resources Inc., changed Globemin's name to Sutter Gold Mining Inc. ("Sutter" or "SGMI"), is listed on the Toronto Venture Exchange as "SGMI", and has raised additional capital from third party investors.

On March 14, 2007 the independent directors of USE, Crested and Sutter negotiated a settlement of \$2,025,700 in debt due to USE and Crested as of December 31, 2006 for the issuance of 7,621,868 shares of Sutter common stock. The issuance of these shares was subject to the approval of the Toronto Stock Exchange ("TSX") which was obtained on May 2, 2007.

In addition, USE and Crested agreed to convert the \$4.6 million Contingent Stock Purchase Warrant they held to purchase common stock in SGMI, into a 5% Net Profits Interest Royalty ("NPIR") on its Lincoln Project in California, until the total amount of \$4.6 million is paid, and a 1% NPIR thereafter.

The USECC Joint Venture also is providing, by a Line of Credit and Loan Agreement, dated June 20, 2007, a \$1 million line of credit to SGMI at 12% interest (interest payable quarterly). Maturity of all debt incurred under the line of credit is due June 20, 2009; prepayment without penalty is allowed. The debt is secured by SGMI properties. The USECC Joint Venture has the sole option to have SGMI repay the principal amount of the debt in cash, common shares of SGMI or by returning shares SGMI owns of USE and Crested; however, interest is not payable in shares. If the principal is paid in shares of SGMI common stock, such shares would be issued at a 10% discount to the 10 days' volume weighted average price before payment.

Rocky Mountain Gas, Inc.– Coalbed Methane. From 1999 through mid-2005, USE participated in the Coalbed Methane business (“CBM”) through RMG, which was formed in 1999 by USE and Crested. In 2001, RMG entered into a CBM property acquisition and development arrangement with a subsidiary of Carrizo Oil & Gas, a public Houston-based company. In 2003, RMG and the Carrizo subsidiary contributed CBM properties to a new corporation, Pinnacle Gas Resources, Inc., in exchange for Pinnacle common stock issued to USE and Crested, and Carrizo. At the same time, Pinnacle received financing from funds affiliated with DLJ Merchant Banking. In September 2006, USE and Crested sold their Pinnacle shares in a private transaction for \$13.8 million.

USE and Crested sold RMG to Enterra Energy Trust on June 1, 2005 in exchange for approximately \$20 million in cash and securities of Enterra, which securities were subsequently sold.

sxr Uranium One – Uranium Assets

On April 30, 2007, USE and Crested and certain of their private subsidiary companies, completed the sale of these uranium assets contemplated by the February 22, 2007 Asset Purchase Agreement (the “APA”) with Uranium One, and certain of its private subsidiary companies. As used in this report, Uranium One refers to that entity as well as its subsidiaries that are parties to the APA, and USE and Crested refer to those entities, as well as their subsidiaries that are parties to the APA. The APA is an exhibit to the Form 8-K filed on February 23, 2007.

At closing, USE and Crested sold their uranium assets, including the Shootaring Canyon uranium mill in Utah, unpatented uranium claims in Wyoming, Colorado, Arizona and Utah and geological data related to the sold claims, and USE and Crested’s contractual rights with Uranium Power Corp. (“UPC”), to subsidiaries of Uranium One, for consideration (purchase price) comprised of:

Consideration received at closing:

Cash and Uranium One stock:

- \$750,000 cash (paid in advance on July 13, 2006) and recorded as a refundable deposit.
- 6,607,605 Uranium One common shares. On April 30, 2007, the Uranium One common shares closed at CAD\$16.65 per share on the TSX (approximately US\$15.04).
- \$6,606,000 cash, comprised of (i) \$5,020,900 as a “UPC-Related Payment” to pay USE and Crested for transferring to Uranium One their contractual rights with UPC; and (ii) \$1,585,100 in reimbursements for USE’s and Crested’s property expenditures from July 10, 2006.

(i) UPC-Related Payment:

- \$3,013,600 as the net present value of \$3,100,000 in future cash payments owed by UPC to USE and Crested under the purchase and sale agreement for UPC to buy a 50% interest in certain of USE and Crested’s mining properties as well as the mining venture agreement between USE and Crested, and UPC, to acquire and develop additional properties, and other agreements. At February 22, 2007, the future payments amount was \$4,100,000; however, prior to the Closing of the APA, UPC paid USE and Crested \$1,000,000 of that amount.

and

- \$2,007,300 as the net present value of the 1,500,000 shares of UPC stock to have been issued in the future by UPC to USE and Crested under the purchase and sale agreement. The UPC stock was priced at a 5.25% annual discount rate applied to the volume weighted average closing price of UPC stock for the ten trading days ended April 25, 2007.

(ii) Reimbursements:

- \$1,585,100 for property acquisition and exploration costs, and Shootaring Mill holding expenses.

Net cash paid to USE and Crested was \$6,602,700 after deduction of \$3,300 for pro rated property taxes paid by USE and Crested. Of the cash paid as reimbursable costs, \$88,000 was escrowed for resolution of work related to some of the mining claims.

Kobex Resources Ltd. – Molybdenum

On October 4, 2006, USE and Crested, and Kobex Resources Ltd. (“Kobex” or “KBX”), a British Columbia company traded on the TSX Venture Exchange under the symbol “KBX,” signed a Letter Agreement relating to the Lucky Jack Property. The parties signed an amendment on December 7, 2006, and on April 3, 2007, signed a formal Exploration, Development and Mine Operating Agreement, which replaced the Letter Agreement. Kobex has the right to acquire an option to purchase up to a 50% interest in the Lucky Jack Property. The total cost to Kobex, over a period of five years, to exercise the full option, will be \$50 million in option payments, property expenditures, and a bankable feasibility study, plus a differential payment, if option payments, expenditures and a bankable feasibility study total less than \$50 million. At the operation of USE and Crested, Kobex also may acquire an additional 15% interest (for a total of 65%) after it has earned its 50% interest. When Kobex has earned 50%, USE and Crested will have the right to form a joint venture for the property with Kobex.

In May 2007, Kobex paid the first option payment of US\$750,000 by issuing 285,626 shares of Kobex common stock (142,813 shares to each of USE and Crested), valued at the market price for Kobex stock on May 22, 2007.

For details on the Kobex agreement, please see “WHERE YOU CAN FIND MORE INFORMATION.” A summary is also provided under the caption “INFORMATION ABOUT CRESTED – Kobex Resources Ltd.- Molybdenum”

Crested Corp.

Crested is also based in Riverton, Wyoming, and was organized in 1970. Crested was engaged in its own mineral properties business for many years. In the late 1970s, USE and Crested owned molybdenum properties near Crested Butte, Colorado, and sold those properties to Amax, Inc. In 1980, USE and Crested entered into the USECC Joint Venture. See “The USECC Joint Venture” discussion above.

- Crested’s principal asset is its ownership, with USE, of the Lucky Jack Property’s patented and unpatented molybdenum claims located near Crested Butte, Colorado, and a related water treatment plant which is located on several of the claims.

See “INFORMATION ABOUT CRESTED” for more information on Crested’s properties and business, and other information.

Reasons for the Merger and Crested's Recommendation to Shareholders (page 97)

USE's board of directors approved the merger because it will:

- eliminate the cost of paying for Crested's operations. The primary costs and expenses which will be eliminated are those related to regulatory reporting, audits, and administrative time consumed in the management of Crested;
 - increase USE's working capital; and
- improve how USE is perceived in the stock market and possibly increase USE's ability to raise capital. Management believes that USE's majority ownership of Crested and the operation of the Joint Venture, when Crested has no business operations separate from USE, is perceived by the marketplace to be complex and unwieldy.
 - Crested's board of directors approved the merger because, among other things:
 - the merger will maximize value to the Crested shareholders, because the combined assets will be administered by one company, under one set of officers, directors, and dedicated employees; and
 - there will be substantially more liquidity for the minority shareholders to trade in USE stock as compared to Crested.
 - If the merger is not completed, Crested may not have sufficient capital to succeed as an independent public company without the continued funding of USE. If the merger is not completed, Crested may no longer have the benefit of the USE employees, and Crested may have to establish separate administrative offices and hire independent officers, which would substantially increase its expenses. The Crested board of directors, consistent with the recommendation of the special committee of independent Crested directors, has recommended that the minority shareholders of Crested vote **"FOR"** the merger as being in their best interest.

The Merger (page 72)

If the merger is approved, Crested will merge with and into USE pursuant to the terms of the merger agreement. USE will be the surviving entity and will succeed to and assume all the rights and obligations of Crested. The merger agreement is attached as Appendix A. You should read the entire agreement because it is the legal document governing the merger.

The merger agreement contains customary representations and warranties by USE and Crested; sets forth certain conditions that must be satisfied prior to closing (even if the Crested minority shareholders approve the merger agreement); provisions for termination of the merger agreement by either USE or Crested; payment of termination fees under specified circumstances if the merger agreement is terminated, and other matters. For a summary of these and other terms of the merger agreement, see "Merger Agreement" at page 90.

Merger Consideration (page 87)

As a result of the merger, each 2 shares of Crested common stock issued and outstanding immediately prior to the effective time of the merger will be converted at the effective time into the right to receive 1 share of USE (a total of 2,876,188 USE shares, which includes 197,202 shares for the conversion of 1,500,000 options held by USE employees, directors, officers and a recently-retired USE officer. Upon completion of the merger, the Crested minority shareholders (including USE consolidated subsidiaries, USE officers, a retired USE officer, USE directors and employees of USE along with shares of USE held in retirement plans for employees and directors of Crested) will own approximately 19.0% of USE. The 197,202 shares to be received from the cashless exercise of Crested options which are then converted to shares of USE and the exchange of Crested shares owned by USE officers, a retired USE officer, USE consolidated subsidiaries and Crested directors which will result in an additional 111,121 USE shares will represent an ownership of .3% of the USE shares outstanding post merger which is included in the 19.0% ownership of USE by minority shareholders. These percentages are based on the USE shares outstanding at August 21, 2007. USE will not issue fractional shares; instead, any fractional share will be rounded up to a full USE share.

Share Information and Comparative Market Prices (pages 34-36)

USE common stock is listed on the Nasdaq Capital Market (“Nasdaq”) under the symbol “USEG.” Crested common stock is listed on the Over-the-Counter Bulletin Board under the symbol “CBAG.” The following table shows closing sale prices of USE common stock and Crested common stock as reported on January 22, 2007 (the trading day before public announcement of the signing of the merger agreement), March 30, 2007, June 29, 2007 and on August 21, 2007, the last practicable trading day before the distribution of this proxy statement/prospectus. The table also shows the implied value of one share of Crested common stock, which was calculated by dividing the closing USE price by two.

	USE Common Stock Price per Share	Crested Common Stock Price per Share	Implied Value of One Share of Crested Common Stock
January 22, 2007	\$ 4.63	\$ 2.25	\$ 2.32
March 30, 2007	\$ 5.32	\$ 2.62	\$ 2.66
June 29, 2007	\$ 5.38	\$ 2.53	\$ 2.69
August 21, 2007	\$ 4.74	\$ 2.35	\$ 2.37

The market prices of USE common stock and Crested common stock will fluctuate prior to the merger. You should obtain current market quotations before voting.

Material United States Federal Income Tax Consequences of the Merger to Crested Shareholders (page 97)

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code, so that for U.S. federal income tax purposes you will not recognize gain or loss on the receipt of USE shares as part of the merger consideration. The merger is conditioned on the receipt of an opinion from Conrad Henderson, LLC, certified public accountants, that the merger will qualify as a reorganization for United States federal income tax

purposes. The officers, directors and employees of USE will recognize gain on the receipt of the USE shares they exchange for the Crested shares acquired on exercise of non-qualified Crested options.

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If you own 500 or fewer shares of Crested and elect to receive cash instead of USE shares, and USE determines to pay cash to all such electing persons, you will recognize gain or loss depending on your basis in your Crested shares.

For a more complete discussion of the United States federal income tax consequences of the merger, see “MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER.”

Tax matters can be complicated and the tax consequences of the merger to Crested shareholders will depend on each shareholder’s particular tax situation. Crested shareholders should consult their tax advisors to understand fully the tax consequences of the merger to them.

Opinion of the Crested Financial Advisor (page 79)

In connection with the merger, the Crested board of directors appointed its two independent directors to comprise the special committee of the board of directors for Crested. The Crested special committee retained Neidiger, Tucker, Bruner Inc. (“NTB”) as its independent financial advisor. Crested’s special committee of the board of directors has received NTB’s written opinion as to the fairness, from a financial point of view, of the merger consideration to be received by the holders of Crested common stock, other than USE holders, subject to the assumptions and qualifications in such opinion. The full text of NTB’s opinion, dated January 22, 2007, is, as authorized by NTB, attached to this proxy statement/prospectus as Appendix C. You are encouraged to read the NTB opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. NTB’s opinion was provided to the Crested board in its evaluation of the proposed merger. The opinion does not address any other aspect of the merger or any related transaction and does not constitute a recommendation to any Crested shareholder with respect to any matters relating to the proposed merger.

Crested Shareholders Have Dissenters’ Rights of Appraisal (page 95)

Under the Colorado Business Corporation Act, Crested shareholders have the right to dissent from the merger and seek payment in cash of the fair value of their Crested shares. See “DISSENTERS’ RIGHTS” on page 95.

The Voting Agreement (page 94)

The voting agreement is attached as Appendix B. We urge you to read this agreement as it governs how the Crested shares held by USE and by some of the affiliates of USE are to be voted.

Conditions that Must Be Satisfied or Waived for the Merger to Occur (page 92)

As more fully described in this proxy statement/prospectus and the merger agreement, the completion of the merger depends on a number of conditions being satisfied or waived, including receipt of Crested shareholder approval and effectiveness of this registration statement.

Although we expect to complete the merger in the fourth quarter of 2007, we cannot be certain when, or if, the merger will be completed.

Termination of the Merger Agreement (page 93)

The merger agreement may be terminated before the special meeting under specific conditions. In addition, even if the minority shareholders of Crested adopt the merger agreement, the merger agreement may be terminated by mutual written consent, or for other reasons. Under certain circumstances, termination fees would have to be paid. See “THE MERGER AGREEMENT” on page 90 of this proxy statement/prospectus.

Crested’s and USE’s Directors and Officers Have Financial Interests in the Merger (page 88)

All of Crested’s directors and officers have interests in the merger as individuals. In addition, the Crested officers and directors who also serve as officers and directors of USE hold options to buy Crested shares and two officers own Crested shares now. The Crested independent directors own shares of Crested, and, like the officers and other directors, will receive USE shares, on the same exchange ratio as all other Crested shareholders, in the merger, if it is consummated. Under the merger agreement, all of the Crested officers and directors are entitled to indemnification by USE for events related to the merger.

All but one of the USE directors and officers, several of whom also are directors and officers of Crested, hold qualified and nonqualified options to buy Crested stock. A recently retired officer of USE and Crested (Daniel P. Svilar) and a recently retired director of USE (Don C. Anderson) also hold qualified and nonqualified Crested options. If the merger is completed, the options will be exercised on a cashless basis and the Crested shares will be converted to USE shares using the same 2:1 exchange ratio as applies to the minority Crested shareholders. Crested will pay the income taxes which will be owed on cashless exercise of the nonqualified Crested options by such persons as well as USE officers.

The independent directors, as members of Crested’s special committee, were aware of all these factors and considered them in approving the merger agreement and the amendment thereto.

The Rights of Crested Shareholders Will Be Governed by Different Laws and New Governing Documents After the Merger (page 100)

USE is a Wyoming corporation and Crested is a Colorado corporation. After the merger, Crested shareholders will own stock in a Wyoming corporation, and their rights will differ in some significant respects from their current rights in Colorado corporation.

USE is listed on the Nasdaq Capital Market, and Crested is traded on the Over-the-Counter Bulletin Board. As shareholders of USE after the merger, Crested shareholders will have the right to vote on certain matters under the Nasdaq Market Place rules. These rules do not apply to OTCBB traded companies.

Accounting Treatment of the Merger by USE (page 97)

USE will account for the merger as a purchase for financial reporting purposes.

USE Shareholder Approval Is Not Required

USE shareholders are not required to approve the issuance of the USE shares in the merger, and the board of directors of USE will not ask the USE shareholders to vote on the merger agreement.

Regulatory Requirements

Other than approval of the registration statement by the Securities and Exchange Commission, of which this proxy statement/prospectus is a part, neither USE nor Crested is aware of any federal or state regulatory requirements that must be complied with or approval that must be obtained in connection with the merger.

Risk Factors (page 19)

In evaluating the merger and the merger agreement and before deciding how to vote your Crested shares, please carefully read this proxy statement/prospectus and especially consider certain factors, risks and uncertainties discussed in the section entitled "RISK FACTORS" beginning on page 19.

Restrictions on the Ability to Sell USE Common Stock

All the USE shares which you receive in the merger will be freely transferable unless you are considered an "affiliate" of either Crested or USE under the Securities Act of 1933 (the "Securities Act"). Affiliates will be permitted to sell the USE shares they acquire in the merger under the SEC's rules 144 and 145. The volume limitations, notice of sale and other requirements of the rule would have to be satisfied for such sales, but the two-year holding requirement of the rule will not apply. This proxy statement/prospectus does not register the resale of USE shares held by affiliates.

Surrender of Stock Certificates

Following the effective time of the merger, USE will cause a letter of transmittal to be mailed to all holders of Crested shares containing instructions for surrendering their certificates. Certificates should not be surrendered until the letter of transmittal is received, fully completed and returned.

The Special Meeting of Crested Shareholders (page 69)

The special meeting of the Crested shareholders will be held on _____, 2007, at 10:00 a.m., local time, at the offices of Crested, 877 N. 8th W., Riverton, Wyoming 82501.

The purpose of the meeting is to consider and vote upon (i) a proposal to adopt the merger agreement and (ii) such other business as may properly come before the meeting or any adjournment or postponement of the meeting.

Crested's board of directors has fixed the close of business on _____, 2007 as the record date for determination of Crested shareholders entitled to notice of and to vote at the meeting. As of the close of business on _____, 2007, there were 17,382,704 shares of Crested outstanding, which were held of record by approximately 1,618 shareholders. A majority of these shares, present in person or represented by proxy, will constitute a quorum for the transaction of business at the meeting. Each Crested shareholder is entitled to one vote for each share of Crested held as of the record date.

Adoption of the merger agreement by the holders of a majority of the Crested shares outstanding on the record date is required by Colorado law. The merger agreement requires approval by the holders of a majority of the minority shares of Crested; 2,487,866 shares constitutes such "majority of the minority" (not including those who have agreed to vote "in line" with the vote of the majority of the minority).

USE, its consolidated subsidiaries, those of its officers, a retired USE officer the USE directors, and the Crested directors, who own Crested stock, have agreed to vote consistent with the majority of the minority. As of August 21, 2007 USE and such persons together own 71.4% of the Crested shares. In the event that the merger is consummated officers, directors and employees of USE will be allowed to exercise their options on a cashless basis and receive an additional 394,398 shares of Crested for a total ownership by USE, its consolidated subsidiaries, its officers, directors, employees, and the Crested directors of 72.0% of the outstanding Crested shares immediately prior to the merger. Please see "THE VOTING AGREEMENT" beginning on page 93.

RISK FACTORS

Before you vote, carefully consider the risks described below in addition to the other information in this proxy statement/prospectus, including the section entitled "Cautionary Statement Regarding Forward-Looking Statements." By voting in favor of the merger, you will be choosing to invest in USE's common stock. If any of the following risks actually occur, USE's business, financial condition or results of operations could be materially adversely affected, the value of USE's shares could decline, and you could lose all or part of your investment.

Risks Relating to the Merger

The value of the USE shares that you will receive in the merger may vary as a result of the fixed exchange ratio and fluctuations in the price of USE's stock.

The 2 Crested shares for 1 USE share exchange ratio is fixed. When the exchange ratio was approved by the two companies' boards of directors on December 20, 2006, the ratio represented a premium of about 12% in the value of the Crested minority shares (if the merger had closed that day) to the relative stock prices between the two companies for the 30 days ended December 18, 2006.

You may not realize this premium when you sell your USE shares. If USE's market price decreases before the merger is consummated, the value of the merger consideration to be received by Crested shareholders will decrease. Stock price variations could be the result of changes in the business, operations or prospects of USE, market assessments of when the merger will be completed, general market and economic conditions, and other factors which are beyond the control of USE or Crested. Please see recent market prices for USE and Crested stock under "COMPARATIVE MARKET PRICES AND DIVIDENDS."

If the conditions to the merger are not met, the merger may not occur.

Specific conditions in the merger agreement must be satisfied or waived to complete the merger. If the conditions are not satisfied or waived, to the extent permitted by law, the merger will not occur, and each of USE and Crested may lose some or all of the intended benefits of the merger. The following conditions, in addition to other customary closing conditions, must be satisfied or waived before USE and Crested are obligated to complete the merger:

- there is no temporary restraining order, preliminary or permanent injunction or other order or decree issued by any court of competent jurisdiction or other statute, law, rule, legal restraint or prohibition in effect preventing the completion of the merger;
- USE's shares to be issued in the merger have been approved for listing on Nasdaq, subject to official notice of issuance;

- the merger agreement is adopted by the holders of a majority of minority shares of Crested;
- holders of not more than 200,000 Crested shares have not dissented from the merger; and
- at any time before consummation of the merger, USE's closing stock price has not been 20% more or less than the 2-to-1 exchange ratio as applied to the Crested stock price, for two or more consecutive trading days, and neither USE or Crested has terminated the merger agreement. For example, if Crested's price per share is \$2.40, the implied value for two Crested shares under the exchange ratio would be \$4.80. Under those circumstances, if USE's price is more than \$5.768 and Crested's price stays at \$2.40, or if Crested's price stays at \$2.40 but USE's price decreases to less than \$3.84, then the merger agreement could be terminated by either USE or Crested.

Crested may waive one or more of the conditions to the merger without re-soliciting shareholder approval.

Each of the conditions to Crested's obligations to complete the merger may be waived, in whole or in part, by agreement of USE and Crested if the condition is an obligation of both to complete the merger. The board of directors of Crested may evaluate the materiality of any such waiver to determine whether an amendment of this proxy statement/prospectus and re-solicitation of proxies is necessary. Crested generally does not expect any such waiver to be significant enough to require re-solicitation. In the event that any such waiver is not determined to be significant enough to require re-solicitation of shareholders, the companies will have the discretion to complete the merger without seeking further shareholder approval.

Directors and executive officers of Crested may have potential conflicts of interest in recommending that you vote in favor of the merger.

The directors and officers of Crested have interests in the merger that are in addition to the interests of the minority Crested shareholders. See "THE MERGER- Crested's Directors and Officers Have Financial Interests in the Merger" on page 88.

The merger agreement restricts Crested's ability to pursue alternatives to the merger.

The merger agreement contains a "no shop" provision that, subject to limited fiduciary exceptions, restricts Crested's ability directly or indirectly to initiate, solicit, encourage or facilitate, discuss or commit to competing third-party proposals to acquire all or a significant part of Crested. Further, there are only limited exceptions to Crested's agreement that the Crested board of directors will not withdraw, modify or qualify in a manner adverse to USE its adoption of the merger or its recommendation to holders of Crested stock that they vote in favor of the adoption of the merger, or recommend any acquisition proposal. Although the Crested board of directors is permitted to take these actions if it determined that these actions are likely to be required in order for its board of directors to comply with its fiduciary duties, doing so in specified situations could entitle USE to terminate the merger agreement and to be paid by Crested a termination fee of 50% of USE's legal and financial advisory fees.

USE required that Crested agree to these provisions as a condition to USE's willingness to enter into the merger agreement. These provisions could discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Crested from considering or proposing an acquisition, even if it were prepared to pay consideration with a higher market value than the consideration USE proposes to pay in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Crested than it might otherwise have proposed to pay due to the added expense of the termination fee.

Risks Relating to USE's Business

USE has a history of operating losses.

At June 30, USE had \$16,743,400 retained earnings compared with an accumulated deficit of \$39,101,900 at December 31, 2006. During the first quarter of 2007 (ended March 31, 2007), USE recorded a net loss of \$1,318,200 and during the second quarter of 2007 (ended June 30, 2007), USE recorded a gain of \$59,295,400. During the six months ended June 30, 2007 USE recorded a loss from continuing operations of \$11,462,500 and a net gain of \$57,977,200. For the year ended December 31, 2006, USE recorded a loss before a benefit from income taxes of \$14,279,400 and a net gain after benefit from income taxes of \$1,052,200. The large change in earnings from quarter to quarter is the nature of the USE business model of acquiring, holding and selling mineral properties. The process from acquisition of the properties until ultimate sale is capital intensive and often takes years to complete.

Working capital at June 30, 2007 and December 31, 2006 was \$86,664,100 and \$31,730,000, respectively. Historically, working capital needs have been primarily met from receipt of funds from liquidating investments, selling partial interests in mineral properties and selling equity. Although USE received significant cash proceeds from the sale of the uranium properties in April 2007, and has received additional cash from selling the Uranium One shares, the development and production of mineral properties is very capital intensive. The Luck Jack Property will take significant amounts of capital to place it into production. USE may seek equity and/or debt financing for this purpose, which may result in dilution to current shareholders. Please see the risk factor below captioned "*Future equity transactions, including exercise of options or warrants, could result in dilution; and registration for public resale of the common stock in these transactions may depress stock prices.*"

No recurring business revenues and uncertainties associated with transaction-based revenues.

Presently USE does not have an operating business with recurring revenues. Receipt of funds from selling interests in mineral properties, or liquidating investments in mineral properties (or the subsidiaries which hold properties) is unpredictable as to timing, structure, and profitability. For example, we began activities in the coalbed methane sector in 1999 by starting up RMG. RMG used, rather than provided, capital until it was sold to Enterra Energy Trust in June 2005. In 2003, we acquired stock in Pinnacle by RMG's contribution of properties into Pinnacle, but we did not realize a return on the transaction until September 2006.

Working capital on hand is expected to be sufficient to fund general and administrative expenses, and conduct exploration and a limited amount of development work on the mineral properties as well as other business ventures USE is pursuing, including multifamily housing. Although USE currently has working capital, it will need to continue to seek funding from industry partners or sell equity or debt to develop all the projects. Also, it is anticipated the necessary capital for developing the Lucky Jack Molybdenum Property will be available through Kobex to obtain mining and other permits, further delineate the mineral resources underground, and plan the mining and processing operation. However, additional capital (the costs of which would be shared by USE and Kobex) will be necessary to put the property into production.

The interest retained by USE in the Lucky Jack molybdenum property, is not expected to generate recurring revenues for several years. In addition, the mine plan of Phelps Dodge Corporation (from whom USE and Crested received the property) and its predecessor companies encountered opposition from local and environmental groups. That opposition may continue.

Uncertainties in the value of the mineral properties.

While USE believes that its mineral properties are valuable, substantial work and capital will be needed to establish whether they are in fact valuable.

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

The Lucky Jack Property has been analyzed and explored by its prior owners. This data will have to be updated to the level of a current feasibility study to determine the viability of starting mining operations. Obtaining mining and other permits to begin mining the molybdenum property may be difficult, even with the assistance of Kobex. Capital requirements for a molybdenum mining operation will be substantial.

USE has not yet obtained final feasibility studies on any of its mineral properties. These studies would establish the potential economic viability of the different properties based on extensive drilling and sampling; the design and costs to build and operate mills, the cost of capital, and other factors. Feasibility studies can take many months to complete. These studies are conducted by professional third-party consulting and engineering firms, and will have to be completed, at considerable cost, to determine if the deposits contain proved reserves (i.e., amounts of minerals in sufficient grades that can be extracted profitably under current commodity pricing assumptions and estimated for development and operating costs). A feasibility study usually, but not always, must be completed in order to raise the substantial capital needed to put a mineral property into production. USE has not established any reserves (i.e., economic deposits of mineralized materials) on any of its properties, and future studies may indicate that some or all of the properties will not be economic to put into production.

Compliance with environmental regulations may be costly.

USE's business is regulated by government agencies. Permits are required to explore for minerals, operate mines and build and operate processing plants. The regulations under which permits are issued change from time to time to reflect changes in public policy or scientific understanding of issues. If the economics of a project cannot withstand the cost of complying with changed regulations, USE might decide not to move forward with the project.

USE must comply with numerous environmental regulations on a continuous basis, to comply with United States environmental laws, including the Clean Air Act, the Clean Water Act, and the Resource Conservation and Recovery Act ("RCRA"). For example, water and dust discharged from mines and tailings from prior mining or milling operations must be monitored and contained and reports filed with federal, state and county regulatory authorities. Additional monitoring and reporting is required by state and local regulatory agencies. The Abandoned Mine Reclamation Act in Wyoming and similar laws in other states (for examples, California for SGMI's gold property and Colorado for the Lucky Jack project) impose reclamation obligations on abandoned mining properties, in addition to or in conjunction with federal statutes. Environmental regulatory programs create potential liability for operations, and may result in requirements to perform environmental investigations or corrective actions under federal and state laws and federal and state Superfund requirements.

Failure to comply with these regulations could result in substantial fines, environmental remediation orders and/or potential shut down of the project until compliance is achieved. Failure to timely obtain required permits to start operations at a project could cause delay and/or the failure of the project resulting in a potential write-off of the investments therein.

USE depends on key personnel.

USE has a very limited staff and executive group. These persons are knowledgeable of USE's mineral properties and have experience in dealing with the exploration of mineral properties as well as the financing of them. The loss of key employees would adversely impact our business, as finding replacements is difficult as a result of competition for experienced personnel in the minerals industry.

USE will seek additional business activities.

USE's interests in SGMI and the Lucky Jack Property are the primary mineral properties owned by USE (indirect in the case of SGMI) after the sale of the uranium assets to Uranium One. USE intends to acquire other mineral interests, and pursue other business activities such as real estate development and oil and gas exploration. Other than real estate investment opportunities and a contract to explore for gas and oil with a major industry partner, USE currently does not have any agreements in place for other business opportunities.

We may be classified as an inadvertent investment company.

We are not engaged in the business of investing, reinvesting, or trading in securities, and we do not hold ourselves out as being engaged in those activities. However, under the federal Investment Company Act of 1940, a company may be fall within the scope of being an "inadvertent investment company" under section 3(a)(1)(C) of the 1940 Act if the value of its investment securities is more than 40% of its total assets (exclusive of government securities and cash items).

As a result of the April 30, 2007 sale of our uranium assets to Uranium One, we received investment securities (our stock in Uranium One) with a value in excess of 40% of the value of our total assets.

An inadvertent investment company can avoid being classified as an investment company if it can rely on one of the exclusions under the 1940 Act. One such exclusion, Rule 3a-2 under the 1940 Act, allows an inadvertent investment company (as a "transient investment company") a grace period of one year from the date of classification (in our case, April 30, 2008), to seek to comply with the 40% limit, or with any other available exclusion. Accordingly, we are taking actions to comply with this 40% limit from the present time through April 30, 2008. These actions may include liquidating investment securities as necessary to stay within the 40% limit.

As Rule 3a-2 is available to a company no more than once every three years, and assuming no other exclusion were available to us, we would have to keep within the 40% limit through April 30, 2010. In any event, we would not intend to become an intentional investment company (i.e. engaging in investment and trading activities in investment securities), even after April 30, 2010.

Classification as an investment company under the 1940 Act requires registration with the SEC. If an investment company fails to register, it would have to stop doing almost all business, and its contracts would become voidable. Registration is time consuming and restrictive, and we would be very constrained in the kind of business we could do as a registered investment company.

There can be no assurance that we will be able to accomplish this objective by April 30, 2008.

Risks Relating to USE Stock

USE may issue shares of preferred stock with greater rights than its common stock.

Although it has no current plans, arrangements, understandings or agreements to do so, USE's articles of incorporation authorize USE's board of directors to issue one or more series of preferred stock and set the terms of the stock without seeking approval from holders of the common stock. Preferred stock that is issued may have preferential rights over USE's common stock, in terms of dividends, liquidation rights and voting rights.

Future equity transactions, including exercise of options or warrants, could result in dilution; and registration for public resale of the common stock in these transactions may depress stock prices.

From time to time, USE has sold restricted stock and warrants, and convertible debt (or stock in subsidiary companies, convertible to USE stock), to investors in private placements conducted by broker-dealers, or in negotiated transactions. Because the stock was issued as restricted, the stock was sold at a discount to market prices, and the exercise price of the warrants sometimes, and/or the conversion price for stock in subsidiaries, was at or lower than market prices. These transactions caused dilution to existing shareholders. Also, from time to time, options are issued to employees, directors and third parties as incentives, with exercise prices equal to market prices. Exercise of in-the-money options and warrants will result in dilution to existing shareholders; the amount of dilution will depend on the spread between market and exercise price, and the number of shares involved.

Although it does not intend to do so at this time, USE may continue to raise capital from the equity markets using private placements at discounted prices. In addition, USE may continue to grant options to employees and directors with exercise prices equal to market price at the grant date, and in the future may sell restricted stock and warrants (or stock in subsidiary companies convertible to stock of USE), all of which may result in dilution to existing shareholders.

Public resale of such restricted stock, and of stock issued in conversion of debt or stock of subsidiary companies, may depress the market price of the USE stock.

Dividends on USE common stock

USE declared a special cash dividend of \$0.10 per share on all outstanding shares of its common stock on the record date of July 6, 2007, payable on July 16, 2007. Prior to this dividend, USE has only declared a dividend on one other occasion, November 1, 1990, when it declared a 1 for 10 share dividend. Management of USE does not currently anticipate any dividends to be paid in the near term future but anticipates retaining earnings to fund investments and business development.

USE's take-over defense mechanisms could discourage some advantageous transactions.

USE has adopted a shareholder rights plan, also known as a poison pill. The plan is designed to discourage a takeover of USE at an unfair price. However, it is possible that the board of directors and the takeover acquirer would not agree on a higher price, in which case the takeover might be abandoned, even though the takeover price might be at a significant premium to market prices. Therefore, as a result of the mere existence of the plan, shareholders may not receive the premium price. See "DESCRIPTION OF USE SECURITIES – Preferred Stock – Series P Preferred Stock."

USE's stock price likely will continue to be volatile due to several factors.

In the 18 months ended June 30, 2007, USE's stock has traded as low as \$3.32 per share and as high as \$7.20 per share. USE believes that some of the factors which cause this volatility are:

- price and volume fluctuations in the stock market generally;
- relatively small amounts of USE stock trading on any given day;
- fluctuations in USE's financial operating results; and
- price swings in the minerals commodities markets.

You should expect continued volatility in the stock price after the merger. It is possible that when you want to sell your USE shares, USE's stock price could be lower than what you paid for your Crested shares, resulting in a loss on your investment.

SELECTED HISTORICAL FINANCIAL DATA OF CRESTED

The following tables summarize financial information for Crested, using its audited financial statements for each of the five fiscal years from December 31, 2002 to December 31, 2006, and unaudited financial statements at June 30, 2007 and June 30, 2006 and the six months then ended. You should read this information in conjunction with Crested's "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the caption "INFORMATION ABOUT CRESTED."

	Six Months Ended June 30,		Year Ended December 31,				
	2007 (Unaudited)	2006 (Unaudited)	2006	2005	2004	2003	2002
Current assets	\$ 39,637,400	\$ 3,385,200	\$ 10,751,300	\$ 95,100	\$ 3,800	\$ 3,300	\$ 3,300
Current liabilities	13,654,900	12,435,800	14,482,100	10,928,000	9,747,300	9,408,300	8,553,900
Working capital (deficit)	25,982,500	(9,050,600)	(3,730,800)	(10,832,900)	(9,743,500)	(9,405,000)	(8,550,600)
Total assets	44,470,800	8,065,900	15,123,000	8,682,200	2,983,600	4,387,100	5,889,900
Long-term obligations ⁽¹⁾	220,900	1,360,600	266,600	1,260,800	1,289,100	1,268,900	964,000
Shareholders' equity (deficit)	30,537,200	(5,740,600)	364,200	(3,516,700)	(8,062,900)	(6,300,200)	(3,638,100)
Revenues	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Income (loss) before equity in loss of affiliates and income taxes	53,051,900	(1,879,600)	(157,300)	6,341,200	(320,000)	(263,300)	(102,400)
Equity in (loss) gain of affiliates	(3,727,500)	(344,300)	(3,625,600)	(1,699,800)	(1,447,500)	(2,114,600)	(1,055,000)
(Provision for) Benefit from Income Taxes	(17,841,700)	--	7,633,800	(100,000)	--	--	--
Cumulative effect of accounting change	--	--	--	--	--	(293,800)	--
	\$ 31,482,700	\$ (2,223,900)	\$ 3,850,900	\$ 4,541,400	\$ (1,767,500)	\$ (2,671,700)	\$ (1,157,400)

(1) Included \$53,000, \$1,145,000 at June 30, 2007 and June 30, 2006 respectively as well as \$51,000, \$1,045,200, \$1,073,500, \$1,053,300 and \$748,400 of accrued reclamation costs on uranium properties at December 31, 2006, 2005, 2004, 2003 and 2002 respectively.

Net income
(loss)

Net income
(loss) per
share - Basic

\$	1.83	\$	(0.13)	\$	0.22	\$	0.26	\$	(0.10)	\$	(0.16)	\$	(0.07)
----	------	----	--------	----	------	----	------	----	--------	----	--------	----	--------

Net income
(loss) per
share -
Diluted

\$	1.77	\$	(0.13)	\$	0.22	\$	0.26	\$	(0.10)	\$	(0.16)	\$	(0.07)
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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF USE

The following tables summarize financial information for USE, using its audited financial statements for each of the five fiscal years ended December 31, 2006, and its unaudited financial statements for the six months ended June 30, 2007 and 2006.

	Six Months Ended		Year Ended				
	June 30,	2006	2006	2005	December 31,	2003	2002
	2007	(Unaudited)			2004		
	(Unaudited)						
Current assets	\$ 110,317,400	\$ 19,866,200	\$ 43,325,200	\$ 7,840,600	\$ 5,421,500	\$ 5,191,400	\$ 4,755,300
Current liabilities	23,653,300	1,339,100	11,595,200	1,232,200	6,355,900	1,909,700	2,044,400
Working capital (deficit)	86,664,100	18,527,100	31,730,000	6,608,400	(934,400)	3,281,700	2,710,900
Total assets	123,215,500	37,318,100	51,901,400	38,106,700	30,703,700	23,929,700	28,190,600
Long-term obligations ⁽¹⁾	778,200	8,602,400	882,000	7,949,800	13,317,400	12,036,600	14,047,300
Shareholders' equity	90,422,100	19,818,600	32,977,400	24,558,200	6,281,300	6,760,800	8,501,600

⁽¹⁾Includes \$129,300, of accrued reclamation costs on properties at June 30, 2007, \$6,138,000 at June 30, 2006, \$124,400, at December 31, 2006, \$5,669,000 at December 31, 2005, \$7,882,400 at December 31, 2004, \$7,264,700 at December 31, 2003 and \$8,906,800 at December 31, 2002 respectively.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF USE

(from page 27 – continued)

	Six Months Ended		Year Ended				Seven Months Ended
	June 30, 2007 (Unaudited)	2006 (Unaudited)	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002
Operating revenues	\$ 325,100	\$ 324,900	\$ 813,400	\$ 849,500	\$ 815,600	\$ 513,500	\$ 673,000
Loss from continuing operations	(11,463,500)	(5,910,800)	(16,670,700)	(6,066,900)	(4,983,100)	(5,066,800)	(3,524,900)
Other income & expenses	108,798,600	(1,482,800)	2,302,700	(484,000)	465,100	(311,500)	(387,100)
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	97,335,100	(7,393,600)	(14,368,000)	(6,550,900)	(4,518,000)	(5,378,300)	(3,912,000)
Minority interest in loss (income) of consolidated subsidiaries	(3,698,600)	47,600	88,600	185,000	207,800	13,000	54,800
(Provision for) Benefit from Income Taxes	(35,659,300)	--	15,331,600	--	--	--	--
Discontinued operations, net of tax	--	--	--	15,207,400	(1,938,500)	(2,060,400)	17,100
Cumulative effect of							

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accounting change	--	--	--	--	--	1,615,600	--
Preferred stock dividends	--	--	--	--	--	--	--
Net income (loss) to common shareholders	\$ 57,977,200	\$ (7,346,000)	\$ 1,052,200	\$ 8,841,500	\$ (6,248,700)	\$ (5,810,100)	\$ (3,840,100)

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF USE

(from page 27 – continued)

	Six Months Ended		Year Ended			Seven Months Ended	
	June 30,	December	December	December	December	December	
	2007	31, 2006	31, 2006	31, 2005	31, 2004	31, 2003	
	(Unaudited)		(Unaudited)				
Per share financial data							
Operating revenues	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.06
Loss from continuing operations	\$ (0.58)	\$ (0.32)	(0.88)	(0.38)	(0.38)	(0.44)	(0.33)
Other income & expenses	\$ 5.51	\$ (0.08)	0.12	(0.03)	0.04	(0.03)	(0.03)
(Loss) income before minority interest, equity in income (loss) of affiliates, income taxes, discontinued operations, and cumulative effect of accounting change	\$ 4.93	\$ (0.41)	(0.76)	(0.39)	(0.34)	(0.48)	(0.36)
Minority interest in loss (income) of consolidated subsidiaries	\$ (0.19)	\$ 0.00	--	--	0.02	0.00	--
(Provision for) Benefit from Income Taxes	\$ (1.81)	--	0.81	--	--	--	--
	--	--	--	0.94	(0.15)	(0.18)	--

Discontinued operations, net of tax								
Cumulative effect of accounting change	--	--	--	--	--	0.14	--	
Preferred stock dividends	--	--	--	--	--	--	--	
Net (loss) income per share, basic	\$ 2.94	\$ (0.40)	\$ 0.06	\$ 0.55	\$ (0.48)	\$ (0.52)	\$ (0.36)	
Net (loss) income per share, diluted	\$ 2.63	\$ (0.40)	\$ 0.05	\$ 0.55	\$ (0.48)	\$ (0.52)	\$ (0.36)	

**UNAUDITED U.S. ENERGY CORP. PRO FORMA COMBINED CONDENSED
CONSOLIDATED
FINANCIAL INFORMATION**

Basis of Presentation The pro forma financial statements filed with this report reflect what USE's financial position would have been had the merger with Crested closed on January 1, 2006 and June 30, 2007. The balance sheet, and statement of operations, at December 31, 2006, and for the year then ended, as well as at June 30, 2007 and for the six months then ended, have been condensed.

Basic earnings per share are based upon the weighted average number of common shares outstanding. Diluted earnings per common share are based on the assumption that all of the Crested options were converted into common shares using the treasury stock method. There are no differences in net earnings for purposes of computing basic and diluted earnings per share as conversion of the common stock options would have no effect on net earnings.

The unaudited pro forma information is based on the historical financial statements of USE and Crested under the purchase method of accounting, and includes the adjustments described in the accompanying notes. The pro forma combined condensed consolidated balance sheet and the pro forma combined condensed consolidated statements of operations and accompanying notes are qualified in their entirety and should be read in conjunction with the historical financial statements of USE and Crested included with or incorporated by reference into this proxy statement/prospectus.

The pro forma adjustments are based on estimates and assumptions available on the date of this proxy statement/prospectus that USE believes are reasonable under the circumstances. The pro forma combined condensed consolidated financial information has been prepared in accordance with the rules and regulations of the SEC. This information is intended for informational purposes only and is not necessarily indicative of the future financial position of USE after the merger, or of its financial position that would have actually occurred had the acquisition been effected as of the dates indicated above.

U.S. ENERGY CORP. and SUBSIDIARIES
PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET
(Unaudited)
ASSETS

	June 30, 2007			December 31, 2006		
	Actual	Adjustment	Pro Forma	Actual	Adjustment	Pro Forma
Current Assets	\$ 110,317,400		\$ 110,317,400	\$ 43,325,200		\$ 43,325,200
Investments	27,000		27,000	27,000		27,000
Properties and Equipment	14,429,400	15,473,900	29,903,300	11,563,500	14,524,700	26,088,200
Less Accumulated Depreciation	(5,635,900)		(5,635,900)	(5,454,200)		(5,454,200)
	8,793,500	15,473,900	24,267,400	6,109,300	14,524,700	20,634,000
Other Assets	4,077,600		4,077,600	2,439,900		2,439,900
Total Assets	\$ 123,215,500	\$ 15,473,900	\$ 138,689,400	\$ 51,901,400	\$ 14,524,700	\$ 66,426,100

LIABILITIES AND STOCK HOLDERS' EQUITY

	June 30, 2007			December 31, 2006		
	Actual	Adjustment	Pro Forma	Actual	Adjustment	Pro Forma
Current Liabilities	\$ 23,653,300		\$ 23,653,300	\$ 11,595,200		\$ 11,595,200
Long-Term Debt, net of current portion	247,500		247,500	294,900		294,900
Asset Retirement Obligations	129,300		129,300	124,400		124,400
Other Accrued Liabilities	401,400		401,400	462,700		462,700
Minority Interests	8,361,900	(3,711,500)	4,650,400	4,700,200		4,700,200
Forfeitable Shares	-		-	1,746,600		1,746,600

Preferred Stock	-	-	-	-	-	-
Shareholders Equity						
Common Stock	208,300	28,800	237,100	196,600	28,800	225,400
Additional paid-in capital	77,503,800	15,445,100	92,948,900	72,990,700	14,495,900	87,486,600
Retained earnings (accumulated deficit)	16,743,400	3,711,500	20,454,900	(39,101,900)		(39,101,900)
Treasury stock at cost	(923,500)		(923,500)	(923,500)		(923,500)
Unrealized (loss) gain on marketable securities	(2,619,400)		(2,619,400)	306,000		306,000
Unallocated ESOP contribution	(490,500)		(490,500)	(490,500)		(490,500)
Total Shareholder's equity	90,422,100	19,185,400	109,607,500	32,977,400	14,524,700	47,502,100
Total liabilities and shareholder's equity	\$ 123,215,500	\$ 15,473,900	\$ 138,689,400	\$ 51,901,400	\$ 14,524,700	\$ 66,426,100

U.S. ENERGY CORP. and SUBSIDIARIES
PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
(Unaudited)

	Six Months Ended June 30, 2007			Year Ended December 31, 2006		
	Actual	Adjustment	Pro Forma	Actual	Adjustment	Pro Forma
Operating Revenues	\$ 325,100		\$ 325,100	\$ 813,400		\$ 813,400
Operating Costs and Expenses:						
Mineral holding costs	1,795,600		1,795,600	2,312,800		2,312,800
Asset retirement obligations			-	854,600		854,600
General and administrative	9,824,000		9,824,000	14,007,000		14,007,000
Other	169,000		169,000	309,700		309,700
	11,788,600	-	11,788,600	17,484,100	-	17,484,100
Loss before investment and property transactions:	(11,463,500)		(11,463,500)	(16,670,700)		(16,670,700)
Other Income & (Expenses):						
Gain on sale of assets	1,822,200		1,822,200	3,063,600		3,063,600
Loss on sale of marketable securities	(6,091,400)		(6,091,400)	(867,300)		(867,300)
Gain on foreign exchange	516,600		516,600	-		-
Gain on sale of uranium assets	111,728,200		111,728,200	-		-
Gain on sale of investments			-	10,815,600		10,815,600
Loss on gain from valuation of derivatives			-	(630,900)		(630,900)
Loss on Enterra share exchange			-	(3,845,800)		(3,845,800)
Settlement of litigation			-	(7,000,000)		(7,000,000)
Other	823,000		823,000	767,500		767,500
	108,798,600	-	108,798,600	2,302,700	-	2,302,700

Loss before minority interest, discontinued operations and income taxes	97,335,100		97,335,100	(14,368,000)		(14,368,000)
Minority interest in loss of consolidated subsidiaries	(3,698,600)	3,711,500	12,900	88,600		88,600
Loss before income taxes	93,636,500	3,711,500	97,348,000	(14,279,400)	-	(14,279,400)
Income Taxes:						
Current (provision for) benefit	(20,620,300)		(20,620,300)	235,000		235,000
Deferred (provision for) benefit	(15,039,000)		(15,039,000)	15,096,600		15,096,600
	(35,659,300)	-	(35,659,300)	15,331,600	-	15,331,600
Net Income Loss	\$ 57,977,200	\$ 3,711,500	\$ 61,688,700	\$ 1,052,200	\$ -	\$ 1,052,200
Per Share Data						
Basic earnings per share	\$ 2.94	\$ 0.18	\$ 3.12	\$ 0.06	\$ 0.06	\$ 0.06
Diluted earnings per share	\$ 2.63	\$ 0.17	\$ 2.80	\$ 0.05	\$ 0.05	\$ 0.05

**NOTES TO U.S. ENERGY COPR. UNAUDITED PRO FORMA COMBINED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006**

1. Basis of Pro Forma Presentation

The unaudited pro forma combined condensed consolidated financial statements of USE have been prepared on the basis of assumptions relating to the allocation of consideration paid for the acquired assets and liabilities of Crested based on the best preliminary estimates of USE's management. The actual allocation of the amount of the consideration may differ from that reflected in these unaudited pro forma combined condensed consolidated financial statements, based upon the completion of a valuation. The table below sets forth the estimated purchase price allocation for USE at June 30, 2007:

Fair value of USE common stock issued, not including stock-based compensation allocable to USE shares issued for Crested shares underlying Crested options:	\$ 14,413,000
Estimated fair value of: stock-based compensation (USE shares issued for Crested shares underlying Crested options):	\$ 1,060,900
Total Pro Forma Consideration	\$ 15,473,900

2. Pro Forma Adjustments

These adjustments reflect the components of the aggregate purchase consideration and related transaction costs, which includes USE common stock with a market value of \$15,473,900 at June 30, 2007 and \$14,524,700 at December 31, 2006 (including shares issued for the Crested shares underlying the Crested options).

The USE shares' market value is based on a per share value of approximately \$5.38, which was the market price at the close on June 29, 2007 and \$5.05 on December 29, 2006. The calculation of the number of USE shares to be issued, 2,876,188 total shares, is based upon the agreed upon exchange of 2 shares of Crested for 1 share of USE based on the price per share as computed by the independent consultants to the Special Committees of USE and Crested which was recommended by the Special Committees of both companies and ratified by the full boards of directors of each company on December 20, 2006 of \$4.74 per share for USE and \$2.32 per share for Crested. The ratio of 2 shares of Crested for 1 share of USE represented a premium of about 12% in the value of the Crested minority shares (if the merger had closed that day) to the relative stock prices between the two companies for the 30 days ended December 18, 2006.

3. Allocation of Pro Forma Purchase Consideration

The pro forma purchase consideration of \$15,473,900 at June 30, 2007 is allocated to mining claims. This allocation represents consideration of Crested's interest in the Lucky Jack Molybdenum property near Crested Butte, Colorado not owned by USE. Management believes that the fair value of this property is substantially greater than Crested's book value. At this time, management intends to conduct a formal valuation of this property to confirm that valuation estimate.

COMPARATIVE PER SHARE DATA

In the following table, USE and Crested provide you with historical per share financial information. Read it along with the selected consolidated historical financial data and the historical financial statements of USE and Crested.

	USE		Crested	
	Six Months Ended June 30, 2007	Year Ended December 31, 2006	Six Months Ended June 30, 2007	Year Ended December 31, 2006
Net income (loss) per share				
Basic	\$ 2.94	\$ 0.06	\$ 1.83	\$ 0.22
Diluted	\$ 2.63	\$ 0.05	\$ 1.77	\$ 0.22
Net income (loss) per share from continuing operations				
Basic	\$ (0.58)	\$ (0.90)	\$ (0.01)	\$ (0.04)
Diluted	\$ (0.52)	\$ (0.79)	\$ (0.01)	\$ (0.03)
Cash Dividends Declared (per share) during historical 10 year period ending December 31, 2006				
	\$ 0.10	\$ --	\$ --	\$ --
Book Value per share	\$ 4.34	\$ 1.68	\$ 1.78	\$ 0.02

COMPARATIVE MARKET PRICES AND DIVIDENDS

In reviewing the following market price data, you should note that the value of the merger consideration will fluctuate with changes in the price of USE's stock. When the price of USE's stock increases, the value of the merger consideration increases; when the price of USE's stock decreases, the value of the merger consideration decreases. Future prices for USE's stock are not predicted. You should obtain current trading prices for both USE and Crested stock before you vote on the merger.

Recent Closing Prices

The table below shows (i) the closing price per share of USE common stock on NASDAQ Capital Market, and the closing price per share of Crested common stock on the OTCBB, on January 22, 2007, the trading day before public announcement of the signing of the merger agreement, March 30, 2007, June 29, 2007 and on August 21, 2007, the most recent practicable date prior to the mailing of this proxy statement/prospectus, and (ii) the "implied value" of one share of Crested on those dates. The implied value of one share of Crested was calculated by dividing the closing sales price for a USE share by two.

	USE Common Stock	Crested Common Stock	Implied Value of One Share of
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	Price per Share	Price per Share	Crested Common Stock
January 22, 2007	\$ 4.63	\$ 2.25	\$ 2.32
March 30, 2007	\$ 5.32	\$ 2.62	\$ 2.66
June 29, 2007	\$ 5.38	\$ 2.53	\$ 2.69
August 21, 2007	\$ 4.74	\$ 2.35	\$ 2.37

Historical Market Price Data

This table shows the high and low closing sale prices of shares of USE and Crested as reported on Nasdaq (“USEG”) and OTCBB (“CBAG”).

U.S. ENERGY CORP.

	High	Low
Calendar year ended December 31, 2007		
First quarter ended 03/31/07	\$ 6.19	\$ 4.60
Second quarter ended 06/30/07	\$ 6.79	\$ 5.28
June 30, 2007 to most practical date - August 21, 2007	\$ 5.77	\$ 4.43
Calendar year ended December 31, 2006		
First quarter ended 03/31/06	\$ 7.20	\$ 4.61
Second quarter ended 06/30/06	\$ 7.16	\$ 3.32
Third quarter ended 09/30/06	\$ 4.55	\$ 3.42
Fourth quarter ended 12/31/06	\$ 5.98	\$ 3.88
Calendar year ended December 31, 2005		
First quarter ended 03/31/05	\$ 7.65	\$ 2.75
Second quarter ended 06/30/05	\$ 5.95	\$ 3.52
Third quarter ended 09/30/05	\$ 4.55	\$ 3.44
Fourth quarter ended 12/31/05	\$ 4.96	\$ 3.68

Crested Corp.

	High	Low
Calendar year ended December 31, 2007		
First quarter ended 03/31/07	\$ 2.97	\$ 2.25
Second quarter ended 06/30/07	\$ 3.25	\$ 2.50
June 30, 2007 to most practical date - August 21, 2007	\$ 2.73	\$ 2.15
Calendar year ended December 31, 2006		
First quarter ended 03/31/06	\$ 3.12	\$ 2.50
Second quarter ended 06/30/06	\$ 3.09	\$ 1.67
Third quarter ended 09/30/06	\$ 2.25	\$ 1.28
Fourth quarter ended 12/31/06	\$ 2.54	\$ 1.52
Calendar year ended December 31, 2005		
First quarter ended 03/31/05	\$ 3.42	\$ 0.35
Second quarter ended 06/30/05	\$ 1.99	\$ 1.21
Third quarter ended 09/30/05	\$ 1.82	\$ 1.36
Fourth quarter ended 12/31/05	\$ 2.55	\$ 1.70

Neither USE nor Crested has paid any cash dividends in the periods indicated. USE did however declare a \$0.10 cash dividend on June 22, 2007 with a record date of July 6, 2007 and a payment date of July 16, 2007. USE has no plans to continue the payment of dividends, although in the future it may do so.

Number of Crested shareholders

As of June 30, 2007 there were approximately 1,618 Crested shareholders of record.

**CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS**

Information contained in this proxy statement/prospectus, and the USE documents incorporated by reference in this proxy statement/prospectus, contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this proxy statement/prospectus referring to USE or Crested, and may include statements regarding the period following completion of the merger. These statements are intended to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based on current expectations or projections about operations, industry, financial condition and liquidity. Words such as “may,” “could,” “will,” “should,” “plan,” “predict,” “potential,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “believe” and variations thereof or words and terms of similar substance used in connection with any discussion of future operating or financial performance, the merger or our businesses, identify forward-looking statements.

You should note that the discussion of USE’s and Crested’s reasons for the merger, and the descriptions of Crested’s special committee’s financial advisor’s opinion and USE’s financial advisor’s opinion, contain forward-looking statements that describe beliefs, assumptions and estimates as of the indicated dates. Those forward-looking expectations may have changed as of the date of this proxy statement/prospectus. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements may include projections and estimates concerning the timing and success of specific projects, USE’s capital requirements, permitting status of various properties and the ability to economically exploit our properties. Actual results could differ materially and adversely from these forward-looking statements.

Historically, mineral prices have been volatile, and rise and fall based on changes in market demand and changes in the political, regulatory and economic climate.

All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/prospectus and attributable to USE or Crested or any person acting on either’s behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, neither USE nor Crested undertakes any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect the occurrence of unanticipated events.

INFORMATION ABOUT CRESTED

General

Crested Corp. is a Colorado corporation formed in 1970 and is in the business of acquiring, exploring, developing and/or selling or leasing mineral properties. Crested and USE originally were independent companies, with two common affiliates, John L. Larsen and Max T. Evans. Mr. Evans died in February 2002 and Mr. Larsen died in 2006. In 1982, Crested and USE formed the USECC Joint Venture to do business together. See "SUMMARY INFORMATION – The USECC Joint Venture." From time to time, USE has funded many of Crested's obligations because Crested did not have the funds to pay its share of the obligations. Crested has paid a portion of this debt by issuing common stock to USE. At December 31, 2006, Crested owed \$13,277,200 to USE. As a result of Crested receiving one-half of the proceeds from the sale of the uranium properties to Uranium One, Crested paid in full the amount owed to USE as of July 31, 2007.

Historically, Crested's business strategy has been, and will continue to be, acquiring undeveloped and/or developed mineral properties at low acquisition costs and then operating, selling, leasing or joint venturing the properties, or selling the subsidiary companies to other companies in the mineral sector at a profit.

Typically, projects initially are acquired, financed and operated by Crested and USE in their Joint Venture ("SUMMARY INFORMATION – The USECC Joint Venture" above). From time to time, some of the projects are then transferred to separate companies organized for that purpose, with the objective of raising capital from an outside source for further development and/or joint venturing with other companies. Examples include: SGMI for gold, RMG for coalbed methane and Remington Village, LLC. for real estate.

Recent Significant Transactions

Sutter Gold Mining Inc.

USE and Crested organized a limited liability company in 1994 to hold and develop California gold properties. The assets were transferred to Sutter Gold Mining Company, and activities were funded by continued capital from USE and third party investors. In 2004, the corporation completed a reverse takeover of Globemin Resources Inc. (Toronto Venture Exchange "SGMI") and has raised additional capital from third party investors. In connection with the reverse takeover, the name was changed to Sutter Gold Mining Inc. ("Sutter" or "SGMI").

On March 14, 2007 the independent directors of USE, Crested and Sutter negotiated a settlement of \$2,025,700 in debt due to USE and Crested as of December 31, 2006 for the issuance of 7,621,867 shares of Sutter common stock. The issuance of these shares was subject to the approval of the Toronto Stock Exchange ("TSX") which was obtained on May 2, 2007. As a result of the issuance of these shares (at market prices) for debt, USE currently owns 48.8% of SGMI and Crested owns 5.7%. In addition, USE and Crested agreed to convert their \$4.6 million Contingent Stock Purchase Warrant which allowed them to purchase common stock in SGMI into a 5% Net Profits Interest Royalty ("NPIR") on its Lincoln Project in California, until the total amount of \$4.6 million is paid, and a 1% NPIR thereafter.

The USECC Joint Venture also is providing, by a Line of Credit and Loan Agreement, dated June 20, 2007, a \$1.0 million line of credit to SGMI at 12% interest (interest payable quarterly). Maturity of all debt incurred under the line of credit is due June 20, 2009; prepayment without penalty is allowed. The debt is secured by SGMI properties. The USECC Joint Venture has the sole option to have SGMI repay the principal amount of the debt in common shares; however, interest is not payable in shares. If the principal is paid in shares of SGMI common stock, such shares would be issued at a 10% discount to the 10 days' volume weighted average price before payment.

Rocky Mountain Gas, Inc. and Pinnacle Gas Resources, Inc. – Coalbed Methane.

From 1999 through mid-2005, USE's primary business focus was in the CBM business conducted through RMG, an entity formed in 1999 by USE and Crested. In 2001, RMG entered into a CBM property acquisition and development arrangement with a subsidiary of Carrizo Oil & Gas, a public Houston-based company. In 2003, RMG and the Carrizo subsidiary contributed CBM properties to a new corporation, Pinnacle Gas Resources, Inc., in exchange for Pinnacle common stock issued to USE and Crested, and Carrizo. At the same time, Pinnacle received financing from funds affiliated with DLJ Merchant Banking.

In September 2006, USE and Crested sold their Pinnacle shares in a private transaction for \$13.8 million, of which Crested received \$4,830,000 in cash proceeds and recorded a gain on the transaction of \$3,794,800. As a result of the sale of the equity ownership of Pinnacle, Crested and USE became obligated to pay Enterra Energy Trust (see below) \$2.0 million in either cash or stock of USE. Subsequent to September 30, 2006, Crested and USE agreed to pay the obligation to Enterra with 506,395 shares of USE common stock owned by Crested. Through the delivery of these shares of USE common stock, Crested paid \$700,000, representing 35% of the \$2.0 million and its share of RMG before it was sold, and received a credit on its debt to USE in the amount of \$1.3 million.

RMG was sold to Enterra Energy Trust (TSX: ENT.UN and NYSE: ENT) on June 1, 2005 for approximately \$20 million in cash and securities of Enterra, which was paid to USE and Crested. The Enterra securities were subsequently sold.

SXR Uranium One

Uranium -For information on sale of the uranium assets, see "SUMMARY INFORMATION- U.S. Energy Corp. - Recent Significant Transactions - SXR Uranium One – Uranium Assets" above.

Kobex Resources Ltd. – Molybdenum

On February 28, 2006, Crested and USE re-acquired the Lucky Jack molybdenum property (formerly the Mount Emmons molybdenum property), located near Crested Butte, Colorado. The property was returned to Crested and USE by Phelps Dodge Corporation ("PD") in accordance with a 1987 Amended Royalty Deed and Agreement between Crested, USE and Amax Inc. ("Amax"). The Lucky Jack property includes 25 patented mining claims and approximately 520 unpatented mining claims, which together approximate 5,400 acres.

Crested and USE are pursuing permitting and development of the Lucky Jack Property. Development of the property for mining will require extensive capital and long term planning and permitting activities. Our agreement with Kobex Resources Ltd. is expected to provide a significant amount of capital to advance the project, but added capital will be required to open and operate a mine.

Molybdcic oxide is an alloy used primarily in specialty steel products for enhanced corrosion resistance, metal strengthening and heat resistance. Molybdenum chemicals are used in a number of diverse applications such as lubricants, additives for water treatment, feedstock for the production of pure molybdenum metal and catalysts used for petroleum refining. Pure molybdenum metal powder products are used in a number of diverse applications, such as lighting, electronics and specialty steel alloys.

Molybdcic oxide prices have recently increased: Annual Metal Week Dealer Oxide mean prices for molybdcic oxide averaged \$25.55 per pound in 2006 compared with \$32.94 in 2005, \$16.41 in 2004, \$5.32 in 2003 and \$3.77 in 2002. The price at April 13, 2007 was \$28.75 per pound. The metallurgical market for molybdenum is characterized by cyclical and volatile prices, little product differentiation and strong competition. In the market, prices are influenced by production costs of domestic and foreign competitors, worldwide economic conditions, world supply/demand balances, inventory levels, the U.S. Dollar exchange rate and other factors. Molybdenum prices also are affected by the demand for end-use products in, for example, the construction, transportation and durable goods markets. A substantial portion of world's annual molybdenum supply is produced as a by-product of copper mining. By-product production is estimated to account for approximately 60% of global molybdenum production.

Molybdenum price experienced continued stability during 2006 and to date in 2007, with molybdenum prices in 2005 reaching near historical highs. Production increases were experienced in by-product copper production and primary production as metal prices improved throughout the year. Production in China remains difficult to estimate; however, based on published reports, production was negatively impacted in several molybdenum producing regions due to safety concerns and operational issues. Although a more stable supply of western, high-quality materials continued through the year. The overall market remained in slight deficit during 2006 due to demand outpacing supply.

- Kobex Resources Ltd. Agreement

On April 3, 2007, USE, Crested, and Kobex Resources Ltd. ("Kobex") (a British Columbia company traded on the TSX Venture Exchange under the symbol "KBX"), signed a formal Exploration, Development and Mine Operating Agreement (the "agreement") for the Lucky Jack Property.

The agreement grants Kobex the exclusive option to acquire up to a 50% undivided interest in patented and unpatented claims located near Crested Butte, Colorado, which are held by USECC, for \$50 million. The \$50 million to be spent will be for all project-related expenditures, the cost for a bankable feasibility study, and option payments to USECC. The balance between money spent on expenditures and option payments, and \$50 million, will be paid to USECC in cash.

Expenditures and Option payments

Date by When Expenditures and Options Must be Paid ⁽¹⁾	Expenditures Amount ⁽²⁾ - \$	Option Payment Amount ⁽³⁾ - \$	Total Expenditure and Option Payment Amount - \$	Cumulative Total for Expenditures Amounts and Option Payments - \$
May 22, 2007 ⁽⁴⁾	-0-	750,000	750,000	750,000
March 31, 2008	3,500,000 ⁽⁴⁾	1,200,000 ⁽⁴⁾	4,200,000	4,950,000
Dec. 31, 2008	5,000,000	500,000	5,500,000	10,450,000
Dec. 31, 2009	5,000,000	500,000	5,500,000	15,950,000
Dec. 31, 2010	2,500,000	500,000	3,000,000	18,950,000
Dec. 31, 2011	-0-	500,000	500,000	19,450,000

Totals	16,000,000	3,950,000	19,450,000
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- (1) Any shortfall in expenditures may be paid direct, in cash, to USECC. Except for the initial payment of \$3,500,000 in expenditures by March 31, 2008 (which is a firm commitment of Kobex), if any expenditures amount is not fulfilled and/or option payment is not made by 90 days after the due date, the agreement will be deemed to have been terminated by Kobex. However, if Kobex fails to incur an expenditures amount and/or does not make an option payment after the date when Kobex has earned a 15% interest, USE and Crested will replace Kobex as manager of the property.

Expenditures include, but not limited to, holding and permitting costs for the Lucky Jack property; geological, (2) geophysical, metallurgical, and related work; salaries and wages; and water treatment plant capital and operating costs.

- (3) At Kobex' election, option payments may be made in cash or Kobex common stock at the market price on issue date. Kobex may accelerate these payments in advance of the scheduled dates. In May 2007, Kobex paid the first option payment (US\$750,000) by issuing 285,632 shares of Kobex common stock (142,816 shares to each of USE and Crested), valued at the market price for Kobex stock on May 22, 2007.
- (4) For this period, Kobex may reduce the option payment by \$700,000 by increasing expenditures by that amount, or apportioning the \$700,000 between the option payment and expenditures.

Bankable Feasibility Study

Kobex is required to deliver a bankable feasibility study (the "BFS") for the Lucky Jack property, including confirmation of advance permitting or issuance of a mining permit. If option payments and expenditures, plus the costs to prepare the BFS, total \$50 million before the BFS is completed and delivered to USECC, Kobex and USECC shall jointly (50% each) fund completion of the BFS.

If, at the time of the delivery of a BFS, option payments and expenditures are less than \$50 million, then, in order to fully exercise the option to acquire an aggregate 50% interest in the Lucky Jack property, Kobex shall pay USECC in cash the difference between \$50 million, and the option payments plus expenditures plus the costs to prepare and complete the BFS. This amount is the "study cash difference." If the BFS is not completed by December 31, 2016, Kobex' interest will revert to 15% (if an aggregate of \$15 million has been spent on the property by that date and an aggregate of \$50 million has not been spent by that date) and USE and Crested will assume operatorship of the Lucky Jack property.

Exercise of the Option

The option is exercisable in two stages. The "option period" is the time between April 3, 2007, and that date when Kobex has earned a 50% interest in the project.

First Stage: When Kobex has incurred an initial \$15 million in expenditures, Kobex shall have earned a 15% interest in the Lucky Jack property.

Second Stage: If Kobex completes the remaining option payments and expenditures and delivers the BFS (and pays the study cash difference, if applicable), Kobex shall have earned an additional 35% interest (for a total of 50%). This date will be the "50% option exercise date."

Management During the Option Period. On the 50% option exercise date, Kobex may enter into a 50-50 joint venture or provide USECC, at its sole discretion, the option to either (i) continue as a joint venture with Kobex (50% interest each); or (ii) have Kobex arrange all future financing for all operations on the property, for an additional 15% interest to Kobex (for a total 65% interest in the joint venture); or (iii) have Kobex acquire all the outstanding securities of an entity formed by USECC to hold its joint venture interest, for Kobex stock, with the purchase price determined by negotiation or an independent valuator.

Throughout the option period, Kobex shall be the manager of all programs on the Lucky Jack property, and its activities shall be subject to the direction and control of a management committee. The management committee shall have four members (two each from USECC and Kobex); in the event of a tie, the Kobex members shall have the tie breaking vote. A technical committee, also with two members from each party, shall provide technical assistance to the management committee.

The Joint Venture. After the 50% option exercise date, a joint venture (the “Lucky Jack Joint Venture”) shall be deemed formed between USECC and Kobex, to hold and explore the property; if feasible, develop a mine on the Lucky Jack property; and for so long as feasible, operate the mine and exploit minerals from the property. USECC and Kobex each shall have a 50% interest in the joint venture and shall be obligated to contribute funds to adopted programs and budgets in proportion to their interests.

Kobex shall be the manager of the joint venture, subject to the direction and control of a management committee, which may be the same as the management committee during the option period.

Broker’s Fee. Kobex has paid a broker’s fee in connection with the agreement in the amount of CAD \$463,750. USECC is responsible for 50% of this fee (CAD \$231,875) payable in equal amounts over 5 years in cash or common stock of USE, or in shares of Kobex which USECC will have received for option payments from Kobex. If the master agreement with Kobex is terminated for any reason during the five year period, USECC’s obligations to reimburse Kobex for the broker’s fee also would be terminated.

Continuing Royalty held by USECC. USE and Crested shall each continue to retain a 3% gross overriding royalty (for a cumulative 6% gross overriding royalty) on production from the property, under the Amended and Restated Royalty Deeds and Agreement dated May 29, 1987 between USE, Crested, and Mt. Emmons Mining Company. USE and Crested’s 6% royalty will be reduced to 5.1% when Kobex earns a 15% interest in the Lucky Jack property, and will be reduced again to 3% when Kobex earns a 50% interest in the property. Kobex also has an option to eliminate an additional 1% of the 3% royalty for \$10 million in cash after they have earned their 50% interest.

Real Estate – Remington Village, LLC

On May 10, 2007, USE and Crested, through a wholly owned limited liability company, Remington Village, LLC, closed a contract for the purchase of approximately 10.15 acres of land located in Gillette, Wyoming. The total purchase price was \$1,272,693, paid in cash by USE. The property is expected to be developed for a 216 unit multifamily complex to meet the strong demand for housing resulting from the growth of the energy business in Wyoming.

USE also signed a Development Agreement with P.E.G. Development, LLC (“PEG”) (a private real estate development company) to assist in obtaining the entitlements, engineering and architectural plans necessary to construct the complex. PEG has considerable development experience, including 10 projects in the inter-Rocky Mountain region.

The cost to obtain entitlements, engineering and architectural plans is estimated to be approximately \$698,000 and the construction cost of the entire complex is estimated to be approximately \$26.1 million. Local demographics suggest Gillette's population will increase from 26,000 to 50,000 by 2015 because of increased coal and coalbed methane production in Campbell County, Wyoming, as well as the construction of three new coal fired power plants nearby. There is significant unmet demand for rental units, as there is currently little, if any, available and long wait lists. USE is now in negotiations with local large employers to pre-lease 80% or more of the USE complex for an extended period of time.

The boards of directors and investment committees of USE and Crested have agreed to put up to 30% equity into the development and construction of the Remington Village project. The balance of the financing to construct the project, approximately \$18.5 million, has been obtained from a commercial bank. Construction of the Remington Village project commenced during the third quarter of 2007 and is projected to be completed in 2008.

USE intends to expand operations in the multifamily housing sector, with focus on the energy basins of Wyoming, Utah, and Colorado where housing demand is expected to remain strong.

Oil and Gas Exploration

USE signed an Exploration and Area of Mutual Interest agreement with a Gulf Coast (United States) oil and gas exploration and production company. USE anticipates it will participate as a 20% working interest partner in numerous wells that will be drilled over the next three to five years. Approximately \$3 million has been paid by USE under the agreement to date. Two prospects have already been leased, and exploration and development activities should commence in the later part of the fourth quarter 2007 or the first quarter of 2008.

USE believes that numerous prospects will be generated, leased and drilled, potentially resulting in \$10,000,000 to \$15,000,000 in exploration and development expenditures for its working interest over the course of the anticipated three to five year program. USE has retained a technical advisor to advise it in regards to the program.

Properties

Molybdenum

Crested and USE re-acquired the Lucky Jack Project (formerly the Mount Emmons molybdenum property) located near Crested Butte, Colorado on February 28, 2006. The property was returned to Crested and USE by Phelps Dodge Corporation ("PD") in accordance with a 1987 Amended Royalty Deed and Agreement between Company 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.

Kobex Resources Ltd. has an option to acquire up to 50% of the Lucky Jack Project. See "Kobex Resources Ltd. – Molybdenum" discussion above.

Conveyance of the property to Crested and USE also included 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 Crested and USE by the Colorado Department of Health and Environment. Operating costs for the water treatment plant have been approximately \$1.3 million annually. Crested and USE have hired a contractor to operate the water treatment plant. Crested and USE will also evaluate the potential use of the water treatment plant in the milling operations.

Crested and USE leased various patented and unpatented mining claims on the Lucky Jack molybdenum 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 (MoS₂). In 1980, Amax constructed a water treatment plant at the Lucky Jack 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 Lucky Jack property project in 1999 through its acquisition of Cyprus Amax. Thereafter, PD acquired additional water rights and patents to certain claims to mine and mill the deposit.

In its 1992 patent application to the Bureau of Land Management of the United States Department of the Interior (“BLM”), Amax stated that the size and grade of the Mount Emmons deposit was determined to approximate 220 million tons grading 0.366% molybdenite. In a letter dated April 2, 2004, BLM 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 letter 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 for molybdenic oxide and was used by BLM in determining that nine claims satisfied the patenting requirement that the mining claims contain a valuable mineral that could be mined profitably. 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.

Uranium

All uranium properties owned by USE and Crested were sold to Uranium One on April 30, 2007.

Gold

California. USE’s and Crested’s subsidiary, SGMI, holds approximately 535 acres of surface and mineral rights near Sutter Creek, Amador County, California, 45 miles east-southeast of Sacramento, California, in the central part of the 121-mile-long Mother Lode gold belt. The project is located in the western Sierra Nevada Mountains at 1,000 to 1,500 feet in elevation. The year round climate is temperate. Access is by California State Highway 16 from Sacramento to California State Highway 49, then by paved county road approximately .4 miles outside of Sutter Creek.

A Conditional Use Permit is being kept current to allow for planned mining activities on the properties in the future.

Surface and mineral rights holding costs, and property taxes were \$823,300 in 2006. Additionally, SGMI expended \$471,324 in a drilling program and the maintenance of equipment. The leases are for varying terms and require rental fees, annual royalty payments and payment of real property taxes and insurance. A tourist visitor's center and gift shop has been set up and leased to a third party for \$1,500 per month plus a 4% gross royalty on revenues. These revenues offset a portion of costs for holding the SGMI properties.

A review of documentation of historic gold production from properties to the north and south of the project shows that between 1857 and 1951, a total of 2,350,096 ounces of gold were produced from the project.

Production was halted in most of the producing mines because of the Second World War. The report indicates that these very productive mines chased gold bearing mineralized veins to seven times the depth of SGMI's present workings.

The areas of large historic gold production are found at the north and south ends of the project area, bracketing a one-mile long portion of the Mother Lode Belt with no historic gold production, and which hosts the Lincoln and Comet Zones. The Lincoln and Comet Zones were blind discoveries that did not outcrop at surface and which represent the first significant new gold discoveries made along the Mother Lode Belt in the last 50 years that are unrelated to past-producing mines. SGMI believes there is significant potential for continued new discoveries within the area of the Lincoln and Comet Zones, both near the surface and at depth as 90% of the property has not been explored.

The property has been the subject of considerable modern exploration activity, most of it centering on the Lincoln and Comet zones, which are adjacent to each other. A total of 85,085 feet of drilling has been accomplished in prior years, with 190 diamond drill holes, and modern underground development consists of a 2,850-foot declined ramp with 2,400 feet of crosscuts plus five raises.

To further delineate the resource size and connect the Lincoln and Comet blocks, an underground and surface drilling program was executed in the latter part of 2006 and continued into 2007. During 2006, 8,718 feet of underground core drilling in 32 holes and 1,931 feet of surface core in 2 holes were completed. Assay results have been received for 14 of the holes. Notable intercepts in those holes included 24 feet of 0.21 ounces gold per ton in hole 0164 and 9.3 feet of 1.26 ounces gold per ton in hole 0165. Drilling is continuing in 2007.

Mexico. In November, 2006, SGMI signed an Exclusive Option Agreement with The Alamo Group, Inc. of Scottsdale, Arizona, to acquire a 100% interest (less royalty provisions) in the Santa Teresa mineral concession located in the historic El Alamo gold mining district southeast of Ensenada, Mexico for Cdn\$500,000 in payments and work commitments.

The concession contains several historic underground gold mines along its approximate 1.5 mile long strike length. The concession is located in the northern Baja peninsula of Mexico approximately 60 miles southeast of the port city of Ensenada, Mexico. Mining in the district was initiated in 1888 with the discovery of placer gold resulting in the El Alamo Gold Rush of 1888. Operations quickly went underground as miners followed surface outcroppings of quartz veins down to the shallow water table at about 50 feet. Mining generally ceased in 1905 due to political unrest and the lack of infrastructure which would have allowed underground production to continue below the shallow water table. Since 1905, there has been only limited exploration work conducted in the district.

Santa Teresa geology is characterized by a series of thin highly enriched quartz veins. The vein system located in this area consists of five main parallel, near vertical, auriferous quartz veins and numerous shorter parallel companion veins. As with the California Mother Lode gold system, a majority of the gold in the quartz is considered "free" gold and amenable to simple gravity recovery.

SGMI has signed a Letter of Intent (LOI) with Premier Gold Mines Limited (TSX: "PG") to jointly explore Sutter's Santa Teresa mineral concession located in the historic and high grade El Alamo Mineral District of Baja California Norte, Mexico. The Sutter concession is located in the heart of the gold district which was the subject of the El Alamo Gold Rush of 1888. It is located some 100 kilometres southeast of Ensenada, Mexico and about 250 kilometres from San Diego, California, USA.

The proposed joint venture (JV) with Premier provides the funding for immediate exploration of the project.

Other Properties

- Fort Peck Lustre Field (Montana)

Crested and USE operated a small oil production facility (two wells) at the Lustre Oil Field on the Ft. Peck Indian Reservation in northeastern Montana, for a fee based on oil produced. The wells were shut in during April 2006 and negotiations began to return the wells to the Ft. Peck Tribes. Negotiations resulted in an agreement, whereby the Tribes would assume all reclamation obligations on the wells and Crested, USE and their co-participants in the wells would deed over to the tribes all tanks, pump equipment and down hole equipment to the Tribes. A final distribution of residual funds from production and the conveyance of wells were completed in April 2007.

- Wyoming

Crested and USE own a 14-acre tract in Riverton, Wyoming, with a two-story 30,400 square foot office building. The first floor is rented to non-affiliates and government agencies; the second floor is occupied by Crested and USE. Crested and USE also own a 10,000 square foot aircraft hangar on land leased from the City of Riverton; 7,000 square feet of associated offices and facilities, three vacant lots covering 16 acres in Fremont County, Wyoming; and two city lots and improvements including one small office building.

- Utah

On February 27, 2006, USE through its wholly owned subsidiary Plateau Resources Limited, Inc. ("Plateau") re-acquired by foreclosure sale the Ticaboo, Utah properties. The properties include: a motel, restaurant, lounge, convenience store, recreational boat storage/service facility, and improved residential and mobile home lots. These properties were acquired when the Shootaring Canyon uranium mill was acquired in 1993. The mill was part of the uranium assets sold to Uranium One, but the Ticaboo properties were not included in the sale.

On April 12, 2006, USE signed a contract with ARAMARK Sports and Entertainment Services, Inc., a subsidiary of ARAMARK (NYSE: "RMK"), for the management and operation of all commercial services at the Ticaboo town site. The initial term of the contract is for three years, with one three-year extension option to be exercised upon the mutual agreement of USE and ARAMARK. Under the terms of the contract, ARAMARK will manage the Ticaboo town site's 70-room motel, convenience store, mobile home park, boat storage facility, restaurant and lounge. ARAMARK will also add Ticaboo to its nationwide reservation center and website. ARAMARK will receive a management fee and will invest in a marketing program designed to maximize future revenues.

It is the intention of USE to sell the Ticaboo properties to a third party as USE no longer requires the properties after the sale of its uranium properties to Uranium One. Crested shares all cash flows, both positive and negative, from the Ticaboo properties with USE on a 50 – 50 basis.

Mining Claim Holdings

Title

Approximately 25 of the Lucky Jack mining claims which Crested and USE received back from Phelps Dodge are patented claims; however the majority of the mining claims located there are unpatented.

Unpatented claims are located upon federal and public land pursuant to procedures established by the General Mining Law, which governs mining claims and related activities on federal public lands. Requirements for the location of a valid mining claim on public land depend on the type of claim being staked, but generally include discovery of valuable minerals, erecting a discovery monument and posting thereon a location notice, marking the boundaries of the claim with monuments, and filing a certificate of location with the county in which the claim is located and with the BLM. If the statutes and regulations for the location of a mining claim are complied with, the locator obtains a valid possessory right to the contained minerals. To preserve an otherwise valid claim, a claimant must also pay certain rental fees annually to the federal government and make certain additional filings with the county and the BLM. Failure to pay such fees or make the required filing may render the mining claim void or voidable.

Because mining claims are self-initiated and self-maintained, they possess some unique vulnerability not associated with other types of property interests. It is impossible to ascertain the validity of unpatented mining claims solely from public records and it can be difficult or impossible to confirm that all of the requisite steps have been followed for location and maintenance of a claim. If the validity of an unpatented mining claim is challenged by the government, the claimant has the burden of proving the economic feasibility of mining minerals located thereon. However, we believe that all of our Lucky Jack mining claims are valid and in good standing.

Proposed Federal Legislation

The U.S. Congress from time to time has considered proposed revisions to the General Mining Law, including as recently as in 2007. If these proposed revisions were enacted, payment of royalties on production of minerals from federal lands could be required as well as new requirements for reclamation of mined land and other environmental control measures and judicial review of past and future patent decisions could be implemented including review of issuance of mineral patents by the BLM in respect of the Lucky Jack Project. The effect of any revision of the General Mining Law on operations cannot be determined until enactment, however, it is possible that revisions would materially increase the carrying and operating costs of mineral properties located on federal unpatented mining claims and patented mining claims may be subject to additional review.

Legal Proceedings

Except for matters involving water rights, USE and Crested are not parties to any pending legal proceeding. SGMI is defending a quiet title action, to which USE and Crested are not parties.

Water Rights Litigation –Lucky Jack Molybdenum Property

Prior to the transfer of the Lucky Jack Molybdenum Property (formerly the Mount Emmons property) from Phelps Dodge Corporation (“PD”) and Mount Emmons Mining Company (“MEMCO”) to USE and Crested on February 28, 2006, MEMCO filed a number of Statements of Opposition in the Water Court, Water Division No. 4, State of Colorado to protect its existing water rights against applications filed by other parties seeking to appropriate or change water rights or perfect conditional water rights. Subsequent to transfer of the mine property, Motions for Substitution of Parties (from MEMCO to USE and Crested) were filed and approved by the Water Court. These cases are as follows:

1. Concerning the Application for Water Rights of Virgil and Lee Spann Ranches, Inc., Case No. 03CW033, 03CW034, 03CW035, 03CW036 and 03CW037. These related cases involve the Spann Ranches, Inc.’s Water Court applications to change the point of diversion through alternative points for the purpose of rotating a portion of their senior water rights between ditches to maximize beneficial use in the event of a major downstream senior call. MEMCO filed Statements of Opposition to ensure that the final decrees to be issued by the Water Court contain terms and conditions sufficient to protect MEMCO’s water rights from material injury. These cases are pending, and USE and Crested are awaiting proposed decrees from Applicant Spann Ranches, Inc. for consideration.
2. Concerning the Application for Water Rights of the Town of Crested Butte, Case No. 02CW63. This case involves an application filed by the Town of Crested Butte to provide for an alternative point of diversion. MEMCO filed a Statement of Opposition to ensure that the final decree to be issued by the Water Court contains terms and conditions sufficient to protect MEMCO’s water rights from material injury. The Town of Crested Butte, USE and Crested have reached a settlement to protect USECC’s water rights pursuant to a proposed final decree, which will be submitted with a Stipulation signed by the parties to the Water Court for its approval.
3. Concerning the Application of the United States of America in the Gunnison River, Gunnison County, Case No. 99CW267. This case involves an application filed by the United States of America to appropriate 0.033 cubic feet per second of water for wildlife use and for incidental irrigation of riparian vegetation at the Mt. Emmons Iron Bog Spring, located in the vicinity of the Lucky Jack property. MEMCO filed a Statement of Opposition to protect proposed mining operations against any adverse impacts by the water requirements of the Iron Bog on such operations. This case is pending while the parties attempt to reach a settlement on the proposed decree terms and conditions.
4. Concerning the Application for Water Rights of the United States of America for Quantification of Reserved Right for Black Canyon of Gunnison National Park, Case No. 01CW05. This case involves an application filed by the United States of America to make absolute conditional water rights claimed in the Gunnison River in relation to the Black Canyon of the Gunnison National Park for, and to quantify in-stream flows for the protection and reproduction of fish and to preserve the recreational, scenic and aesthetic conditions. MEMCO and over 350 other parties filed Statements of Opposition to protect their existing water rights. USECC and most other Opposers have taken the position that the flows claimed by the United States should be subordinated to the historical operations of the federally owned and operated Aspinall Unit, and are subject to the provisions contained in the Aspinall Unit Subordination Agreement between the federal government and water districts which protect junior water users in the Upper Gunnison River Basin. This case is pending while the parties negotiate terms and conditions for incorporation into Stipulations among the parties and into the future final decree to be issued by the Water Court. Future Water Court proceedings in this case will involve quantification of the in-stream flows claimed for the Black Canyon Park.

Quiet Title Litigation – Sutter Gold Mining Inc.

In 2004, USECC Gold Limited Liability Company (a predecessor of SGMI) as plaintiff filed an action (USECC Gold Limited Liability Company vs. Nevada-Wabash Mining Company, et al., Case No. 04CV3419) in Superior Court of California, County of Amador) seeking to quiet title as vested in plaintiff to two patented mining claims at the Sutter Gold project. All but one of the approximately 54 defendants (dissolved private corporations and other entities, their stockholders and/or estates of deceased stockholders) has defaulted. Plaintiff and the remaining defendant have had settlement discussions; if a settlement is not obtained, a trial will be scheduled.

SGMI is confident that plaintiff would prevail on the merits in the event of trial. The subject property includes a portion of the existing decline prior to intercepting the mineralized resource at the Sutter Gold project. The remaining defendant claims a one-fifth interest in one of the two patented mining claims. If settlement discussions are not successful, and if plaintiff does not prevail at trial, defendant may be entitled to seek remedies related to the property, possibly including filing a partition action. The outcome of such post-trial proceedings (if commenced by defendant following an outcome adverse to plaintiff at trial) after filing a petition action cannot be predicted, but management does not expect any outcome to ultimately adversely affect SGMI's plan of operations or financial condition.

Research and Development

No research and development expenditures have been incurred during the past three fiscal years.

Environmental Regulations

General. Operations are subject to various federal, state and local laws and regulations regarding the discharge of materials into the environment or otherwise relating to the protection of the environment, including the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act ("RCRA"). With respect to mining operations conducted in Colorado, Abandoned Mine Reclamation Act and industrial development and siting laws and regulations also impact USE and Crested. Similar law and regulations in California affect SGMI operations.

Management believes USE and Crested, as well as their subsidiaries, comply in all material respects with existing environmental regulations.

Other Environmental Costs. Actual costs for compliance with environmental laws may vary considerably from estimates, depending upon such factors as changes in environmental law and regulations (e.g., the new Clean Air Act), and conditions encountered in minerals exploration and mining. USE and Crested do not anticipate that expenditures to comply with law regulating the discharge of materials into the environment, or which are otherwise designed to protect the environment, will have any substantial adverse impact on our competitive position. Environmental regulatory programs create potential liability for operations and may result in a requirement to perform environmental investigations or corrective actions under federal and state laws and federal and state Superfund requirements.

Employees

As of August 21, 2007, Crested had no full-time employees. The expenses associated with USE's 25 full-time employees, including payroll taxes, fringe benefits, bonus plans and retirement plans, are shared with Crested for all ventures in which Crested participates on a percentage ownership basis. Crested uses approximately 50 percent of the time of USE employees, and reimburses USE on a cost reimbursement basis for their wages, payroll taxes, benefits, health insurance and retirement contributions.

Change in Accountants

Termination of relationship with prior audit firm. On January 19, 2007, Crested received a letter, dated January 10, 2007, from Epstein, Weber & Conover, PLC (“EWC”), stating that EWC is combining with Moss Adams LLP, that EWC therefore had resigned as Crested’s registered independent public accounting firm, and that the client-auditor relationship between Crested and EWC had ceased. EWC advised Crested that all partners of EWC had become partners of Moss Adams.

EWC’s audit reports, dated April 2, 2007, March 3, 2006 and April 11, 2005, on Crested’s financial statements for years ended December 31, 2006, December 31, 2005 and 2004 all contained a going concern qualification. In this respect, the qualification in the reports on Crested’s statements referenced Crested’s working capital deficits at December 31, 2006, December 31, 2005, and at December 31, 2004, as well as Crested’s history of substantial operating losses. The qualification in the reports stated that these factors raised substantial doubt about the ability of Crested to continue as a going concern.

In connection with the audits of Crested’s financial statements for the fiscal years ended December 31, 2006, 2005 and 2004, and in the subsequent interim periods through June 30, 2007, (1) there were no disagreements with EWC on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedure that, if not resolved to the satisfaction of EWC, would have caused EWC to make reference to the matter in its report and (2) there were no “reportable events” as that term is defined in Item 304 of the SEC’s Regulation S-K promulgated under the Securities Exchange Act of 1934.

EWC’s notice to Crested, dated January 10, 2007 but received on January 19, 2007, of the cessation of the auditor-client relationship, and EWC’s concurrence with the statements made in the above two paragraphs, are filed as exhibits to the Form S-4 registration statement of which this proxy statement/prospectus forms a part.

Engagement of New Audit Firm. Effective February 2, 2007, Crested engaged Moss Adams LLP to act as its principal independent accountant to audit its financial statements for the year ended December 31, 2006. The board of directors approved the decision to engage Moss Adams LLP.

During the fiscal years ended December 31, 2006, 2005 and 2004, and for the interim period from December 31, 2006 through June 30, 2007, Crested did not consult Moss Adams LLP regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements, or any matter that was the subject of a disagreement with Crested’s former accountants or was otherwise a reportable event.

**Crested's Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the Six Months Ended June 30, 2007
as Compared to the six months ended June 30, 2006**

The following is Management's Discussion and Analysis of significant factors which have affected Crested's liquidity, capital resources and results of operations during the six months ended June 30, 2007 and 2006 and the year ended December 31, 2006. The discussion contains forward-looking statements that involve risks and uncertainties.

Forward Looking Statements

This Report on Form 10-Q 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.

Overview of Business

Crested Corp. ("Crested" or the "Company") has 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 its parent company, U.S. Energy Corp. ("USE"). 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 three and six months ended June 30, 2007.

Recent Developments

Sale of Uranium Assets

On April 30, 2007, the Company and USE sold all of their uranium assets, with the exception of a 4% Net Profits Royalty on the Green Mountain uranium property in Wyoming, to sxr Uranium One Inc. ("Uranium One"). Uranium One is listed on the Toronto Stock Exchange and Johannesburg Stock Exchange under the symbol "SXR". At closing, the Company and USE received (a) \$1,585,100 in reimbursable costs relating to work performed on the uranium properties, (b) \$5,020,900 as a result of Uranium One purchasing the Uranium Power Corp. ("UPC") position in the properties and (c) 6,607,605 shares of Uranium One common stock valued at the date of closing at \$99,400,600. The Company and USE also received the cash and collateral bonds posted for asset retirement obligations relating to the uranium properties. Through July 31, 2007, the Company and USE had received \$7,326,100 in returned cash bonds and also the release of its corporate headquarters which had also been pledged for certain asset retirement obligations.

**Crested's Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the Six Months Ended June 30, 2007
as Compared to the six months ended June 30, 2006**

(continued)

As of June 30, 2007, the Company and USE sold 4,900,000 of the Uranium One shares for which they received \$60,714,300 during the quarter ended June 30, 2007 and \$6,159,400 during July 2007. The Company and USE sold the remaining 1,707,606 shares of Uranium One during July 2007 and received an additional \$23,529,300. The Company and USE also received \$321,000 as a result of a benefit from the foreign currency exchange rate. The total received by the Company and USE through July 2007 from the sale of Uranium One common stock was \$90,724,000. The Company and USE had a cash flow arrangement on the uranium properties which were sold. All positive and negative cash flows, pursuant to the agreement, were shared 50-50 by the Company and USE. The Company therefore received one half of all cash proceeds from the sale to Uranium One.

In summary, the Company received a total of \$48,665,100 from the sale of the Company's uranium assets to Uranium One through July 2007 (\$792,600 in reimbursable costs, \$2,510,500 from the buy out of the UPC position and \$45,362,000 from the sale of Uranium One stock). This, plus the release of the reclamation bonds of \$3,663,100, positions the Company in its strongest cash and liquidity position in its forty year history.

Pursuant to the terms of the Uranium One contract, the Company and USE (one half to each) will also receive \$20,000,000 when commercial production begins at the uranium mill the Company sold to Uranium One, \$7,500,000 when the first delivery of ore, after commercial production commences, from any of the uranium properties the Company sold to Uranium One, and a production royalty of up to \$12,500,000. The Company and USE also retained a 4% Net Profits Royalty on the Green Mountain uranium property in central Wyoming; this property is owned and operated by Rio Tinto, Inc.

Lucky Jack Molybdenum Property – Kobex Resources Ltd.

On April 3, 2007, the Company, USE and Kobex Resources Ltd. ("Kobex") (a British Columbia company traded on the TSX Venture Exchange under the symbol "Kobex") signed a formal Exploration, Development and Mine Operating Agreement for the permitting and development of the Mt. Emmons, "Lucky Jack", molybdenum property.

Pursuant to the April 3, 2007 agreement, Kobex is required to expend \$16,000,000 on the property through December 2010. On July 6, 2007, Kobex announced its budget for its first year of operations through April of 2008 would be \$14,200,000. Kobex will not own an interest in the Lucky Jack property until it has expended \$15,000,000 at which time it will own 15%. After spending an additional \$35,000,000, the ownership interest for Kobex will be 50%. Kobex also may acquire an additional 15% at the Company and USE's option after it obtains a 50% interest. As of June 30, 2007 Kobex had expended \$1,429,100 since it began participating in the costs of the project.

Historical records filed with the Bureau of Land Management ("BLM") in the 1990's for the application of patented mineral claims, identify mineral resources of some 220 million tons of 0.366% molybdc disulfide (MoS₂) mineralization. A high grade section of the mineralization containing some 22.5 million tons at a grade of 0.701% MoS₂ was also reported. No assurance can be given that these quantities of MoS₂ exist. The average market price for MoS₂ at June 30, 2007 was \$32.75 per pound. Although no future cost of production can be made nor the market price predicted at time of production, at current market prices it is believed that the property could be very profitable for the Company.

**Crested's Management's Discussion and Analysis
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(continued)

Merger Agreement

The boards of directors of the Company and USE have approved a recommendation of the Special Committees of both boards, consisting of outside directors, to merge Crested into USE. The exchange ratio is 2 shares of the Company's common stock for 1 share of USE. It is anticipated that the merger will be concluded, if approved by the Crested shareholders, during the fourth quarter of 2007. (See Note 10 above)

Mineral Prices

Uranium - The price of uranium concentrates has increased from a five year low of \$9.75 per pound in September 2002 to \$120.00 per pound on July 30, 2007 (Ux Weekly).

Gold - The five year low for gold was \$302.10 per ounce in April 2002. The price for gold on July 30, 2007 was \$664.10 per ounce (Metal Prices.com).

Molybdenum - The five year low for molybdcic oxide was \$2.68 per pound in April 2002. The average price for molybdcic oxide was \$31.75 per pound on July 27, 2007. (Metal Prices.com).

Results of Operations

Three and Six Months Ended June 30, 2007 compared with the Three and Six Months Ended June 30, 2006

During the six and three months ended June 30, 2007 the Company recorded net income of \$31,482,700 and \$31,721,200 respectively or \$1.83 and \$1.85 per share basic for those periods. This compares to net losses of \$2,223,900 and \$2,147,200 respectively for the three and six months ended June 30, 2006. The major change in earnings was as a result of the gain on the sale of the uranium assets to srx Uranium One ("Uranium One"). Please see note 13 above. The Company sold 2,450,000 shares of the Uranium shares it received from the uranium asset sale upon which it recorded a loss of \$3,418,600 during the three and six months ended June 30, 2007.

The Company recorded \$400,000 in revenues from the sale of assets as a result of the signing of the Exploration, Development and Mine Operating Agreement with Kobex. Kobex had previously made a refundable deposit of \$25,000 that was released as a result of the formal agreement. Additionally, Kobex made its first contractual payment of \$375,000 to the Company by delivering 142,816 shares of its common stock during the three months ended June 30, 2007.

The other major change to other revenues and expenses during the six and three months ended June 30, 2007 from those recorded during comparative periods of the prior year are losses on the exchange of and valuation of shares of Enterra Energy Trust ("Enterra") that the Company received for the sale of a subsidiary coal bed methane company. The Company recorded a total loss from these items of \$1,577,800 during the six months ended June 30, 2006. The shares of Enterra were sold subsequent to June 30, 2006.

**Crested's Management's Discussion and Analysis
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(continued)

The Company had no revenues during the three and six months ended June 30, 2007 and 2006. General and Administrative expenses increased by \$119,100 to \$268,500 during the six months ended June 30, 2007 compared to the same period of 2006. The increase is the result of increased professional services relating to the merger with USE during 2007. A similar increase of \$112,400 was recorded during the quarter ended June 30, 2007 over that recorded during June 30, 2006.

During the six months ended June 30, 2007 the Company recognized an equity loss of \$3,727,500 compared to an equity loss of \$344,300 for the six months ended June 30, 2006. The major component for the increase of \$3,383,200 in equity losses during the six months ended June 30, 2007 was employment related payments made by USE in the form of bonuses to employees, officers and directors for the work they accomplished in closing the sale of uranium assets to Uranium One. Please see note 14 above.

Liquidity and Capital Resources

The liquidity position of the Company is the best it has ever been during its forty year history. At June 30, 2007, the Company had \$24,615,600 in cash on hand and Government Treasury Bills as well as \$11,205,000 in marketable securities. Current assets at June 30, 2007 were \$39,637,400 as compared to current liabilities of \$13,654,900. The Company therefore had working capital at June 30, 2007 of \$25,982,500 and a current ratio of 2.9 to 1.

Current liabilities at June 30, 2007 consisted of income taxes payable of \$10,404,100 and debt to USE of \$3,250,800. The debt to USE was paid in July 2007. The Company has sufficient capital to fund its portion of the operations it and USE participate in jointly and should not need to borrow any additional funds from USE during the balance of 2007.

Cash and cash equivalents increased by \$1,285,300 as a result of the sale of the uranium assets to Uranium One. An additional amount of cash which was generated from the sale to Uranium One, \$20,000,000 along with the interest earned thereon, was invested in Government Treasury Bills. The Company held \$20,093,700 invested in Government Treasury Bills at June 30, 2007 and considers them very liquid. Pursuant to FAS 95 these investments are considered Marketable Securities as they have maturity dates, from date of purchase, in excess of 90 days. The Company can sell these Government Treasury Bills at any time cash is required without penalty.

Cash provided by investing activities came primarily as a result of the sale of marketable securities of \$30,522,300 (shares of Uranium One and UPC). This increase in cash from investing activities was offset by the funding of USECC in the amount of \$2,430,200 and the purchase of Government Treasury Bills during the six months ended June 30, 2007.

Financing activities consumed \$6,882,100 as a result of a payment during the six months ended June 30, 2007 the Company made on its debt to USE.

**Crested's Management's Discussion and Analysis
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as Compared to the six months ended June 30, 2006**
(continued)

Capital Resources

Kobex Resources Ltd. Agreement

On April 3, 2007, the Company and USE signed a formal Exploration, Development and Mine Operating Agreement providing Kobex an option to acquire up to a 65% interest in the Lucky Jack molybdenum property. Prior to Kobex expending \$15 million it will not own an interest in the Lucky Jack property. At such time as Kobex spends \$15 million it will own a 15% interest and after it expends a total of \$50 million it will own a 50% interest in the Lucky Jack property. In the event that Kobex is able to deliver a bankable feasibility study on the Lucky Jack property prior to spending the \$50 million it can pay the remainder of the \$50 million directly to the Company and USE to obtain its 50% interest. As a result of the Kobex agreement, it is not anticipated that any of the Company's cash reserves will be consumed in permitting, development and maintenance of the property during the balance of 2007 and into the near term.

The principal financial benefit to be realized in 2007 and thereafter by the Company (if Kobex meets its contractual obligations) is that Kobex will fund substantially all costs and expenses which otherwise may have to be funded by the Company and USE (including paying for the water treatment plant, obtain necessary permits, and have a bankable feasibility study prepared in advance of mining the property). In addition to the payment of operating, permitting and construction costs, the contract also calls for option payments in the aggregate amount of \$3,950,000 payable to the Company and USE over five years payable in either cash or common shares of Kobex. These option payments began in 2007 and continue through December 2011. The first payment of \$750,000 in Kobex common stock was made on May 23, 2007.

Cash on Hand

As discussed above, the Company has monetized certain of its assets which have provided significant amounts of cash that will continue to be used to fund general and administrative expenses, and possible exploration and development of new mineral properties as well as real estate developments. The Company has invested its cash surplus in interest bearing accounts and U.S. Government Treasury Bills which will provide working capital to fund the Company's projects.

Other

Due to the current levels of the market prices for gold and molybdenum, management of the Company believes that sufficient capital will be available to develop its mineral properties from strategic industry partners, debt financing, cash on hand, and the sale of equity or a combination of the four.

Capital Requirements

The Company believes that the current market prices for gold and molybdenum are at levels that warrant further exploration and development of the Company's mineral properties. Management of the Company anticipates these metals prices will remain at levels which will allow the properties to be produced economically. The successful development and production of these properties could greatly enhance the liquidity and financial position of the Company. It is not possible to predict the future price of minerals and the ultimate economic liability of our projects.

**Crested's Management's Discussion and Analysis
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(continued)

The direct capital requirements of the Company during the third and fourth quarter of 2007 are its general and administrative costs, its one half of a \$1,000,000 letter of credit to Sutter, the development of the real estate properties and the purchase of various assets and potential acquisitions.

Lucky Jack Molybdenum Property

As a result of the Exploration, Development and Mine Operating agreement entered into on April 3, 2007 with Kobex, it is not anticipated that the Company will have to expend its capital resources on the Lucky Jack project during the balance of 2007. Budgeted cash outlays by the Company and USE to fund operations at Lucky Jack are reimbursed by Kobex. At June 30, 2007, Kobex owed USECC \$631,200. Kobex has paid all the amounts due to the Company and USE within 30 days of being invoiced and is current on its obligations to the Company and USE. There have been no billing or operation disputes between Kobex and the Company and USE.

Sutter Gold Mining Inc. Properties

The Company and USE have agreed to provide Sutter with a \$1,000,000 credit facility at 12% interest for a term of two years. The credit facility will be able to be drawn down over time in \$50,000 increments and is repayable at the option of the Company and USE either in cash or common stock of Sutter. The grant of the line of credit was subject to the approval of the TSX for the issuance of 7,621,868 shares of Sutter's common stock to repay the Company and USE for an existing \$2,025,700 in debt as of December 31, 2006. Approval of the issuance of the shares was received on May 4, 2007 at which time the credit facility became available to Sutter. As of June 30, 2007, management of the Company does not anticipate extending any further credit to Sutter other than its one half of this \$1,000,000 line of credit. To fund its additional development and capital infrastructure commitments, Sutter will have to locate an industry partner, sell a portion or all of its position in the gold properties or seek equity or commercial financing.

Real Estate

On January 8, 2007, the Company and USE, through their wholly owned limited liability company, Remington Village, LLC ("Remington"), signed a Contract to Buy and Sell Real Estate to purchase approximately 10.15 acres of land located in Gillette, Wyoming for \$1,268,800. The Company and USE closed on the property on May 10, 2007. The Company also signed a Development Agreement with P.E.G. Development, LLC to assist in the evaluation of the property and to obtain the entitlements, engineering and architecture necessary to construct multifamily housing on the property. The cost to obtain entitlements, engineering and architecture is estimated to be approximately \$698,000. Total land purchase and construction costs is estimated to be \$26.1 million. At June 30, 2007, the board of directors of the Company had authorized the expenditure of up to \$3,889,000 for the purchase of the land, payment of the entitlements and the commencement of site work. All of the assets relating to Remington are owned by USECC which is not consolidated into the Company financials but carried as an investment in an affiliate. The Company is responsible for one half of all expenditures on the Remington development.

**Crested's Management's Discussion and Analysis
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(continued)

The Company and USE are currently evaluating opportunities to finance a portion of the development of the multifamily housing project which include commercial construction loans and industry partners. As of the filing of this report, no final determination on the actual construction financing terms had been made. In the event that the Company and USE develop the multifamily property currently under evaluation, and finances the construction through commercial banking, it is anticipated that the Company and USE will be required to put up \$7,600,000 in equity and may be required to put up to an additional \$4,725,000 as a deposit with the commercial bank. The deposit of \$4,725,000 would be held as collateral but would earn interest at the same rate as the Company and USE receive on their Treasury Bills. It is expected that construction financing in the amount of \$18,500,000 will be obtained in the third quarter of 2007 and that the project will be completed within 18 months of inception.

Reclamation Costs

At the close of the sale of the uranium properties to Uranium One, all asset retirement obligations relating to those assets were transferred to Uranium One. With the relief of those obligations, the Company only has obligations relating to the Lucky Jack properties.

The asset retirement obligation for the Lucky Jack molybdenum property at June 30, 2007 is \$53,000. It is not anticipated that this reclamation work will occur in the near term.

Other

The employees of the Company and USE are not given raises on a regular basis. In consideration of this and in appreciation of their work, the board of directors from time to time has accepted the recommendation of the Compensation Committee to grant a bonus to employees and directors when major transactions are closed.

The Company and USE purchased a used airplane in August 2007 to replace its current corporate airplane. The cost of the airplane, with refurbishments, was approximately \$5.3 million. The corporate airplane that the Company and USE used previously is for sale and is anticipated to sell for between \$1.2 and \$1.5 million. The Company is responsible for one half of the purchase price of the recently acquired airplane and will receive one half of the proceeds from the sale of the old airplane. The airplanes are not reflected on the balance sheet of the Company as they are recorded on the non-consolidated financial statements of USECC and shown as the Company's investment in an affiliate.

The Company and USE are evaluating several mineral projects in which it may invest. Additionally, the Company and USE are researching several other opportunities to deploy its capital outside of the minerals business. At June 30, 2007 none of these acquisition targets had advanced past the research stage.

**Crested's Management's Discussion and Analysis - Results of Operations
for the Year Ended December 31, 2006, 2005 and 2004**

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 years ended December 31, 2006, 2005 and 2004. The discussion contains forward-looking statements that involve risks and uncertainties.

General Overview

Crested Corp. ("Crested" or the "Company") has 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. Going forward, the Company intends to expand commercial real estate operations. Initially the Company will target multifamily housing in communities located in the Rocky Mountain area that are being impacted by the energy development.

The Company manages its operations through a joint venture, USECC Joint Venture ("USECC"), with its parent company, U.S. Energy Corp. ("USE"). 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, 2006. Additional subsidiaries have been organized by the Company and USE which include U.S. Moly Corp. ("USMC") for molybdenum and InterWest, Inc. ("InterWest") for real estate. The Company and USE each own 45% of the common stock of these entities with the employees, officers and directors of the Company and USE owning the remaining 10%.

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 during 2006.

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 \$72 per pound in December 2006. During the first quarter of 2007 this increase continued (\$91 at March 12, 2007).

Gold - The five year low for gold was in 2001 when it hit \$256 per ounce. The market price for gold has risen in subsequent years with the average annual price for gold at \$603 in 2006, \$445 in 2005, \$410 in 2004, \$363 in 2003 and \$310 in 2004.

Molybdenum - Annual Metal Week Dealer Oxide mean prices averaged \$25.55 per pound in 2006 compared with \$32.94 per pound in 2005, \$16.41 per pound in 2004, \$5.32 in 2003 and \$3.77 in 2002. Continued strong demand has outpaced supply over the past several years (deficit market conditions) and has reduced inventory levels throughout the industry. At March 9, 2007, the price was \$28.25 per pound.

**Crested's Management's Discussion and Analysis - Results of Operations
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(continued)

The rebound in the Company's commodity prices present opportunities. 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 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. Kobex Resources Ltd. ("KBX") is expected to pay the Lucky Jack molybdenum property permitting expenses and water treatment plant operating costs, and if the SXR Uranium One ("Uranium One") contract is closed, additional cash will be available to acquire new mineral properties and pursue other business opportunities.

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. There are uncertainties associated with this strategy. Please see the risk factor disclosure in this report.

Proposed merger with USE

On December 20, 2006, the Company's Special Committee of the independent board members met with the Special Committee of the independent board members of USE. Following extensive discussions between the two committees, the USE Special Committee proposed a merger of the Company into USE, by means of an offer to acquire the minority shares of the Company, based on an exchange ratio of one share of common stock of USE for every two shares of the Company's common stock not held by USE (which owns 70.9% of the Company's common stock). Navigant Capital Advisors, LLC served as financial advisor to the USE Special Committee, and Neidiger Tucker Bruner Inc. served as financial advisor to the Company's Special Committee. Both Navigant Capital Advisors, LLC and Neidiger Tucker Bruner submitted fairness opinions on the final proposal for the merger.

The offer also provided that:

- (i) USE would vote in line with the vote of a majority of the holders of the Company's minority share holders;
- (ii) USE may decline to consummate the merger, even after approval by the holders of a majority of the minority the Company's shares, if the holders of more than 200,000 the Company's shares perfect their rights to dissent from the merger under Colorado law or for other reasons, in USE's sole discretion; and
- (iii) Shares of common stock issuable under options issued by the Company which are held by USE officers, directors, and employees are to participate in the offer on the same exchange ratio basis as the minority shareholders of the Company (the number of option shares would be determined by the extent to which the Company's market price exceeds the \$1.71 option exercise price).

The Special Committee for the Company accepted the offer. Thereafter, the Special Committees recommended to their respective full boards that the merger offer be approved. On December 20, 2006, the full boards of directors of the Company and USE voted to approve the merger offer.

**Crested's Management's Discussion and Analysis - Results of Operations
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(continued)

Consummation of the merger is subject to execution of definitive documents; USE delivering to the Company's minority shareholders a proxy statement/prospectus (following declaration of effectiveness by the SEC of a Form S-4 to be filed by USE with the SEC) for a special meeting of the Company's shareholders; approval of the merger by the holders of a majority of the minority the Company's shares; and satisfaction of customary representations and warranties to be contained in the definitive documents.

Forward Looking Statements

This Report on Form 10-K for the years ended December 31, 2006, 2005 and 2004 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

Marketable Securities - The Company accounts for its marketable securities (1) as trading, (2) available-for-sale or (3) held-to-maturity. Based on the Company's intent to sell the securities, its equity securities are reported as a trading security. 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. 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.

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

Asset Retirement Obligations - The Company records the fair value of the reclamation liability on its shut down mining properties as of the date that the liability is incurred. The Company reviews the liability each quarter and determines if a change in estimate is required as well as accretes the total liability on a quarterly basis for the future liability. Final determinations are made during the fourth quarter of each year. The Company deducts any actual funds expended for reclamation during the quarter in which it occurs.

Liabilities Held for Sale - Long lived liabilities that will be sold within one year of the financial statements are classified as current. At December 31, 2006 the Company believed that its uranium assets in Wyoming, Utah, Colorado and Arizona would be sold within a twelve month period. All asset retirement obligations as well as any other liability associated with these properties was classified as current Liabilities Held for Sale at December 31, 2006. In the event that these assets and liabilities are not sold, they will be re-evaluated to insure that no impairment has taken place and re-classified as long term assets and liabilities.

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.

**Crested's Management's Discussion and Analysis - Results of Operations
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(continued)

Income Taxes - The Company recognizes 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 basis of assets, liabilities and carry forwards. The Company recognizes 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. We recognized an income tax benefit of \$7,533,800 by reducing the valuation allowance on the deferred income tax assets based upon our assessment that we will generate taxable income as a result of the transaction with sxr Uranium One Inc. for the sale of uranium assets.

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

FIN 48 In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in its financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings, goodwill, deferred income taxes and income taxes payable in the Balance Sheets. The Company does not expect that the adoption of FIN 48 will have a significant impact on the financial statements of the Company.

FAS 157 In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions for FAS 157 are effective for the Company's fiscal year beginning January 1, 2008. The Company is currently evaluating the impact that the adoption of this statement will have on the Company's financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance on consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have an impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for us on January 1, 2008. We are currently evaluating the impact of adopting SFAS 159 on our financial position, cash flows, and

results of operations.

**Crested's Management's Discussion and Analysis - Results of Operations
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(continued)

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

On June 8, 2006, the Company converted 245,759 Enterra Acquisitions Class D Shares ("Acquisitions") into Enterra Energy Trust units ("Enterra"). The Enterra units were sold during the third quarter of 2006. The Company received \$2,991,000 in net cash proceeds from the liquidation of this investment position. The Company also sold its minority interest in Pinnacle Gas Resources, Inc. ("Pinnacle") for \$4,830,000.

Although the Company received these cash proceeds during the year ended December 31, 2006 it continued to have a working capital deficit of \$3,730,800 and an accumulated deficit of \$11,497,400. The principal component of the working capital deficit is a debt payable to USE in the amount of \$13,277,200. The debt to USE increased \$2,455,400 during the year ended December 31, 2006 as a result of USE paying the Company's portion of working capital and investment capital needs in various entities in which they jointly participate.

During the year ended December 31, 2006, the Company consumed \$15,600 in operations and \$3,313,900 in financing activities while investing activities generated \$6,471,000. The Company recorded a net loss before a benefit from income taxes of \$3,782,900 during the year ended December 31, 2006. The major component of the loss was a negotiated settlement payment to Phelps Dodge Corporation ("PD") in the amount of \$3.5 million. The settlement was as a result of an order from the Federal District Court of Colorado in favor of PD wherein the Company and USE were ordered to pay PD \$7,538,300 plus interest at 5.5% per annum. Rather than appeal the award, the parties agreed on a settlement \$7.0 million, of which the Company was obligated to pay one half. The Company had sufficient working capital to pay the settlement amount.

The Company believes 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 will remain 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, and the sale of equity or a combination of the three. The successful development and production of these properties could greatly enhance the liquidity and financial position of the Company.

Capital Resources

Contract to Sell Uranium Assets to Uranium One and the UPC Agreement

On February 22, 2007, the Company and USE signed an asset purchase agreement with sxr Uranium One Inc. ("Uranium One") and certain of its private subsidiary companies. If this agreement is closed, Uranium One will buy all the uranium assets and take over the Company and USE's rights in the UPC purchase and mining venture. These proceeds will substantially enhance liquidity, and with respect to UPC, the receipt of approximately \$5 million from Uranium One for UPC's future obligations under its purchase agreement with the Company and USE will eliminate the uncertainty associated with UPC making those payments under the UPC purchase agreement (UPC would be paying Uranium One following the closing of the asset purchase agreement). The value of the proceeds is indeterminable as they are based on stock prices that will fluctuate until closing.

Crested's Management's Discussion and