

US ENERGY CORP  
Form 424B4  
February 16, 2007

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**U.S. Energy Corp.  
1,296,519 Shares of Common Stock**

This prospectus covers the offer and sale of up to 1,296,519 shares of common stock (\$0.01 par value): 619,166 outstanding shares; and 677,353 shares issuable on exercise of warrants (at prices from \$2.87 to \$7.15 per share).

In this prospectus, "selling shareholder" or "selling shareholders" refer to the entities that hold the outstanding shares; and the entities which hold the warrants. For information about the selling shareholders and the transactions in which they acquired the shares and warrants, see "Selling Shareholders."

In this prospectus, and the information incorporated by reference, "we," "Company," and "USE" refer to U.S. Energy Corp. (and its subsidiaries unless otherwise specifically stated).

The selling shareholders may sell the shares from time to time in negotiated transactions, brokers' transactions or a combination of such methods of sale at market prices prevailing at the time of sale or at negotiated prices. See "Plan of Distribution." Although we will receive proceeds to the extent the warrants are exercised, we will not receive any proceeds from sale of the shares offered by the selling shareholders. None of the warrants have been exercised at prospectus date.

USE is traded ("USEG") on the Nasdaq Capital Market (\$4.71 Nasdaq Official Closing Price on January 17, 2007).

**An investment in the shares offered by this prospectus is speculative and subject to risk of loss. See "Risk Factors" beginning on page 9 and the table of contents on page 4.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is February 15, 2007**

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## Summary Information

The following summarizes all material information found elsewhere in this prospectus and in the information incorporated into this prospectus. This summary is qualified by the more detailed information in this prospectus and the incorporated information.

### The Company

U.S. Energy Corp. ("USE") is a Wyoming corporation (formed in 1966) in the business of acquiring, exploring, developing and/or selling or leasing mineral and other properties. USE and Crested Corp. ("Crested") 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 September 2006). In 1980, USE and its majority owned subsidiary Crested Corp. ("Crested") formed a joint venture ("USECC") to do business together (unless one or the other elected not to pursue an individual project). 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 September 30, 2006, Crested owed \$14,335,400 to USE.

Historically, our 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 companies we set up to other companies in the mineral sector at a profit.

Typically, projects initially are acquired, financed and operated by USE and Crested in their joint venture (see below). 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: Sutter Gold Mining, Inc. ("SGMI") for gold and Rocky Mountain Gas, Inc. ("RMG") for coalbed methane gas, referred to as "CBM". Additional subsidiaries have been organized: U.S. Uranium Ltd. for uranium and U.S. Moly Corp. for molybdenum. Initial ownership of these subsidiaries typically is by USE and Crested, with additional stock (plus options) held by their officers, directors and employees.

From 2002 through mid-2005, USE's primary business focus was in the CBM business conducted through RMG. RMG was sold to Enterra Energy Trust (TSX: ENT.UN and NYSE: ENT) on June 1, 2005. Beginning in 2004 and continuing into 2006, commodity prices for the gold, molybdenum and uranium increased significantly. Management believes that the rebound in these commodity prices presents valuable opportunities.

Management's strategy to generate a return on shareholder capital is to demonstrate prospective value in the mineral properties sufficient to support substantial investments by investment groups, financial institutions and/or large industry partners, and then bring long term development expertise to move the properties into production. In the alternative, we might sell one or more of the properties (or our subsidiaries which hold the properties) outright, as we did RMG in 2005.

In July 2006, we signed an exclusivity agreement with sxr Uranium One Inc. ("Uranium One") giving Uranium One the right to purchase most of our uranium assets. In October 2006, we signed a letter agreement with Kobex Resources Ltd., related to the "Lucky Jack" molybdenum property (formerly know as the Mt. Emmons molybdenum property). For details on these agreements, please see "Incorporation of Certain Information by Reference," below.



To demonstrate prospective value in the mineral properties and raise the necessary capital for development of the mineral projects in 2006 to 2007, management is considering having feasibility studies conducted on each of the properties. These studies, to be performed by independent engineering firms, will in general determine the economic feasibility, at commodity prices existing at the time of the studies, of various mine plans for the properties, and various processing (milling) facilities to refine the minerals to saleable commodities, given the known mineral grades in the properties. 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 our 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 and molybdenic oxide must be at levels so the properties can be mined at a profit;
- Whether the feasibility studies will show volume and grades of mineralization, and manageable costs of mining and processing, which are sufficient to bring industry partners to the point of investment, and
- Whether we can negotiate terms with industry partners, which will return a substantial profit to USE for its retained interest and the project's development costs to that point in time, or, the property (or the applicable subsidiary) can be sold outright. Although we have agreements in place for the molybdenum property and for most of the uranium properties, substantial funding of these projects by the other parties will be subject to completion of due diligence and other matters. See "Incorporation of Certain Information by Reference."

However, it is possible that we may be able to raise capital for (or bring an industry partner into) a property without having a feasibility study prepared.

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

Principal executive offices of USE and Crested are located in the Glen L. Larsen building at 877 North 8th West, Riverton, Wyoming 82501, telephone 307-856-9271. SGMI has an office in Sutter Creek, California. USE's web site is [www.usnrg.com](http://www.usnrg.com). The information in the web site, or on other web sites linked to it, is not part of this prospectus.

In this prospectus, "we," "Company" or "USE" refer to U.S. Energy Corp. including Crested Corp. ("Crested") and other subsidiaries unless otherwise specifically noted. The Company's fiscal year ends December 31.

### The Offering

Securities Outstanding	19,747,912 shares of common stock at January 16, 2007.
Securities To Be Outstanding	20,425,265 shares of common stock, assuming all warrants held by the selling shareholders are exercised for the purchase of 677,353 shares. See "Description of Securities" and "Selling Shareholders."
Securities Offered	1,296,519 shares of common stock owned or to be owned by the selling shareholders.
Use of Proceeds	We will not receive any proceeds from sale of shares by the selling shareholders, but we will receive up to \$2,584,300 (net of estimated registration costs) from exercise of all the selling shareholders' warrants. Net proceeds will be used for working capital.
Plan of Distribution	The offering is made by the selling shareholders named in this prospectus; to the extent they sell shares. Sales may be made in the open market or in private negotiated transactions, at fixed or negotiated prices. See "Plan of Distribution."
Risk Factors	An investment is subject to risk. See "Risk Factors."

### Risk Factors

An investment in our common stock is speculative in nature and involves a high degree of risk. You should carefully consider the following risks and the other information in this prospectus (including the information incorporated by reference) before investing.

#### Risk Factors Involving the Company

**We have a history of operating losses.** At September 30, 2006, the Company had \$50,433,800 of accumulated deficit (\$40,154,100 at December 31, 2005). For the nine months ended September 30, 2006, we recorded a loss of \$12,386,800 from continuing operations and a net loss of \$10,279,700. For the year ended December 31, 2005, we recorded a loss from continuing operations of \$6,066,900, but (due primarily to the sale of RMG in June 2005) recorded net income for the year of \$8,841,500.

Working capital at September 30, 2006 was \$16,620,100. Historically, working capital needs primarily have been met from receipt of funds from liquidating investments, selling partial interests in mineral properties and selling equity. These sources of capital may not be sufficient to develop our mineral properties, none of which have proved reserves.

In late July, 2006, the U.S. District Court in Denver, Colorado awarded a judgment in favor of Phelps-Dodge Corporation, and against USE, in the amount of \$7,538,300 for fees and costs associated with litigation and the prior operation of a water treatment plant at the Mt. Emmons mining property in Colorado. This litigation has been settled (see "Incorporation of Certain Information by Reference").



**No recurring business revenues and uncertainties associated with transaction-based revenues.** Presently we do 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 2000 by starting up Rocky Mountain Gas, Inc. which used, rather than provided, capital until it was sold to Enterra Energy Trust in June 2005.

Working capital on hand at prospectus date 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, through 2007. Additional working capital, as well as development capital for the Luck Jack molybdenum property, could be available through Kobex Resources Ltd. (“Kobex”). Proceeds also could be available if we sell uranium assets to Uranium One. However, funding from these parties is not assured. See “Incorporation of Certain Information by Reference.”

Putting mineral properties into production (constructing and operating mines and processing facilities) requires substantial amounts of capital. The development of the properties will depend on receipt of the fundings contemplated by the arrangements with Kobex and Uranium One, and further on Sutter Gold’s ability to raise other capital.

With particular reference to our Luck Jack molybdenum property, a retained interest under the arrangement with Kobex still will not generate recurring revenues for several years, if at all.

**Uncertainties in the value of the mineral properties.** While we believe that our mineral properties are valuable, substantial work and capital will be needed to establish whether they are valuable in fact.

- The profitable mining and processing of uranium and possibly vanadium at and in the vicinity of Plateau Resource Limited’s (“Plateau”) properties in Utah, will depend on many factors: Obtaining properties in close proximity of the Shootaring Canyon uranium mill to keep transportation costs economic; delineation through extensive drilling and sampling of sufficient volumes of mineralized material with sufficient grades to make mining and processing economic over time; continued sustained high prices for uranium oxide and vanadium; obtaining the capital required to upgrade the Shootaring Canyon uranium mill, and/or possibly add a vanadium circuit, and obtaining and continued compliance with operating permits.
- The profitable mining at the Sheep Mountain uranium properties in Wyoming will depend on: Evaluations of existing and future drilling data to delineate sufficient volumes and grades of mineralized material to make mining and processing economic over time; continued sustained high prices for uranium oxide and Uranium Power Corp. (“UPC”) and USE having sufficient capital. In addition, there is no operating mill near the Sheep Mountain properties, although the Sweetwater Mill (which is on standby) is located 30 miles south of Sheep Mountain. The ultimate economics of mining the Sheep Mountain properties will depend on sufficient volumes and grades of mineralized materials, sustained high uranium oxide prices, access to an operating mill and obtaining and continued compliance with operating permits. If we sell these and other uranium properties to Uranium One, we would not be funding exploration and mining of the properties but the ultimate proceeds from our equity stake in Uranium One could still be somewhat dependent on the viability of the properties as part of Uranium One’s minerals portfolio.
- The profitable mining and processing of gold by SGMI will 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 molybdenum property has had extensive work conducted by 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, and like any mining operation, capital requirements for a molybdenum mining operation will be substantial. There is a history of opposition by local government entities and environmental organizations to the prior owners seeking permits to mine this property. This opposition has been expressed in litigation from time to time. Continued legal challenges may delay putting the Lucky Jack molybdenum property into production.
- We have not yet obtained final (“bankable”) feasibility studies on any of our mineral properties. These studies would establish the economic viability, or not, of the different properties based on extensive drilling and sampling; the design and costs to build and operate 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 (amounts of minerals in sufficient grades that can be extracted profitably under current pricing assumptions for development and operating costs and commodity prices). 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. We have not established any reserves (economic deposits of mineralized materials) on any of our 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.** Our business is intensely regulated by government agencies. Permits are required to explore for minerals, operate mines, 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, we might decide not to move forward with the project.

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

**Possible dilution to shareholders.** Because we don't have enough capital to put our properties into production, shareholders may be diluted in their ownership if we raise capital. Direct dilution would occur if we sell preferred stock, common stock, or debt convertible into common stock, with conversion and other terms which large institutions can negotiate for substantial capital financings which result in more favorable terms than buying stock in the market. Indirect dilution would occur if institutional financing is raised for a subsidiary company. In this scenario, the percentage of the subsidiary held by us would be diluted.

**The Company's poison pill could discourage some advantageous transactions.** We have adopted a shareholder rights plan, also known as a poison pill (see "Description of Securities"). The plan is designed to discourage a takeover of the Company at an unfair low price. However, it is possible that the board of directors and the takeover acquirer would not agree on a higher price, in which case the takeover might be abandoned, even though the takeover price was at a significant premium to market prices. Therefore, as a result of the mere existence of the plan, shareholders would not receive the premium price.

### **Risks Related to Owning Our Common Stock**

**The price of U.S. Energy's stock will continue to be volatile due to several factors.** In the 12 months ended January 15, 2007, our stock has traded as low as \$3.32 and as high as \$7.20. Some of the factors leading to this volatility include:

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

**The price of U.S. Energy's shares may be adversely affected by the public sale of a significant number of the shares eligible for future sale.** At January 15, 2007, 19,747,912 shares of common stock are issued and outstanding, including 1,565,538 shares held by officers and directors and the Company's ESOP, most of which could be sold under the SEC's rule 144. A substantial number of additional shares are registered for sale under Form S-3 resale registration statements, which have been filed for the benefit of prior investors and financiers; these shares include outstanding shares as well as shares issuable on exercise of options and warrants. Sales of large amounts of common stock in the market could materially adversely affect the market price, as well as our ability to obtain future equity related financing on acceptable terms.

**Future equity transactions, including exercise of options or warrants, could result in dilution; and registration for public resale of the common stock in these transactions may depress stock prices.** From time to time, the Company sells restricted stock and warrants, and convertible debt (or stock in subsidiary companies, convertible to stock in the Company), to investors in private placements conducted by broker-dealers, or in negotiated transactions. Because the stock is restricted, the stock is often sold at a discount to market prices compared to a public stock offering, and the exercise price of the warrants sometimes (and/or the conversion price for stock in subsidiaries) is at or may be lower than market prices. These transactions cause 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. 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. The Company will 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 in the Company), all of which may result in dilution to existing shareholders.



Public resale (pursuant to registration statements) of such restricted stock, and of stock issued in conversion of debt or stock of subsidiary companies, may depress the market price of the stock.

**Possible issuance of shares to acquire minority shares of Crested Corp. may dilute your ownership.** On January 23, 2007, we signed a plan and agreement of merger for the proposed acquisition of Crested Corp. into U.S. Energy Corp., by the issuance of up to an additional 2,811,684 shares of USE common stock to acquire the common stock of Crested Corp. (approximately 29%) not already owned by USE. The 2,811,684 shares would include shares issued to acquire the Crested stock presently underlying options to purchase Crested common stock (which options are held by officers, directors, and employees of USE). The USE stock would be issued based upon an exchange ratio of one USE share for every two Crested shares. Consummation of the proposed transaction is subject to satisfaction of certain conditions, including but not limited to the SEC declaring effective a registration statement on Form S-4 to be filed by USE for the transaction, and approval of the transaction by the holders of a majority of the minority shares of Crested at a special meeting of the Crested shareholders to be convened pursuant to the prospectus/proxy statement that will be included in the Form S-4.

The plan and agreement of merger has been approved by the full boards of directors of both companies, upon the recommendation of special committees of independent directors established by each company. Each company has received from their separate independent financial advisory firms opinions to the effect that the terms of the transaction, if consummated in accordance with the plan and agreement of merger, are fair to the shareholders of USE, and to the minority shareholders of Crested, respectively. For further information, see the Forms 8-K filed December 26, 2006 and January 24, 2007.

If the proposed merger is consummated, the additional shares would dilute the percentage ownership of the current shareholders of USE. Resale to the market of a substantial number of the newly issued shares could adversely impact USE' market price.

Timing of consummation of the proposed merger is not predicted.

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

### **Representations About This Offering**

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





### Forward Looking Statements

We make statements in this prospectus which are considered to be "forward looking" statements. All statements (other than statements of historical fact) about financial and business strategy and the performance objectives of management are forward looking statements. These forward looking statements are based on the beliefs of management, using assumptions and available information. These statements involve risks that are both known and unknown, including unexpected economic and market factors, changes in operating and capital expenditures, changes in timing or conditions for getting regulatory approvals to explore mineral properties and put them into production, and other business factors. The use of the words "anticipate," "believe," "estimate," "expect," "may," "will," "should," "continue," "intend" and similar words or phrases, are intended by us to identify forward looking statements (also known as "cautionary statements" because you should be cautious in evaluating such statements in the context of all the information in this prospectus and the information incorporated by reference into this prospectus). These statements reflect our current views with respect to future events. They are subject to the realization in fact of assumptions, but what we now think will happen, may turn out much different, and our assumptions may prove to have been inaccurate or incomplete.

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

In addition, you should note that this prospectus incorporates information about the Company which has been, and in the future will be, contained in reports filed with the SEC. See "Incorporation of Certain Information by Reference." Those reports will identify forward looking statements and specify the risks to which those forward looking statements are subject. You should read the reports carefully.

### Description of Securities

**Common Stock.** We are authorized by our articles of incorporation to issue an unlimited number of shares of common stock, \$0.01 par value, and 100,000 shares of preferred stock, \$0.01 par value.

Shares of common stock may be issued for such consideration and on such terms as determined by the board of directors, without shareholder approval. Holders are entitled to receive dividends when and as declared by the board of directors out of funds legally available therefore. There are no restrictions on payment of cash dividends. Cash dividends have not been declared on the common stock, although a 1 for 10 stock dividend was declared in November 1990. It is anticipated that future earnings would be reinvested into operations and not declared as dividends on the common stock. All holders of shares of common stock have equal voting rights, and the shares of common stock sold in this offering will have the same rights. Holders of shares of common stock are entitled to one vote per share on all matters upon which such holders are entitled to vote, and further have the right to cumulate their votes in elections of directors. Cumulation means multiplying the number of shares held, by the number of nominees to the board of directors, then voting the product among the nominees as desired. Directors are elected by a plurality of the votes cast.

Shares of common stock sold in this offering are fully-paid and nonassessable shares of U.S. Energy Corp.

Pursuant to our articles of incorporation and as permitted by Wyoming law, shares of common stock held by our subsidiaries may be voted by such subsidiaries as determined by the board of directors of each, in elections of directors and other matters brought before shareholders.



In September 2001, the Company adopted a shareholder rights plan ("poison pill") and filed the plan with the Securities and Exchange Commission as an exhibit to Form 8-A. The following three paragraphs briefly state principal features of the plan, which are qualified by reference to the complete plan, which is incorporated by reference into this prospectus.

Under the plan, the holder of each share of common stock has the right to purchase (when the rights become exercisable) from the Company one-one thousandth (1/1,000th) of one (1) share of Series P preferred stock at a price of \$200.00 for each one-one thousandth (1/1,000th) share of such preferred stock. The purpose of the plan is to deter an unfairly low priced hostile takeover of the Company, by encouraging a hostile party to negotiate a fair offer with the board of directors and thus eliminate the poison pill.

The rights trade with the common stock and aren't separable therefrom; no separate certificate for the rights is issued unless and until there is a hostile takeover attempted, after which time separate and tradable rights certificates would be issued.

The rights are not exercisable and never can be unless and until a hostile (not negotiated with the board) takeover of the Company is initiated with the objective of acquiring 15% of the Company's voting stock. If before the takeover is launched the hostile party comes to agreement with the board of directors about price and terms and makes a "qualified offer" to buy the stock of the Company, then the board of directors may redeem (buy back) the rights for \$0.01 each. But, if such a "qualified offer" isn't agreed upon, then the rights are exercisable for preferred stock, which in turn would enable the holder to convert the preferred stock into voting common stock of the Company at a price equal to one-half the market price.

**Preferred Stock.** Shares of preferred stock may be issued by the board of directors with such dividend, liquidation, voting and conversion features as may be determined by the board of directors without shareholder approval. In June 2000, we established a Series A Convertible Preferred Stock, for which 1,000 shares of preferred stock were reserved for sale at \$10,000 per share. In 2001, 200 shares were issued, and converted to shares of common stock in 2002. No shares of preferred stock are outstanding as of the date of this prospectus.

#### **Warrants Held by Selling Shareholders and Others; and Options Held by Employees and Directors.**

**Warrants Held by Selling Shareholders and Others.** As of the date of this prospectus, warrants held by the selling shareholders, and by other persons or entities (not including employees and officers) are issued and outstanding to purchase a total of 1,820,838 shares of common stock at exercise prices from \$2.00 to \$7.15 per share.

**Options held by Employees and Officers.** The Company has granted options to employees and officers to purchase a total of 3,927,880 shares at exercise prices from \$2.00 to \$4.09 per share.

#### **Use of Proceeds**

We will not receive any of the proceeds from the sale of the shares by the selling shareholders pursuant to this prospectus, but we will receive up to \$2,584,300 (net of estimated registration costs) from exercise of all the selling shareholders' warrants. Proceeds will be used for working capital.

### Selling Shareholders

This prospectus covers the offer and sale by the selling shareholders of up to 1,296,519 shares of common stock: 619,166 outstanding shares; and 677,353 shares issuable on exercise of warrants (at prices from \$2.87 to \$7.15 per share).

Of the outstanding shares, 1,013 were issued on exercise of a warrant held by Bourne Capital, LLC, and 506,329 shares were transferred from Crested Corp. to Rocky Mountain Gas, Inc. (“RMG”) to pay a \$2 million obligation to Enterra Energy Trust (RMG was sold to Enterra in June 2005, and now is a subsidiary of Enterra). For information related to payment of the \$2 million obligation, see the Form 8-K filed on October 19, 2006 under “Incorporation of Certain Information by Reference.”

41,894 shares were issued to Bourne Capital under anti-dilution provisions of warrants previously exercised, and a 2002 subscription agreement. All of these shares were issued at the same time the warrant coverage and exercise prices on certain of the warrants held by Bourne were adjusted (see below).

An additional 68,531 shares were issued in April 2006 to Cornell Capital Partners, LP and 1,399 shares were issued to Newbridge Securities Corporation, in connection with a Standby Equity Distribution Agreement (the “SEDA”) between the Company and Cornell. We also issued to Cornell a warrant (expiring June 5, 2009) to purchase 100,000 shares of common stock at \$7.15 per share. The SEDA and related agreements were terminated as of October 31, 2006 (see “Incorporation of certain Information by Reference”). Although the registration rights agreement with Cornell and Newbridge was terminated along with the SEDA and other agreements, we are registering resale of the shares and warrant shares for the convenience of these entities.

Of the remaining warrants,

- 1,921 are held by mezzanine lenders D.B Zwirn and Drawbridge, who provided secured debt to a subsidiary of the Company to purchase coalbed methane properties in 2005 (the subsidiary was sold in 2005); these warrants (exercisable at \$3.20 per share, expiring March 31, 2008) were issued in 2006 as a result of the anti-dilution provisions in the original warrants issued to the lenders;
- 150,000 and 75,000 (exercisable at \$3.25 per share, expiring August 25, 2009) were issued in August 2006 to Bourne Capital, LLC and Tsunami