CHINA YUCHAI INTERNATIONAL LTD
Form SC 13D/A
June 04, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

UNDER THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.6)

SCHEDULE 13D/A

CHINA YUCHAI INTERNATIONAL
(Name of Issuer)

Common Stock
(Title of Class of Securities)

G21082105
(CUSIP Number)

Shah Capital Management
8601 Six Forks Road, Suite 630
Raleigh, NC 27615
Tel. No.: (919) 719-6360
(Name, Address and Telephone Number of Person Authorized to
Receive Notices and Communications)

June 3, 2013
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule
13G to report the acquisition that is the subject of this Schedule
13D, and is filing this schedule because of 240.13d 1(e), 240.13d 1(f)
or 240.13d 1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original
and five copies of the schedule, including all exhibits. See Rule 13d 7
for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting
person's initial filing on this form with respect to the subject class
of securities, and for any subsequent amendment containing information
which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be
deemed to be filed for the purpose of section 18 of the Securities Exchange
Act of 1934 (Act) or otherwise subject to the liabilities of that section
of the Act but shall be subject to all other provisions of the Act
(however, see the Notes).

(1) Names of reporting persons:

Shah Capital Management

(2) Check the appropriate box if a member of a group:
(a)
(b)

(3) SEC use only

(4) Source of funds (see instructions)

OO

(5) Check if disclosure of legal proceedings is required pursuant
to Items 2(d) or 2(e) of Schedule 13D

N/A

(6) Citizenship or place of organization

NORTH CAROLINA

Number of shares beneficially owned by each reporting person with:

(7) Sole voting power

0

(8) Shared voting power

2,221,071

(9) Sole dispositive power

0

(10) Shared dispositive power

2,221,071

(11) Aggregate amount beneficially owned by each reporting person

2,221,071

(12) Check if the aggregate amount in Row (11) excludes certain shares
(see instructions)

N/A

(13) Percent of class represented by amount in Row (11)

5.96%

(14) Type of reporting person (see instructions)

IA

(1) Names of reporting persons:

Shah Capital Opportunity Fund LP

(2) Check the appropriate box if a member of a group:
(a)
(b)

(3) SEC use only

(4) Source of funds (see instructions)

OO

(5) Check if disclosure of legal proceedings is required pursuant

to Items 2(d) or 2(e) of Schedule 13D

N/A

(6) Citizenship or place of organization

DELAWARE

Number of shares beneficially owned by each reporting person with:

(7) Sole voting power

0

(8) Shared voting power

1,710,000

(9) Sole dispositive power

0

(10) Shared dispositive power

1,710,000

(11) Aggregate amount beneficially owned by each reporting person

1,710,000

(12) Check if the aggregate amount in Row (11) excludes certain shares
(see instructions)

N/A

(13) Percent of class represented by amount in Row (11)

4.59%

(14) Type of reporting person (see instructions)

PN

(1) Names of reporting persons:

Himanshu H. Shah

(2) Check the appropriate box if a member of a group:
(a)
(b)

(3) SEC use only

(4) Source of funds (see instructions)

PF

(5) Check if disclosure of legal proceedings is required pursuant
to Items 2(d) or 2(e) of Schedule 13D

N/A

(6) Citizenship or place of organization

UNITED STATES

Number of shares beneficially owned by each reporting person with:

(7) Sole voting power

101,421

(8) Shared voting power

2,322,492

(9) Sole dispositive power

101,421

(10) Shared dispositive power

2,322,492

(11) Aggregate amount beneficially owned by each reporting person

2,322,492

(12) Check if the aggregate amount in Row (11) excludes certain shares
(see instructions)

N/A

(13) Percent of class represented by amount in Row (11)

6.23%

(14) Type of reporting person (see instructions)

IN

SCHEDULE 13D

Item 1. Security and Issuer

Common Stock of CHINA YUCHAI INTERNATIONAL.

CHINA YUCHAI INTERNATIONAL
16 RAFFLES QUAY #26-00
HONG LEONG BLDG
SINGAPORE 048581

Item 2. Identity and Background

(a). Name: SHAH CAPITAL MANAGEMENT.

(b). Business Address: 8601 Six Forks Road, Suite 630, Raleigh, NC 27615

(c). Principal business: Asset management

(d). During the last five years, the reporting person has not been convicted
in a criminal proceeding.

(e). During the last five years, the reporting person has not been a party to

a civil proceeding of a judicial or administrative body of competent jurisdiction.

(f). N/A

Item 3. Source and Amount of Funds or Other Consideration

In making the purchases of the shares of Common Stock, the reporting person uses the assets under management.

Item 4. Purpose of the Transaction

The reporting person intends to review its investment in the Issuer on a continuing basis and in connection therewith, had engaged in discussions with the Board of Directors, members of management, and/or other shareholders which discussions included proposing or considering one or more of the actions described in subsections (a) through (j) of Item 4 of Schedule 13D. See reporting person's 13D Amendment No. 2 and Amendment No. 3.

The Reporting Person has contacted the issuer recently to suggest the following strategic points. In communication with the largest shareholder Hong Leong Asia for a meeting, the Reporting Person has suggested the following actions:

- Increase China Yuchai International stake in Guangxi Yuchai Machinery Company Limited (GYMCL) from 76.4% to 100%

- To hire an investment bank to list CYI on the Hong Kong Stock Exchange

- Sell HL Global Enterprises Limited and Thakral Corporation Ltd. stake completely in the very near future and use the proceeds to buy extremely undervalued China Yuchai Internationl stock from the open market

The Reporting Person urges the Board of China Yuchai International to act promptly in the best interest of all shareholders.

On May 13, 2013, one of the shareholders sent a letter to the largest shareholder Hong Leong Asia supporting the Reporting Person and the above listed actions suggested by the Reporting Person

The Reporting person and this shareholder independently acquired their positions and have recently been discussing their investment and the issuer with each other and possible actions they may take separately or together to enhance shareholder value.

Item 5. Interest in Securities of the Issuer

(a) Aggregate number of shares owned:
(b) Percentage of class of securities owned:
(c) Number of Shares to which reporting person has:
(i) Sole Voting Power
(ii) Shared Voting Power
(iii) Sole Dispositive Power
(iv) Shared Dispositive Power

SCM	Shah Capital Opportunity Fund LP	Himanshu

(a)	2,221,071	1,710,000	101,421
(b)	5.96%	4.59%	6.23%
(i)	N/A	N/A	101,421
(ii)	2,221,071	1,710,000	2,322,492
(iii)	N/A	N/A	101,421
(iv)	2,221,071	1,710,000	2,322,492

(c) N/A

(d) to (e). Not Applicable

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Not Applicable

Item 7. Material to be Filed as Exhibits

Not Applicable

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: June 3, 2013

Signature: Himanshu H. Shah/Sd.

Name/Title: Himanshu H. Shah, President and CIO

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Net cash (used in) provided by financing activities	(2,433)	21,558	(23,991)

Operating Activities. Cash provided by operations for the year ended December 31, 2012 increased to $13.1 million as compared to cash provided by operations of $2.6 million for the prior year. This $10.5 million year over year increase in cash from operating activities is predominantly a result of a $1.6 million improvement in oil, gas and NGL production revenues and $1.1 million lower lease operating expenses. The remainder of the change in cash provided by operations is part of the complete discussion of cash provided by operations in “Results of Operations” above.

Investing Activities. Investing activities provided cash during 2012 through $21.5 million in proceeds from the sale of oil and gas properties, $101,000 from the sale of shares of Sutter Gold Mining and $76,000 from the sale of property and equipment.

Investing activities consumed cash through the acquisition and development of oil and gas properties in the amount of $42.3 million during 2012. Other uses of cash for investing activities in the period were an $116,000 change in restricted investments and $102,000 for the purchase of equipment.

The $3.1 million increase in cash used in investing activities during the year ended December 31, 2012 as compared to the prior year is primarily a result of: (a) $21.5 million in sales of oil and gas properties during 2012 with $13.6 million in oil and gas property sales during 2011, (b) $17.8 million in redemption of treasury investments in 2011 and no redemption of treasury investments in 2012, (c) $8.0 million less investment in oil and gas properties in 2012 as compared to 2011 and (d) $101,000 in proceeds from the sale of marketable securities in 2012 as compared to $846,000 in proceeds from the sale of marketable securities in 2011.

Financing Activities. Financing activities consumed $2.4 million during the year ended December 31, 2012. Components of the cash flow from financing activities during the year ended December 31, 2012 include $12.5 million in repayments of debt, new borrowings of $10.0 million under the Credit Facility and $51,000 of proceeds through the issuance of common stock. During the year ended

December 31, 2011 financing activities provided $21.6 million. Components of cash flow from financing activities during the year ended December 31, 2011 include the provision of $33.1 million from new debt, and outflows of $11.4 million for debt payments and $146,000 net from the exercise of employee options and non-employee director options.

Critical Accounting Policies

Oil and Gas Properties. We follow the full cost method in accounting for our oil and gas properties. Under the full cost method, all costs associated with the acquisition, exploration and development of oil and gas properties are capitalized and accumulated in a country-wide cost center. This includes any internal costs that are directly related to development and exploration activities, but does not include any costs related to production, general corporate overhead or similar activities. Proceeds received from property disposals are credited against accumulated cost except when the sale represents a significant disposal of reserves, in which case a gain or loss is recognized. The sum of net capitalized costs and estimated future development and dismantlement costs for each cost center is depleted on the equivalent unit-of-production method, based on proved oil and gas reserves. Excluded from amounts subject to depletion are costs associated with unproved properties.

Under the full cost method, net capitalized costs are limited to the lower of unamortized cost reduced by the related net deferred tax liability and asset retirement obligations or the cost center ceiling. The cost center ceiling is defined as the sum of (i) estimated future net revenue, discounted at 10% per annum, from proved reserves, based on unescalated average prices per barrel of oil and per MMbtu of natural gas at the first of each month in the 12-month period prior to the end of the reporting period and costs, adjusted for contract provisions, financial derivatives that hedge the Company's oil and gas revenue and asset retirement obligations, (ii) the cost of properties not being amortized, (iii) the lower of cost or market value of unproved properties included in the cost being amortized less (iv) income tax effects related to tax assets directly attributable to natural gas and crude oil properties. If the net book value reduced by the related net deferred income tax liability and asset retirement obligations exceeds the cost center ceiling limitation, a non-cash impairment charge is required in the period in which the impairment occurs.

Full cost pool capitalized costs are amortized over the life of production of proven properties. Capitalized costs at December 31, 2012 and December 31, 2011 which were not included in the amortized cost pool were $9.2 million and $20.0 million, respectively. These costs consist of wells in progress, seismic costs that are being analyzed for potential drilling locations as well as land costs and are related to unproved properties. No capitalized costs related to unproved properties are included in the amortization base at December 31, 2012 and December 31, 2011. It is anticipated that these costs will be added to the full cost amortization pool in the next two years as properties are proved, drilled or abandoned.

Given the volatility of oil and gas prices, it is probable that our estimate of discounted future net cash flows from proved oil and gas reserves will change. If oil or natural gas prices decline substantially, even for only a short period of time, or if we have downward revisions to our estimated proved reserves, it is possible that write-downs of oil and gas properties could occur in the future.

Ceiling Test. We perform a quarterly ceiling test for each of our oil and gas cost centers, of which in 2012 and 2011 there was only one. The ceiling test incorporates assumptions regarding pricing and discount rates over which management has no influence in the determination of present value. In arriving at the ceiling test for the year ended December 31, 2012, the Company used $94.71 per barrel for oil and $2.757 per MMbtu for natural gas to compute the future cash flows of the Company's producing property. The discount factor used was 10%.

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At December 31, 2012, our net capitalized costs exceeded the ceiling test limit and as a result, we recorded proved property impairments totaling $5.2 million, related to our oil and gas assets, primarily due to a decline in natural gas prices, higher projected capitalized well costs and higher projected lease operating expenses. As of year-end there were no unproved properties that were considered to be impaired and reclassified to properties being amortized. Management will continue to review our unproved properties based on market conditions and other changes and if appropriate unproved property amounts may be reclassified to the amortized base of properties within the full cost pool.

Derivative Instruments. We use derivative instruments, typically fixed-rate swaps and costless collars, to manage price risk underlying our oil and gas production. We may also use puts, calls and basis swaps in the future. All derivative instruments are recorded in the consolidated balance sheets at fair value. We offset fair value amounts recognized for derivative instruments executed with the same counterparty. Although we do not designate any of our derivative instruments as cash flow hedges, such derivative instruments provide an economic hedge of our exposure to commodity price risk associated with forecasted future oil and gas production. These contracts are accounted for using the mark-to-market accounting method and accordingly, we recognize all unrealized and realized gains and losses related to these contracts currently in earnings and they are classified as gain (loss) on derivative instruments, net in our consolidated statements of operations.

Our Board of Directors sets all risk management policies and reviews the status and results of derivative activities, including volumes, types of instruments and counterparties. The master contracts with approved counterparties identify the CEO and President as Company representatives authorized to execute trades. See Note D, Commodity Price Risk Management, for further discussion.

Proved Reserves. Our estimates of proved reserves are based on quantities of oil and gas reserves which current engineering data indicates are recoverable from known reservoirs under existing economic and operating conditions. Estimates of proved reserves are key elements in determining our depletion expense and our full cost ceiling limitation. Estimates of proved reserves are inherently imprecise because of uncertainties in projecting rates of production and timing of developmental expenditures, interpretations of geological, geophysical, engineering and production data and the quality and quantity of available data. Changing economic conditions also may affect our estimates of proved reserves due to changes in developmental costs and changes in commodity prices that may impact reservoir economics. We utilize independent reserve engineers to estimate our proved reserves annually.

On December 29, 2008, the SEC issued a revision to Staff Accounting Bulletin 113 (“SAB 113”) which established guidelines related to modernizing accounting and disclosure requirements for oil and natural gas companies. The revised disclosure requirements include provisions that permit the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes. The revised rules also allow companies the option to disclose probable and possible reserves in addition to the existing requirement to disclose proved reserves. The revised disclosure requirements also require companies to report the independence and qualifications of third party preparers of reserves and file reports when a third party is relied upon to prepare reserves estimates. A significant change to the rules involves the pricing at which reserves are measured. The revised rules utilize a 12-month average price using first of the month pricing during the 12-month period prior to the ending date of the balance sheet to report oil and natural gas reserves rather than year-end prices. In addition, the 12-month average is used to measure ceiling test impairments and to compute depreciation, depletion and amortization. The revised rules became effective for reserve estimation at December 31, 2009 with first reporting for calendar year companies in their 2009 annual reports.

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Mineral Properties. We capitalize all costs incidental to the acquisition of mineral properties. Mineral exploration costs are expensed as incurred. When exploration work indicates that a mineral property can be economically developed as a result of establishing proved and probable reserves, costs for the development of the mineral property as well as capital purchases and capital construction are capitalized and amortized using units of production over the estimated recoverable proved and probable reserves. Costs and expenses related to general corporate overhead are expensed as incurred. All capitalized costs are charged to operations if we subsequently determine that the property is not economical due to permanent decreases in market prices of commodities, excessive production costs or depletion of the mineral resource.

Mineral properties at December 31, 2012 and December 31, 2011 reflect capitalized costs associated with the Mt. Emmons Project. We review our investment in the Mt. Emmons Project annually to determine if an impairment has occurred to the carrying value of the property. We have determined that no impairment is needed to the book value of the property at December 31, 2012.

Assets Held for Sale. Assets are classified as held for sale when the Company commits to a plan to sell the assets and there is reasonable certainty that the sale will take place within one year. Upon classification as held for sale, long-lived assets are no longer depreciated or depleted, and a measurement for impairment is performed to determine if there is any excess of carrying value over fair value less costs to sell. Subsequent changes to estimated fair value less the cost to sell will impact the measurement of assets held for sale if the fair value is determined to be less than the carrying value of the assets.

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP 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. Significant estimates include oil and gas reserves used for depletion and impairment considerations and the cost of future asset retirement obligations. Due to inherent uncertainties, including the future prices of oil and gas, these estimates could change in the near term and such changes could be material.

Asset Retirement Obligations. We account for asset retirement obligations under ASC 410-20. We record the fair value of the reclamation liability on inactive mining properties as of the date that the liability is incurred. We review the liability each quarter and determine if a change in estimate is required as well as accrete the liability on a quarterly basis for the future liability. Final determinations are made during the fourth quarter of each year. We deduct any actual funds expended for reclamation during the quarter in which it occurs.

Revenue Recognition. We record oil and natural gas revenue under the sales method of accounting. Under the sales method, we recognize revenues based on the amount of oil or natural gas sold to purchasers, which may differ from the amounts to which we are entitled based on our interest in the properties. Gas balancing obligations as of December 31, 2012 were not significant. Revenues from real estate operations are reported on a gross revenue basis and are recorded at the time the service is provided.

Stock Based Compensation. We measure the cost of employee services received in exchange for all equity awards granted, including stock options, based on the fair market value of the award as of the grant date.

We recognize the cost of the equity awards over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. As share-based compensation

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expense is recognized based on awards ultimately expected to vest, the expense has been reduced for estimated forfeitures based on historical forfeiture rates.

Income Taxes. We recognize deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets, liabilities and carry forwards.

We recognize 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. Management believes it is more likely than not that such tax benefits will be realized and a valuation allowance has not been provided.

Future Operations

We intend to acquire new oil and gas properties and pursue new business opportunities. Long term, we intend to be prepared to pay the holding and development costs associated with the Mt. Emmons Project.

Effects of Changes in Prices

Natural resource operations are significantly affected by changes in commodity prices. As prices for a particular mineral increase, values for that mineral typically also increase, making acquisitions of such properties more costly and sales potentially more valuable. Conversely, a price decline could enhance acquisitions of properties containing those natural resources, but could make sales of such properties more difficult. Operational impacts of changes in mineral commodity prices are common in the natural resource business. Historical and current prices for the Company’s two main natural resource participation interests follow:

Oil and Gas. The ten year Cushing, OK WTI spot price for oil reached a high of $145.31 per barrel during July 2008 and a ten year low of $18.02 per barrel during April 2003. As of December 31, 2012 the Cushing, OK WTI spot price for oil was $91.83 per barrel.

The ten year Henry Hub Gulf Coast Natural Gas Spot Price reached a high of $18.48 per MMbtu in February 2003 and the ten year low was $1.82 per MMbtu in April 2012. The price per MMbtu at December 31, 2012 was $3.43.

Higher oil and gas prices should positively impact our revenues going forward while lower oil and gas prices will have a negative impact not only on revenues, cash flows and profitability but also may impact ultimate reserve calculations for our wells. There is no assurance that our projected 2013 investments in oil and gas properties will be profitable.

Molybdenum. The ten year high for dealer molybdenum oxide was $38.00 per pound in June 2005 and the ten year low was $8.03 per pound in April 2009. The mean price of molybdenum oxide at December 31, 2012 and December 31, 2011 was $11.79 per pound and $13.61 per pound, respectively. The price of molybdenum will have a direct impact on the development of Mt. Emmons Project.

Contractual Obligations

We had three principal categories of contractual obligations at December 31, 2012: Debt to third parties of $19.8 million, executive retirement obligations of $896,000 and asset retirement obligations of

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$686,000. The debt consists of debt to a commercial bank secured by Remington Village, debt related to our oil and gas reserves and debt for the purchase of land near the Mt. Emmons Project. The debt to the commercial bank bears an interest rate of 5.5% per annum. The oil and gas debt bears a weighted average interest rate of 2.92% per annum and the land debt bears an interest rate of 6.0% per annum. The debt to the commercial bank is amortized over 20 years with a balloon payment due at the end of five years on May 5, 2016. The balloon payment at maturity is $8.8 million. The oil and gas debt at December 31, 2012 of $10.0 million was drawn in three separate tranches, each with a term of six months. Principal and accrued interest is due at the end of each respective tranche's six month term. However this debt can be continued, at our election, if we remain in compliance with the covenants under the Credit Facility through July 30, 2014). The $200,000 land debt, plus accrued interest is due on January 2, 2014. The executive retirement liability will be paid out over varying periods starting after the actual projected retirement dates of the covered executives. The asset retirement obligations are expected to be retired during the next 34 years.

The following table shows the scheduled debt payment, projected executive retirement benefits and asset retirement obligations as of December 31, 2012. This table reflects the debt obligation on Remington Village pursuant to the terms of the note. However, because the related property is reflected as a current asset held for sale, the note is also classified in the financial statements as a current liability held for sale.

	(In thousands) Payments due by period				
	Total	Less than one Year	One to Three Years	Three to Five Years	More than Five Years
Debt obligations	$ 19,821	$ 508	$ 19,313	$ --	$ --
Executive retirement	896	125	371	28	372
Asset retirement obligation	686	46	23	14	603
Totals	$ 21,403	$ 679	$ 19,707	$ 42	$ 975

Item 7A – Quantitative and Qualitative Disclosures About Market Risk

Commodity Risk. Our major market risk exposure is the commodity pricing applicable to our oil and natural gas production. Realized commodity prices received for such production are primarily driven by the prevailing worldwide price for oil and spot prices applicable to natural gas. The market prices for oil and natural gas have been highly volatile and are likely to continue to be highly volatile in the future, which could impact our prospective revenues. A 10% fluctuation in the price received for oil and natural gas production would have had an approximate $3.3 million impact on our 2012 annual revenues.

To mitigate some of our commodity risk, we use derivative instruments, typically fixed-rate swaps and costless collars, to manage price risk. We may also use puts, calls and basis swaps in the future. We do not hold or issue derivative instruments for trading purposes. The objective of utilizing the economic hedges is to reduce the effect of price changes on a portion of our future oil production, achieve more predictable cash flows in an environment of volatile oil and gas prices and to manage our exposure to commodity price risk. The use of these derivative instruments limits the downside risk of adverse price

movements. However, such use may limit our ability to benefit from favorable price movements. We may, from time to time, add incremental derivatives to hedge additional production, restructure existing derivative contracts or enter into new transactions to modify the terms of current contracts in order to realize the current value of the existing positions.

Through Energy One, we have entered into commodity derivative contracts ("economic hedges") with Wells Fargo and BNP Paribas, as described below. The derivative contracts are priced using West Texas Intermediate ("WTI") quoted prices. The Company is a guarantor of Energy One's obligations under the economic hedges.

Energy One's commodity derivative contracts as of December 31, 2012 are summarized below:

Settlement Period	Counterparty	Basis	Quantity (Bbl/d)	Strike Price		
Crude Oil Costless Collar						
10/01/12 - 03/31/13	Wells Fargo	WTI	200	Put:	$	85.00
				Call:	$	101.00
Crude Oil Costless Collar						
01/01/13 - 06/30/13	Wells Fargo	WTI	200	Put:	$	90.00
				Call:	$	105.75
Crude Oil Costless Collar						
10/01/12 - 09/30/13	BNP Paribas	WTI	200	Put:	$	95.00
				Call:	$	116.60
Crude Oil Costless Collar						
04/01/13 - 06/30/13	Wells Fargo	WTI	200	Put:	$	90.00
				Call:	$	97.50
Crude Oil Costless Collar						
07/01/13 - 09/30/13	Wells Fargo	WTI	400	Put:	$	90.00
				Call:	$	97.50
Crude Oil Costless Collar						
10/01/13 - 12/31/13	Wells Fargo	WTI	600	Put:	$	90.00
				Call:	$	97.50

These contracts are accounted for using the mark-to-market accounting method and accordingly we recognize all unrealized and realized gains and losses related to these contracts currently in earnings and they are classified as gain (loss) on derivative instruments, net in our consolidated statements of operations. The net gain realized by us related to these instruments was $21,000 for the year ended December 31, 2012. We recognized realized net losses of $2.0 million and $156,000 for the years ended December 31, 2011 and 2010, respectively.

Interest Rate Risk. At December 31, 2012, we had long-term debt of $10.2 million, of which $200,000 was at a fixed rate of 6.0% and $10.0 million was at a variable rate pursuant to our Credit Facility. The interest rate that we pay on amounts borrowed under the Credit Facility is derived from the Eurodollar rate and a margin that is applied to the

Eurodollar rate. The margin that we pay is based upon the percentage of our available borrowing base that we utilize at the beginning of the quarter. At December 31, 2012, the borrowing base for the Credit Facility was $30.0 million. At December 31, 2012 we had utilized $10.0 million, or 33%, of the borrowing base. At this level of utilization, the Credit

Facility requires us to pay a margin of 2.50%. Our all-in interest rate under the facility at December 31, 2012 was 3.01%. A 10% increase in the Eurodollar rate would equal approximately five basis points. Such an increase in the Eurodollar rate would change our annual interest expense by approximately $15,000, assuming amounts borrowed under our Credit Facility equaled our total potential borrowing base of $30.0 million as of December 31, 2012.

Item 8 – Financial Statements

Financial statements meeting the requirements of Regulation S-X are included below.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of U.S. Energy Corp. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Energy Corp. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), U.S. Energy Corp.'s and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 15, 2013 expressed an unqualified opinion on the effectiveness of U.S. Energy Corp.'s internal control over financial reporting.

HEIN & ASSOCIATES LLP

Denver, Colorado
March 15, 2013

U.S. ENERGY CORP.
CONSOLIDATED BALANCE SHEETS
ASSETS
(In thousands, except shares)

	December 31, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	$2,825	$12,874
Marketable securities		
Available for sale securities	183	166
Accounts receivable		
Trade	5,182	5,496
Income taxes	--	113
Commodity risk management asset	472	3
Assets held for sale	17,051	22,600
Other current assets	302	352
Total current assets	26,015	41,604
Investment	2,264	2,623
Properties and equipment		
Oil & gas properties under full cost method, net of $43,454 and $28,561 accumulated depletion, depreciation and amortization	85,634	90,942
Undeveloped mining claims	20,739	20,739
Property, plant and equipment, net	4,435	4,728
Net properties and equipment	110,808	116,409
Other assets	1,740	1,803
Total assets	$140,827	$162,439

The accompanying notes are an integral part of these statements.

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U.S. ENERGY CORP.
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands, except shares)

	December 31, 2012	December 31, 2011
Current liabilities:		
Accounts payable	$2,692	$9,370
Accrued compensation	295	501
Commodity risk management liability	--	601
Current portion of debt	200	200
Liabilities held for sale	10,022	10,241
Other current liabilities	44	24
Total current liabilities	13,253	20,937
Long-term debt, net of current portion	10,000	12,200
Deferred tax liability	--	1,189
Asset retirement obligations	686	510
Other accrued liabilities	771	822
Commitment and contingencies (Note N)		
Shareholders' equity		
Common stock, $.01 par value; unlimited shares		
authorized; 27,652,602 and 27,409,908		
shares issued, respectively	277	274
Additional paid-in capital	123,078	122,523
Accumulated (deficit) surplus	(7,339)	3,906
Unrealized gain on marketable securities	101	78
Total shareholders' equity	116,117	126,781
Total liabilities and shareholders' equity	$140,827	$162,439

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share data)

	For the year ended December 31,		
	2012	2011	2010
Oil, gas, and NGL production revenues:	$32,534	$30,958	$26,548
Operating expenses:			
Oil and gas	10,788	11,552	6,073
Oil and gas depreciation, depletion and amortization	14,893	13,997	10,610
Impairment of oil and gas properties	5,189	--	--
Water treatment plant	1,978	1,878	1,793
Mineral holding costs	921	486	85
General and administrative	6,810	8,261	8,973
Impairment of corporate aircraft	2,299	--	--
	42,878	36,174	27,534
Loss from operations	(10,344)	(5,216)	(986)
Other income and expenses:			
Realized gain (loss) on risk management activities	21	(1,974)	(156)
Unrealized gain (loss) on risk management activities	1,070	1,126	(1,725)
(Loss) gain on the sale of assets	(12)	137	115
Equity loss in unconsolidated investment	(359)	(211)	1,014
Gain on sale of marketable securities	82	529	438
Miscellaneous income and (expenses)	241	(38)	(60)
Interest income	9	40	112
Interest expense	(203)	(326)	(70)
	849	(717)	(332)
Loss before income taxes and discontinued operations	(9,495)	(5,933)	(1,318)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share data)

	For the year ended December 31,		
	2012	2011	2010
Income taxes:			
Current (provision for) benefit from	(104)	--	104
Deferred (provision for) benefit from	148	3,755	1,756
	44	3,755	1,860
(Loss) income from continuing operations	(9,451)	(2,178)	542
Discontinued operations:			
Discontinued operations, net of taxes	97	434	226
Impairment on discontinued operations, net of taxes	(1,891)	(3,063)	(1,540)
	(1,794)	(2,629)	(1,314)
Net (loss)	$(11,245)	$(4,807)	$(772)
Net (loss) income per share basic and diluted			
Loss from continuing operations	$(0.34)	$(0.08)	$0.02
Income (loss) from discontinued operations	(0.07)	(0.10)	(0.05)
Net (loss) income per share	$(0.41)	$(0.18)	$(0.03)
Weighted average shares outstanding			
Basic and Diluted	27,466,549	27,238,869	26,763,995
Diluted	27,466,549	27,238,869	26,763,995

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	For the years ended December 31,		
	2012	2011	2010
Net (loss)	$(11,245)	$(4,807)	$(772)
Other comprehensive income (loss):			
Marketable securities, net of tax	23	(564)	256
Total comprehensive (loss) income	$(11,222)	$(5,371)	$(516)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP
STATEMENT OF SHAREHOLDERS' EQUITY
(In thousands except share data)

	Common Stock		Additional		Unrealized Gain (Loss) on	Total
	Shares	Amount	Paid-In Capital	Retained Earnings	Marketable Securities	Shareholders' Equity
Balance January 1, 2010	26,418,713	264	118,998	9,485	386	129,133
Net loss	--	--	--	(772)	--	(772)
Unrecognized gain on marketable securities	--	--	--	--	400	400
Unrealized tax effect on on the unrealized gain	--	--	--	--	(144)	(144)
Funding of ESOP	42,802	--	260	--	--	260
Issuance of common stock 2001 stock compensation plan	80,000	1	429	--	--	430
Issuance of common stock from stock options	275,728	3	(455)	--	--	(452)
Issuance of common stock from stock warrants	251,367	3	743	--	--	746
Vesting of stock options	--	--	1,021	--	--	1,021
Vesting of stock warrants	--	--	66	--	--	66
Balance December 31, 2010	27,068,610	271	121,062	8,713	642	130,688

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP
STATEMENT OF SHAREHOLDERS' EQUITY
(continued)
(In thousands except share data)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Unrealized Gain (Loss) on Marketable Securities	Total Shareholders' Equity
Balance December 31, 2010	27,068,610	271	121,062	8,713	642	130,688
Net loss	--	--	--	(4,807)	--	(4,807)
Recognized gain on marketable securities	--	--	--	--	(850)	(850)
Unrecognized gain on marketable securities	--	--	--	--	(30)	(30)
Unrealized tax effect on on the unrealized gain	--	--	--	--	316	316
Funding of ESOP	98,958	1	287	--	--	288
Issuance of common stock 2001 stock compensation plan	75,000	1	369	--	--	370
Issuance of common stock from stock options	124,444	1	(209)	--	--	(208)
Issuance of common stock from stock warrants	42,896	--	61	--	--	61
Vesting of stock options	--	--	947	--	--	947
Vesting of stock warrants	--	--	6	--	--	6
Balance December 31, 2011	27,409,908	$274	$122,523	$3,906	$78	$ 126,781

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP
STATEMENT OF SHAREHOLDERS' EQUITY
(continued)
(In thousands except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unrealized Gain (Loss) on Marketable Securities	Total Shareholders' Equity
Balance December 31, 2011	27,409,908	274	122,523	3,906	78	126,781
Net loss	--	--	--	(11,245)	--	(11,245)
Recognized gain on marketable securities	--	--	--	--	(54)	(54)
Unrecognized gain on marketable securities	--	--	--	--	90	90
Unrealized tax effect on on the unrealized gain	--	--	--	--	(13)	(13)
Funding of ESOP	161,624	2	241	--	--	243
Issuance of common stock 2001 stock compensation plan	60,000	1	162	--	--	163
Issuance of common stock from stock options	1,070	--	--	--	--	--
Issuance of common stock from stock warrants	20,000	--	50	--	--	50
Vesting of stock options	--	--	33	--	--	33
Vesting of stock warrants	--	--	69	--	--	69
Balance December 31, 2012	27,652,602	$277	$123,078	$(7,339)	$101	$ 116,117

The accompanying notes are an integral part of these statements.

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U.S. ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	(In thousands) For the years ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net (loss)	$(11,245)	$(4,807)	$(772)
Loss from discontinued operations includes			
non-cash impairment of $2,955, $3,063, and $1,540	1,794	2,629	1,314
(Loss) income from continuing operations	(9,451)	(2,178)	542
Adjustments to reconcile net (loss) income to			
net cash provided by operations			
Depreciation, depletion & amortization	15,457	14,593	11,184
Change in fair value of commodity price			
risk management activities, net	(1,070)	(1,126)	1,725
Accretion of discount on treasury investment	--	--	(78)
Impairment of oil and gas properties	5,189	--	--
Impairment of corporate aircraft	2,299	--	--
Gain on sale of marketable securities	(82)	(529)	(438)
Equity (gain)/loss from Standard Steam	359	211	(1,014)
Net change in deferred income taxes	(60)	(3,990)	(1,533)
Loss (gain) on sale of assets	12	(137)	(115)
Noncash compensation	518	1,604	1,710
Noncash services	69	6	66
Net changes in assets and liabilities			
Accounts receivable	315	(1,493)	(174)
Income tax receivable	113	(9)	249
Other current assets	230	148	(386)
Accounts payable	(476)	(3,368)	(498)
Accrued compensation expense	(336)	(1,194)	6
Other liabilities	53	29	149
Net cash provided by operating activities	13,139	2,567	11,395
Cash flows from investing activities:			
Net redemption of treasury investments	--	17,843	4,293
Cash distributions from Standard Steam	--	--	1,138
Acquisition & development of oil & gas properties	(42,311)	(50,265)	(45,933)
Acquisition & development of mining properties	--	(221)	(123)
Mining property option payment	--	354	1,000
Acquisition of property and equipment	(102)	(42)	(624)
Proceeds from sale of oil and gas properties	21,475	13,574	--
Proceeds from sale of marketable securities	101	846	602
Proceeds from sale of property and equipment	76	147	142
Net change in restricted investments	(116)	(11)	(330)
Net cash used in investing activities:	(20,877)	(17,775)	(39,835)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	(In thousands)		
	For the years ended December 31,		
	2012	2011	2010
Cash flows financing activities:			
Issuance of common stock	51	(146)	294
Proceeds from new debt	10,000	33,069	--
Repayments of debt	(12,484)	(11,365)	(200)
Net cash (used in) provided by financing activities	(2,433)	21,558	94
Net cash provided by operating activities of discontinued operations	122	767	779
Net used in investing activities of discontinued operations	--	(55)	(24)
Net (decrease) increase in cash and cash equivalents	(10,049)	7,062	(27,591)
Cash and cash equivalents at beginning of period	12,874	5,812	33,403
Cash and cash equivalents at end of period	$2,825	$12,874	$5,812
Supplemental disclosures:			
Income tax received	$--	$--	$(353)
Interest paid	$179	$290	$22
Non-cash investing and financing activities:			
Unrealized gain	$101	$78	$642
Acquisition and development of oil and gas properties through accounts payable	$6,202	$2,092	$8,983
Acquisition and development of oil and gas through asset retirement obligations	$142	$186	$75

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010

A. BUSINESS ORGANIZATION AND OPERATIONS

U.S. Energy Corp. ("USE", the "Company", "we" or "us") was incorporated in the State of Wyoming on January 26 1966. U.S. Energy Corp. engages in the acquisition, exploration and development of oil and gas properties and the exploration, holding, sale and/or development of mineral properties. Principal asset interests at December 31, 2012 are in oil and gas, molybdenum, real estate and a minority ownership in a private geothermal company.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include oil and gas reserves used for depletion and impairment considerations and the cost of future asset retirement obligations. Due to inherent uncertainties, including the future prices of oil and gas, these estimates could change in the near term and such changes could be material.

Principles of Consolidation

The financial statements of USE as of December 31, 2012 and 2011 include the accounts of USE and its wholly owned subsidiaries Energy One, LLC ("Energy One") and Remington Village, LLC ("Remington Village"). All inter-company balances and transactions have been eliminated in consolidation. The financial statements as of December 31, 2012, 2011 and 2010 reflect USE's ownership in a geothermal company, Standard Steam Trust LLC ("SST") which is accounted for using the equity method. At December 31, 2012 USE's ownership interest in SST was 19.54%.

Cash and Cash Equivalents

USE considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these instruments. USE maintains its cash and cash equivalents in bank deposit accounts which exceed federally insured limits. USE has not experienced any losses in such accounts and believes the accounts are not exposed to any significant credit risk on cash and cash equivalents.

Marketable Securities

USE categorizes its marketable securities as available-for-sale or held-to-maturity. Increases or decreases in the fair value of available-for-sale securities which are considered temporary are recorded within equity as comprehensive income or losses. Gains or losses as a result of sale are recorded in operations when realized. As of December 31, 2012 and 2011, USE had unrealized gains in the marketable securities before tax effect of $159,000 and $122,000, respectively.

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U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

Accounts Receivable

USE determines any required allowance by considering a number of factors including the length of time trade and other accounts receivable are past due and our previous loss history. USE provides reserves for account receivable balances when they become uncollectable. Payments subsequently received on such reserved receivables are credited to the allowance for doubtful accounts. During the years ended December 31, 2012 and 2011, USE recorded $13,000 and $56,000, respectively, in bad debt expense related to its multifamily housing project. The balance of accounts receivable at December 31, 2012 and 2011 are for the sale of oil and gas and have been collected subsequent to the balance sheet date. No reserve for uncollectable receivables was booked during the year ended December 31, 2012 or 2011.

Restricted Investments

USE accounts for cash deposits held as collateral for reclamation obligations as restricted investments. Maturities or release dates less than twelve months from the end of the reported accounting period are reported as current assets while maturities or release dates in excess of twelve months from report dates are reported as long term assets.

Properties and Equipment

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

Machinery and Equipment:	
Office Equipment	3 to 5 years
Aircraft	15 years
Field Tools and Hand Equipment	5 to 7 years
Vehicles and Trucks	3 to 7 years
Heavy Equipment	7 to 10 years
Buildings and Improvements:	
Service Buildings	20 years

Corporate Headquarter Building	4 years	5

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U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

Components of Property and Equipment as of December 31, 2012 and 2011 are as follows:

	(In thousands) December 31, 2012	December 31, 2011
Oil & Gas properties		
Unproved	$ 9,169	$ 17,098
Wells in progress	-	2,909
Proved	119,919	99,496
	129,088	119,503
Less accumulated depreciation		
depletion and amortization	(43,454)	(28,561)
Net book value	85,634	90,942
Mining properties	20,739	20,739
Building, land and equipment	8,469	8,474
Less accumulated depreciation	(4,034)	(3,746)
Net book value	4,435	4,728
Totals	$ 110,808	$ 116,409

Oil and Gas Properties

The Company follows the full cost method in accounting for its oil and gas properties. Under the full cost method, all costs associated with the acquisition, exploration and development of oil and gas properties are capitalized and accumulated in a country-wide cost center. This includes any internal costs that are directly related to development and exploration activities, but does not include any costs related to production, general corporate overhead or similar activities. Proceeds received from property disposals are credited against accumulated cost except when the sale represents a significant disposal of reserves, in which case a gain or loss is recognized. The sum of net capitalized costs and estimated future development and dismantlement costs for each cost center is depleted on the equivalent unit-of-production method, based on proved oil and gas reserves. Excluded from amounts subject to depletion are costs associated with unproved properties.

Full Cost Pool – Full cost pool capitalized costs are amortized over the life of production of proven properties. Capitalized costs at December 31, 2012 and 2011 which were not included in the amortized cost pool were $9.2 million and $20.0 million, respectively. These costs consist of exploratory wells in progress, seismic costs that are being analyzed for potential drilling locations as well as land costs related to unevaluated properties. No capitalized costs related to unproved properties are included in the amortization base at December 31, 2012 and 2011. It is anticipated that these costs will be added to the full cost amortization pool within the next two years as properties are evaluated, drilled or abandoned.

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U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

Ceiling Test Analysis – Under the full cost method, net capitalized costs are limited to the lower of unamortized cost reduced by the related net deferred tax liability and asset retirement obligations or the cost center ceiling. The cost center ceiling is defined as the sum of (i) estimated future net revenue, discounted at 10% per annum, from proved reserves, based on unescalated average prices per barrel of oil and per MMbtu of natural gas at the first of each month in the 12-month period prior to the end of the reporting period and costs, adjusted for contract provisions, financial derivatives that hedge USE's oil and gas revenue and asset retirement obligations, (ii) the cost of properties not being amortized, and (iii) the lower of cost or market value of unproved properties included in the cost being amortized, less (iv) income tax effects related to differences between the book and tax basis of the natural gas and crude oil properties. If the net book value reduced by the related net deferred income tax liability and asset retirement obligations exceeds the cost center ceiling limitation, a non-cash impairment charge is required in the period in which the impairment occurs.

We perform a quarterly ceiling test for each of our oil and gas cost centers. There was only one such cost center in 2012. The reserves used in the ceiling test and the ceiling test itself incorporate assumptions regarding pricing and discount rates over which management has no influence in the determination of present value. In arriving at the ceiling test for the year ended December 31, 2012, USE used $94.71 per barrel for oil and $2.757 per MMbtu for natural gas (and adjusted for property specific gravity, quality, local markets and distance from markets) to compute the future cash flows of USE's producing properties. The discount factor used was 10%.

During the year ended December 31, 2012, the Company recorded proved property impairments totaling $5.2 million, related to its oil and gas assets, primarily due to a decline in natural gas prices, higher actual and projected capitalized well costs and higher projected lease operating expenses. Management will continue to review the Company's unproved properties based on market conditions and other changes and if appropriate, unproved property amounts may be reclassified to the amortized base of properties within the full cost pool.

Wells in Progress - Wells in progress represent the costs associated with unproved wells that have not reached total depth or been completed as of period end. They are classified as wells in progress and withheld from the depletion calculation and the ceiling test. The costs for these wells are then transferred to evaluated property when the wells reach total depth and are cased and the costs become subject to depletion and the ceiling test calculation in future periods.

Mineral Properties

We capitalize all costs incidental to the acquisition of mineral properties. Mineral exploration costs are expensed as incurred. When exploration work indicates that a mineral property can be economically developed as a result of establishing proved and probable reserves, costs for the development of the mineral property as well as capital purchases and capital construction are capitalized and amortized using units of production over the estimated recoverable proved and probable reserves. Costs and expenses related to general corporate overhead are expensed as incurred. All capitalized costs are charged to operations if we subsequently determine that the property is not economical due to permanent decreases in market prices of commodities, excessive production costs or depletion of the mineral resource.

U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

Mineral properties at December 31, 2012 and 2011 reflect capitalized costs associated with our Mt. Emmons molybdenum property near Crested Butte, Colorado. Our carrying balance in the Mt. Emmons property at December 31, 2012 and 2011 is as follows:

	(In thousands)	
	December 31, 2012	December 31, 2011
Costs associated with Mount Emmons		
beginning of year	$ 20,739	$ 21,077
Development costs	--	16
Option payment from Thompson Creek	--	(354)
Costs at the end of the period	$ 20,739	$ 20,739

Long-Lived Assets

We evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. Impairment calculations are generally based on market appraisals. If estimated future cash flows, on an undiscounted basis, are less than the carrying amount of the related asset, an asset impairment is considered to exist. Changes in significant assumptions underlying future cash flow estimates may have a material effect on our financial position and results of operations.

Assets Held for Sale

In accordance with authoritative accounting guidance regarding property plant and equipment, assets are classified as held for sale when we commit to a plan to sell the assets and there is reasonable certainty that the sale will take place within one year. Upon classification as held for sale, long-lived assets are no longer depreciated or depleted, and a measurement for impairment is performed to determine if there is any excess of carrying value over fair value less costs to sell. Subsequent changes to estimated fair value less the cost to sell will impact the measurement of assets held for sale if the fair value is determined to be less than the carrying value of the assets.

In January 2011, we made the decision to sell our Remington Village multifamily project in Gillette, Wyoming and in September 2012, we made the decision to sell our corporate aircraft and related facilities to reduce overhead costs. We plan to use the proceeds to further the development of our oil and gas business, reduction of debt or for general corporate purposes. Operations related to Remington Village are shown in discontinued operations on the accompanying consolidated statements of operations. For additional discussion on assets held for sale, please refer to Note H – Assets Held for Sale.

	(In thousands)	
	December 31, 2012	December 31, 2011

Assets held for sale				
Remington Village	$	15,167	$	18,132
Corporate aircraft and facilities		1,884		4,468
	$	17,051	$	22,600

U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

Derivative Instruments

The Company uses derivative instruments, typically fixed-rate swaps and costless collars, to manage price risk underlying its oil and gas production. All derivative instruments are recorded in the consolidated balance sheets at fair value. The Company offsets fair value amounts recognized for derivative instruments executed with the same counterparty. Although the Company does not designate any of its derivative instruments as cash flow hedges, such derivative instruments provide an economic hedge of our exposure to commodity price risk associated with forecasted future oil and gas production. These contracts are accounted for using the mark-to-market accounting method and accordingly, the Company recognizes all unrealized and realized gains and losses related to these contracts currently in earnings and they are classified as gain (loss) on derivative instruments, net in our consolidated statements of operations. The Company may also use puts, calls and basis swaps in the future.

The Company's Board of Directors sets all risk management policies and reviews the status and results of derivative activities, including volumes, types of instruments and counterparties on a quarterly basis. These policies require that derivative instruments be executed only by the Chief Executive Officer or President. The master contracts with approved counterparties identify the Chief Executive Officer and President as the only Company representatives authorized to execute trades. See Note D, Commodity Price Risk Management, for further discussion.

Fair Value of Financial Instruments

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

Asset Retirement Obligations

USE accounts for its asset retirement obligations under FASB ASC 410-20, "Asset Retirement Obligations." USE records the fair value of the reclamation liability on its inactive mining properties and its operating oil and gas properties as of the date that the liability is incurred. USE reviews the liability each quarter and determines if a change in estimate is required as well as accretes the discounted liability on a quarterly basis for the future liability. Final determinations are made during the fourth quarter of each year. USE deducts any actual funds expended for reclamation during the quarter in which it occurs.

U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

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

	(In thousands)	
	December 31, 2012	December 31, 2011
Beginning asset retirement obligation	$ 510	$ 303
Accretion of discount	34	23
Liabilities incurred	142	187
Liabilities sold	--	(3)
Ending asset retirement obligation	$ 686	$ 510
Mining properties	$ 162	$ 149
Oil & Gas wells	524	361
Ending asset retirement obligation	$ 686	$ 510

Revenue Recognition

USE derives revenue primarily from the sale of produced oil, gas, and NGLs. The Company reports revenue as the gross amount received before taking into account production taxes and transportation costs, which are reported separately as expenses and are included in oil and gas production expense in the accompanying statements of operations. USE records natural gas and oil revenue under the sales method of accounting. Revenue is recorded in the month that the production is delivered to the purchaser. Payment is generally received between 30 and 90 days after the date of production. At the end of each month, we estimate the amount of production delivered to the purchaser and the price we will receive. USE uses its knowledge of its properties, their historical performance, market prices, and other factors as the basis for these estimates.

Revenues from real estate operations are reported on a gross revenue basis and are recorded at the time the service is provided.

Stock Based Compensation

USE measures the cost of employee and director services received in exchange for all equity awards granted, including stock options, based on the fair market value of the award as of the grant date. USE computes the fair values of its options granted to employees using the Black Scholes pricing model and the following weighted average assumptions:

Year Ended December 31,		
2012	2011	2010

Risk-free interest rate	0.82% to 1.41%	1.77%	2.24%
Expected lives (years)	5.0 to 6.0	6.0	6.0
Expected volatility	61.87% to 63.59%	59.64%	63.79%
Expected dividend yield	--	--	--

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U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

USE recognizes the cost of the equity awards over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. As share-based compensation expense is recognized based on awards ultimately expected to vest, the expense has been reduced for estimated forfeitures based on historical forfeiture rates.

Income Taxes

USE 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 bases of assets, liabilities and carry forwards.

Additionally, USE 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. Management believes it is more likely than not that such tax benefits will not be realized and a valuation allowance has been provided.

Net Income (Loss) Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding. Common shares held by the ESOP are included in the computation of earnings per share. Total shares held by the ESOP at December 31, 2012, 2011, and 2010 were 824,123, 684,643, and 685,382, respectively. Diluted earnings per share is computed based on the weighted average number of common shares outstanding adjusted for the incremental shares attributed to outstanding options and warrants to purchase common stock, if dilutive. Using the treasury stock method, potential common shares relating to options are excluded from the computation of diluted loss per share for the years ending December 31, 2012, 2011 and 2010 because they were anti-dilutive. There were no dilutive options at December 31, 2012. Dilutive options totaled 486,371 and 994,067 at December 31, 2011 and 2010, respectively.

Recent Accounting Pronouncements

On January 1, 2012, the Company adopted Accounting Standards Update No. 2011-05 (“ASC No. 2011-05”), an update to ASC Topic 220 issued by the FASB that states that an entity that reports items of other comprehensive income has the option to present the components of comprehensive income in either one continuous financial statement, or two consecutive financial statements, including reclassification adjustments. Subsequent to the issuance of the authoritative guidance, the FASB issued additional authoritative accounting guidance (“ASC No. 2011-12”) that effectively deferred the requirement to present the reclassification adjustments on the face of the financial statements, as well as the requirement to present the individual components of other comprehensive income for interim periods. The Company has elected to present a separate statement of comprehensive income, including the individual components, titled Consolidated Statements of Comprehensive Loss, as part of Item 8 to this report.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The objective of ASU 2011-11 is to require an entity to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. ASU 2011-

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11 is effective for interim and annual reporting periods beginning on or after January 1, 2013 and should be applied retrospectively. The adoption of this standard is not expected to have an impact on the Company's consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"), which provides amendments to FASB ASC Topic 820, Fair Value Measurement. The objective of ASU 2011-04 is to create common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards ("IFRS"). The amendments clarify existing fair value measurement and disclosure requirements and make changes to particular principles or requirements for measuring or disclosing information about fair value measurements. ASU 2011-04 is effective beginning after December 15, 2011. The adoption of this standard did not have an impact on the Company's consolidated financial statements other than additional disclosures.

USE has reviewed other current outstanding statements from the FASB and does not believe that any of those statements will have a material adverse affect on the financial statements of USE when adopted.

C. FAIR VALUE

We follow authoritative guidance regarding fair value measurements for all assets and liabilities measured at fair value. That guidance establishes a fair value hierarchy that prioritizes the inputs the Company uses to measure fair value based on the significance level of the following inputs:

Level 1 - Unadjusted quoted prices are available in active markets for identical assets or liabilities.

Level 2 - Pricing inputs, other than quoted prices within Level 1, which are either directly or indirectly observable.

Level 3 - Pricing inputs that are unobservable, requiring the Company to use valuation methodologies that result in management's best estimate of fair value.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the nonfinancial assets and liabilities and their placement in the fair value hierarchy levels. As of December 31, 2012, we held $183,000 of investments in marketable securities. The fair value of our commodity risk management assets and other accrued liabilities are determined using a market approach based on several factors, including observable transactions for the same or similar commodity options using the NYMEX futures index, and are designated as Level 2 within the valuation hierarchy. The fair value of our property held for sale is determined based on anticipated future cash flows, costs and comparables to the extent they are available, less estimated selling costs. The fair values of our other accrued liabilities that are reflected on the balance sheet are detailed below. Other accrued liabilities decreased to $771,000 at December 31, 2012 as a net result of a full year of payments from the retirement and the accretion of the liability. The other accrued liabilities are the long term portion of the executive retirement program.

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		(In thousands) Fair Value Measurements at December 31, 2012 Using		
Description	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commodity risk management assets	$ 472	$ --	$ 472	$ --
Available for sale securities	183	183	--	--
Assets held for sale	17,051	--	--	17,051
Total assets	$ 17,706	$ 183	$ 472	$ 17,051
Commodity risk management liability	$ --	$ --	$ --	$ --
Other accrued liabilities	771	--	--	771
Total	$ 771	$ --	$ --	$ 771

		(In thousands) Fair Value Measurements at December 31, 2011 Using		
Description	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commodity risk management assets	$ 3	$ --	$ 3	$ --

Available for sale securities	166	166	--	--
Assets held for sale	18,132	--	--	18,132
Total assets	$ 18,301	$ 166	$ 3	$ 18,132
Commodity risk management liability	$ 601	$ --	$ 601	$ --
Other accrued liabilities	822	--	--	822
Total	$ 1,423	$ --	$ 601	$ 822

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The following table summarizes the change in the fair value of our Level 3 Fair Value measurements for the year ended December 31, 2012.

Change in Level 3 Fair Value Measurements
(In thousands)

Description	December 31, 2011	Scheduled Depreciation	Revision of Value	December 31, 2012
Assets held for sale				
Remington Village	$ 18,132	$ --	$ (2,965)	$ 15,167
Corporate aircraft and facilities	4,468	(235)	(2,349)	1,884
Total	$ 22,600	$ (235)	$ (5,314)	$ 17,051

Description	December 31, 2011	Additions and Payments	December 31 2012
Other accrued liabilities	$ 821	$ (50)	$ 771

The following table summarizes, by major security type, the fair value and unrealized gain of our investments. The unrealized gain is recorded on the consolidated balance sheet as other comprehensive income, a component of stockholders' equity.

(In thousands)

December 31, 2012	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain
Available for sale securities	$ 183	$ 159	$ --	$ --	$ 183	$ 159

Total	$ 183	$ 159	$ --	$ --	$ 183	$ 159

December 31, 2011

	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain
Available for sale securities	$ 166	$ 122	$ --	$ --	$ 166	$ 122
Total	$ 166	$ 122	$ --	$ --	$ 166	$ 122

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Our other financial instruments include cash and cash equivalents, accounts receivable, accounts payable, other current liabilities and long-term debt. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate fair value because of their immediate or short-term maturities. The carrying value of our debt approximates its fair market value since interest rates have remained generally unchanged from the issuance of the debt. The fair value and carrying value of our debt was $19.8 million as of December 31, 2012.

D. COMMODITY PRICE RISK MANAGEMENT

Through our wholly-owned subsidiary Energy One, we have entered into commodity derivative contracts (“economic hedges”) with BNP Paribas (“BNP”) and Wells Fargo, as described below. The derivative contracts are priced using West Texas Intermediate (“WTI”) quoted prices. The Company is a guarantor of Energy One’s obligations under the economic hedges. The objective of utilizing the economic hedges is to reduce the effect of price changes on a portion of our future oil production, achieve more predictable cash flows in an environment of volatile oil and gas prices and to manage our exposure to commodity price risk. The use of these derivative instruments limits the downside risk of adverse price movements. However, there is a risk that such use may limit our ability to benefit from favorable price movements. Energy One may, from time to time, add incremental derivatives to hedge additional production, restructure existing derivative contracts or enter into new transactions to modify the terms of current contracts in order to realize the current value of its existing positions. The Company does not engage in speculative derivative activities or derivative trading activities, nor does it use derivatives with leveraged features.

Energy One's commodity derivative contracts as of December 31, 2012 are summarized below:

Settlement Period	Counterparty	Basis	Quantity (Bbl/d)	Strike Price		
Crude Oil Costless Collar						
10/01/12 - 03/31/13	Wells Fargo	WTI	200	Put:	$	85.00
				Call:	$	101.00
Crude Oil Costless Collar						
01/01/13 - 06/30/13	Wells Fargo	WTI	200	Put:	$	90.00
				Call:	$	105.75
Crude Oil Costless Collar						
10/01/12 - 09/30/13	BNP Paribas	WTI	200	Put:	$	95.00
				Call:	$	116.60
Crude Oil Costless Collar						
04/01/13 - 06/30/13	Wells Fargo	WTI	200	Put:	$	90.00
				Call:	$	97.50

Crude Oil Costless Collar						
07/01/13 - 09/30/13	Wells Fargo	WTI	400	Put:	$	90.00
				Call:	$	97.50
Crude Oil Costless Collar						
10/01/13 - 12/31/13	Wells Fargo	WTI	600	Put:	$	90.00
				Call:	$	97.50

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The following table details the fair value of the derivatives recorded in the applicable consolidated balance sheet, by category:

As of December 31, 2012
(in thousands)

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Crude oil costless collars	Current Asset	$ 472	Current Liability	$ --

As of December 31, 2011
(in thousands)

	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Crude oil costless collars	Current Asset	$ 3	Current Liability	$ 601

Unrealized gains and losses resulting from derivatives are recorded at fair value on the consolidated balance sheet and changes in fair value are recognized in the unrealized gain (loss) on risk management activities line on the consolidated statement of operations. Realized gains and losses resulting from the contract settlement of derivatives are recognized in the commodity price risk management activities line on the consolidated statement of operations. During the year ended December 31, 2012 we had a recognized gain of $21,000 from the contract settlements of derivatives and an unrealized gain of $1.1 million.

E. MINERAL PROPERTY TRANSACTIONS

Oil and Gas Exploration

USE participates in oil and gas projects as a non-operating working interest owner and has active agreements with several oil and gas exploration and production companies. Our working interest varies by project, but typically ranges from approximately 1% to 62%. These projects may result in numerous wells being drilled over the next three to five years.

2012 Acquisition and Divestiture Activity:

Bakken/Three Forks Shale Sale. On January 24, 2012 (but effective December 1, 2011), we sold an undivided 75% of our undeveloped acreage with Zavanna, LLC (“Zavanna”) in the Yellowstone and SEHR prospects to GeoResources, Inc. (56.25%) and Yuma Exploration and Production Company, Inc. (18.75%) for $16.7 million and $1.4 million in

reimbursed well costs. These amounts were recorded as reductions to our full cost pool. In addition we transferred $5.3 million in costs from unevaluated properties to proved properties as a result of this sale. Under the terms of the agreement, we retained the remaining 25% of our interest in the undeveloped acreage and our original working interest in the initial

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10 developed wells in the prospects. Our average working interest in the remaining locations is approximately 8.75% and net revenue interests in new wells after the sale are in the range of 6.7375% to 7.0%, proportionately reduced depending on Zavanna's actual working interest percentages.

Woodbine Acquisition. In May 2012, we entered into a participation agreement with a private entity, Mueller Exploration, Inc. ("Mueller") to participate in the Woodbine Sub-Clarksville 7 Project located in Anderson and Cherokee Counties, Texas. Under the terms of the agreement, we acquired a 26.5% initial working interest (19.6% net revenue interest) in approximately 6,766 gross acres (1,274 net acres to USE) for $1.7 million. The promoted amount covers our portion of the costs for land, geological and geophysical work, as well as all dry hole costs for an initial test well in each of the seven prospects. Upon payout of our initial well costs in each unit, our interest will be reduced to a 19.8% working interest (14.7% net revenue interest). Future infill drilling will be on a heads up basis, and our interest will be a 19.8% working interest (14.7% net revenue interest).

Montana Acreage Sale. On June 8, 2012, we sold an undivided 87.5% of our acreage in Daniels County, Montana to Greehey & Company Ltd. ("Greehey") for $3.7 million. This amount was recorded as a credit to our full cost pool. In addition we transferred $1.0 million in costs from unevaluated properties to proved properties as a result of this sale. Under the terms of the agreement, we retained a 12.5% working interest in the acreage and reserved overriding royalty interests ("ORRI") in leases we owned that had in excess of 81% NRI. Greehey also committed to drill a vertical test well to depths sufficient to core the Bakken and Three Forks formations on or before December 31, 2015. We delivered an 80% NRI to Greehey and a 1% ORRI to Energy Investments, Inc. ("EII") in connection with the sale. We also paid EII a commission equal to 10% of the cash consideration paid by Greehey.

Bakken/Three Forks Asset Package Acquisition. On September 21, 2012, but effective July 1, 2012, we acquired interests in 27 producing Bakken and Three Forks formation wells and related acreage in McKenzie, Williams and Mountrail Counties of North Dakota for $2.3 million after adjusting for related revenue and operating expenses from the effective date through September 21, 2012. Under the terms of the agreement, we acquired working interests in 23 drilling units ranging from less than 1% to approximately 5%, with an average working interest of 1.45%. All acreage is currently held by production and produces approximately 47 BOE/d net to the Company.

Mount Emmons Molybdenum Properties

Mineral properties at December 31, 2012 and December 31, 2011 reflect capitalized costs associated with our Mt. Emmons molybdenum property near Crested Butte, Colorado.

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F. SUPPLEMENTAL FINANCIAL INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

Capitalized Costs

The following table presents information regarding USE’s net costs incurred in the purchase of proved and unproved properties, and in exploration and development activities:

	(In thousands)	
	December 31, 2012	December 31, 2011
Unproved oil and gas properties	$ 9,169	$ 20,007
Proved oil and gas properties	119,919	99,496
	$ 129,088	$ 119,503

USE’s DD&A per equivalent BOE was $33.49 in 2012, $31.64 in 2011 and $23.64 in 2010.

Undeveloped properties as of December 31, 2012 include costs incurred in the following years:

	(In thousands)			
	Acquisitions	Exploration	Development	Total
2010	$ 994	$ --	$ --	$ 994
2011	7,947	--	--	7,947
2012	228	--	--	228
Total	$ 9,169	$ --	$ --	$ 9,169

Costs Incurred

Costs incurred in oil and natural gas property acquisition, exploration and development activities are summarized below:

	(In thousands) For the years ending December 31,		
	2012	2011	2010
Property acquisition costs:			
Proved	$ 2,987	$ 1,288	$ --
Unproved	1,416	10,679	14,237
Exploration costs	10,943	32,787	35,899
Development costs	20,134	4,550	4,846

Total costs incurred	$	35,480	$	49,304	$	54,982

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Results of Operations

Results of operations from oil and natural gas producing activities are presented below:

	(In thousands) For the years ending December 31,		
	2012	2011	2010
Oil and gas revenues	$ 32,534	$ 30,958	$ 26,548
Less:			
Operating expenses	10,788	11,552	6,073
Depreciation, depletion and amortization	14,893	13,997	10,610
Impairment	5,189	--	--
	30,870	25,549	16,683
Operating income	$ 1,664	$ 5,409	$ 9,865

Oil and Natural Gas Reserves (Unaudited)

Proved reserves are estimated quantities of oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods.

Proved oil and natural gas reserve quantities at December 31, 2012 and the related discounted future net cash flows before income taxes are based on the estimates prepared by Cawley, Gillespie & Associates, Inc. The reserve reports for the period ended December 31, 2011 were prepared by Cawley, Gillespie & Associates, Inc., Ryder Scott Company, L.P and Netherland, Sewell & Associates, Inc. The reserve reports for the period ended December 31, 2010 were prepared by Cawley, Gillespie & Associates, Inc. and Ryder Scott Company, L.P. Such estimates have been prepared in accordance with guidelines established by the Securities and Exchange Commission.

USE’s net ownership interests in estimated quantities of proved oil and natural gas reserves and changes in net proved reserves, all of which are located in the continental United States, are summarized below:

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December 31, 2012	Oil (BBLS)	Natural Gas or NGL (MCFE)
Beginning of year	2,737,969	2,744,128
Revisions of previous quantity estimates	(145,596)	(481,583)
Extensions, discoveries and improved recoveries	763,125	369,169
Purchase of reserves in place	75,948	30,457
Sales of reserves in place	(444,272)	(437,057)
Production	(373,531)	(427,026)
End of year	2,613,643	1,798,088
Proved developed reserves at end of year	1,770,659	1,420,295

December 31, 2011	Oil (BBLS)	Natural Gas or NGL (MCFE)
Beginning of year	1,546,446	2,450,968
Revisions of previous quantity estimates	4,913	(864,513)
Extensions, discoveries and improved recoveries	1,516,797	2,004,535
Purchase of reserves in place	48,615	49,065
Sales of reserves in place	(78,477)	(43,716)
Production	(300,325)	(852,211)
End of year	2,737,969	2,744,128
Proved developed reserves at end of year	1,884,068	1,983,581

Standardized Measure (Unaudited)

The standardized measure of discounted future net cash flows relating to USE’s ownership interests in proved oil and natural gas reserves as of year-end is shown below:

(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Future cash inflows	$ 237,148	$ 259,533	$ 124,629
Future costs:			
Production	(96,616)	(77,813)	(36,299)
Development	(21,461)	(42,972)	(6,774)
Future income tax expense	(8,483)	(19,790)	(11,622)
Future net cash flows	110,588	118,958	69,934
10% discount factor	(39,571)	(56,767)	(25,281)
Standardized measure of discounted future net cash flows	$ 71,017	$ 62,191	$ 44,653

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Future cash flows are computed by applying average prices per barrel of oil and per MMbtu of natural gas at the first day of each month in the 12-month period prior to the end of the reporting period to year-end quantities of proved oil and natural gas reserves. Prices used in computing year end 2012, 2011 and 2010 future cash flows were $94.71/barrel, $96.19/barrel and $79.43/barrel, respectively, for oil and $2.757/MMbtu, $4.12/MMbtu and $4.38/MMbtu for natural gas, respectively, in each case adjusted for regional price differentials and other factors. Future operating expenses and development costs are computed primarily by USE's petroleum engineers by estimating the expenditures to be incurred in developing and producing USE's proved oil and natural gas reserves at the end of the year, based on year end costs and assuming continuation of existing economic conditions.

Future income taxes are based on year-end statutory rates, adjusted for the tax basis of oil and gas properties and available applicable tax assets. A discount factor of 10% was used to reflect the timing of future net cash flows. The standardized measure of discounted future net cash flows is not intended to represent the replacement cost or fair market value of USE's oil and natural gas properties. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

Change in Standardized Measure (Unaudited)

Changes in standardized measure of future net cash flows relating to proved oil and natural gas reserves are summarized below:

	(In thousands) Year Ended December 31,		
	2012	2011	2010
Balance at beginning of period	$ 62,191	$ 44,653	$ 19,984
Sales of oil and gas, net of production costs	(21,747)	(19,406)	(20,476)
Net change in prices and production costs	(4,548)	1,401	3,895
Net change in future development costs	--	--	--
Extensions and discoveries	23,297	26,574	40,011
Purchase of reserves in place	2,573	3,082	--
Sale of reserves in place	(13,573)	(1,947)	--
Revisions of previous quantity estimates	(5,927)	(3,158)	(2,519)
Development costs incurred during year	22,808	14,930	--
Previously estimated development costs	(9,706)	(2,719)	--

incurred			
Net change in income taxes	7,261	(4,270)	(2,138)
Accretion of discount	7,254	5,207	2,576
Changes in production rates, timing and other	1,134	(2,156)	3,320
Balance at end of period	$ 71,017	$ 62,191	$ 44,653

Sales of oil and natural gas, net of oil and natural gas operating expenses, are based on historical pretax results. Extensions and discoveries and the changes due to revisions in standardized variables are reported on a pretax discounted basis.

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G. GEOTHERMAL

During the year ended December 31, 2012, USE’s minority interest investment in SST, a Denver, Colorado based private geothermal resource acquisition and development company, decreased. Due to not funding cash calls from SST during 2012, USE’s ownership interest decreased from 22.4% to 19.54%.

H. ASSETS HELD FOR SALE

As of December 31, 2012, the accompanying condensed consolidated balance sheets include approximately $17.1 million in book value of assets held for sale, which consists of $15.2 million related to Remington Village and $1.9 million related to the corporate aircraft and related facilities.

In January 2011, we made the decision to sell our Remington Village multifamily project in Gillette, Wyoming and plan to use the proceeds to further the development of our oil and gas business. On March 5, 2013, the Company entered into a Purchase and Sale Agreement to sell Remington Village for $15.0 million. During the year ended December 31, 2012, the Company recorded non-cash impairments totaling $3.0 million to adjust the carrying value of the project to the expected sale value less selling costs.

As of December 31, 2012, the accompanying condensed consolidated balance sheets include approximately $15.2 million in book value of assets held for sale related to Remington Village, net of accumulated depreciation, and $10.0 million in liabilities held for sale. Because Remington Village has been classified as an asset held for sale, scheduled depreciation of $747,000 for the year ended December 31, 2012 and $946,000 for the year ended December 31, 2011 was not recorded. Remington Village is pledged as collateral on a $10.0 million note. At such time as Remington Village is sold, the debt balance will be retired.

The Company's real estate operations for the year ending December 31, 2010 were reported as an operating segment. For the years ended December 31, 2012 and 2011 these operations have been reclassified as discontinued operations in the current financial statements. Results of discontinued operations for the years ended December 31, 2012, 2011 and 2010 were as follows:

	(In thousands) For the years ending December 31,		
	2012	2011	2010
Revenues	$ 2,037	$ 2,147	$ 2,411
Operating expenses	1,885	1,468	2,062
Impairment	2,955	3,063	1,540
	4,840	4,531	3,602
Loss before income taxes	(2,803)	(2,384)	(1,191)
Income tax benefit from (provision for)	1,009	(245)	(123)

Net loss from discontinued operations	$	(1,794	)	$	(2,629	)	$	(1,314	)

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In September 2012, we made the decision to sell our corporate aircraft and related facilities to reduce overhead costs and plan to use the proceeds to further the development of our oil and gas business, reduction of debt or for general corporate purposes. As of December 31, 2012 the accompanying consolidated balance sheets include approximately $1.9 million in book value of assets held for sale, net of accumulated depreciation. Because the aircraft and related facilities have been classified as an asset held for sale, we will no longer record any scheduled depreciation. During the year ended December 31, 2012, the Company recorded non-cash impairments totaling $2.3 million to adjust the carrying value to the expected sale value.

The following assets and liabilities have been segregated and included in the Assets Held for Sale and Liabilities Held for Sale, as appropriate, in the consolidated balance sheets as of December 31, 2012 and 2011:

	(In thousands)			
	December 31, 2012		December 31, 2011	
Cash and cash equivalents	$	211	$	170
Accounts receivable		19		13
Prepaid expenses		42		99
Property, plant and equipment, net		14,775		17,730
Restricted investment		120		120
Assets of discontinued operations		15,167		18,132
Corporate aircraft and related facilities		1,884		4,468
Assets held for sale	$	17,051	$	22,600
Accounts payable	$	144	$	117
Accrued and other liabilities		257		220
Long term debt		9,621		9,904
Liabilities held for sale	$	10,022	$	10,241

I. WELLS FARGO RESERVE CREDIT FACILITY

On July 30, 2010, USE established a Senior Secured Revolving Credit Facility (the "Facility") to borrow up to $100 million from a syndicate of banks, financial institutions and other entities, including BNP Paribas, who was replaced as a lender by Wells Fargo Bank, NA ("Wells Fargo") on April 24, 2012. At present, Wells Fargo is the only lender under the Facility. In the future, the facility may include other members of a lending syndicate (the "Lenders") as provided for in the Facility. Wells Fargo also is the administrative agent for the Facility, which is governed by the following documents: Credit Agreement; Mortgage, Deed of Trust, Assignment of As-Extracted Collateral, Security Agreement, Fixture Filing and Financing Statement (the "Mortgage"); and Guaranty and Pledge Agreement (the "Guaranty"), which are referred to below together as the "Facility Documents." The following summarizes the principal

provisions of the Facility as set forth in the Facility Documents. The summary is qualified by reference to the complete text of the documents.

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USE's wholly-owned subsidiary, Energy One, is the borrower under the Facility. USE has assigned to Energy One all of its rights, title and interest in certain oil and gas properties and equipment related thereto, rights under various operating agreements, proceeds from sale of production and from sale or other disposition of the properties. USE also has unconditionally and irrevocably guaranteed Energy One's performance of its obligations under the Credit Agreement, including without limitation Energy One's payment of all borrowings and related fees thereunder.

From time to time until expiration of the Facility (July 30, 2014), if Energy One is in compliance with the Facility Documents, Energy One may borrow, pay, and re-borrow funds from the Lenders, up to an amount equal to the Borrowing Base, which was initially established at $12 million. The Borrowing Base is redetermined semi-annually, taking into account updated reserve reports prepared by USE's independent consulting engineers. Any proposed increase in the Borrowing Base will require approval by all Lenders in the syndicate (presently only Wells Fargo), and any proposed Borrowing Base decrease will require approval by Lenders holding not less than two-thirds of outstanding loans and loan commitments.

Interest is payable quarterly at the greater of the Prime Rate, the Federal Funds Effective Rate (plus 0.5%), and the adjusted LIBO rate for the three prior months, plus, an additional 2.25% to 3.25%, depending on the amount of the loan relative to the Borrowing Base. Interest rates on outstanding loans are adjustable each day by Wells Fargo as administrative agent. Energy One may prepay principal at any time without premium or penalty, but all outstanding principal will be due on July 30, 2014. If there is a decrease in the Borrowing Base, the excess of outstanding loans over the Borrowing Base will be due over the six months following the redetermination. We pay Wells Fargo a fee each time the Borrowing Base is increased.

In addition, on a quarterly basis, Energy One will pay Wells Fargo, for the account of each Lender (as applicable), a commitment fee of 0.50% of the unused amount of each Lender's unused amount of its Facility lending commitment, computed daily until July 30, 2014.

Energy One is required to comply with customary affirmative covenants and with certain negative covenants. The principal negative financial covenants (measured at various times as provided in the Credit Agreement) do not permit (i) the Interest Coverage Ratio (Interest Expense to EBITDAX) to be less than 3.0 to 1; (ii) Total Debt to EBITDAX to be greater than 3.5 to 1; and (iii) the Current Ratio (current assets plus unused lender commitments under the Borrowing Base) to be less than 1.0 to 1.0. EBITDAX is defined in the Credit Agreement as Consolidated Net Income, plus non-cash charges. At all times during the year ended December 31, 2012 Energy One was in compliance with all the affirmative and negative covenants.

If Energy One fails to pay interest or principal when due, or fails to comply with the covenants in the Credit Agreement (after a reasonable cure period, if applicable), Wells Fargo as Administrative Agent may (and shall, if requested by the Majority Lenders (Lenders holding not less than 2/3rds of the outstanding loan principal), declare the loans immediately due, and foreclose on Energy One's assets and enforce USE's guaranty.

As of December 31, 2012, the Borrowing Base was $30.0 million and we had borrowed $10.0 million under the Facility.

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J. OTHER LIABILITIES AND DEBT

As of December 31, 2012 and 2011, USE had current and long term liabilities associated with the following funding commitments:

	(In thousands)			
	December 31, 2012		December 31, 2011	
Other liabilities and debt:				
Other liabilities				
Deferred rent		12		14
Employee health insurance self funding		32		10
	$	44	$	24
Other long term liabilities:				
Accrued executive retirement costs	$	771	$	822
Debt:				
Credit Facility - collateralized by				
oil and gas reserves, at 2.92%	$	10,000	$	12,000
Long term Debt				
Real estate note - collateralized by				
property, interest at 5.5%		9,621		9,904
Real estate note - collateralized by				
property, interest at 6%		200		400
		19,821		22,304
Less current portion		(526)		(481)
Totals	$	19,295	$	21,823

In December 2008, USE and Thompson Creek Metals ("TCM") jointly purchased land for $4.0 million ($2.0 million paid in January 2009, $400,000 annually for five years). USE is responsible for one-half the purchase price. As of December 31, 2012, USE has paid $1.8 million, leaving $200,000 to be paid on or before January 2, 2014. On December 6, 2011, TCM notified the Company that it wishes to sell its interest in the property. The Company has until June 5, 2013 to decide whether to purchase TCM's 50% interest in the property, at cost, and close such purchase.

On May 5, 2011, USE borrowed $10.0 million from a commercial bank against Remington Village. At the date of filing of this annual report $9.6 million is due on the note. The note is collateralized by the Company's multi-family property in Gillette, WY. The note is amortized over 20 years with a balloon payment at the end of five years with an interest rate of 5.50% per annum. Proceeds of the note were used to fund general business obligations. When Remington Village is sold, the proceeds from the sale will first be applied to the retirement of the debt and the remainder applied to general corporate overhead and project development. Therefore, the debt related to Remington Village is included in current liabilities held for sale.

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	(In thousands) Payments due by period					
	Total	2013	2014	2015	2016	2017 and thereafter
Credit facility 3.2%	$ 10,000	$ --	$ 10,000	$ --	$ --	$ --
Real estate note 5.5%	9,621	308	326	8,987	--	--
Real estate note 6.0%	200	200	--	--	--	--
Total	$ 19,821	$ 508	$ 10,326	$ 8,987	$ --	$ --

K. INCOME TAXES

The provision for income taxes is composed of the following:

	(in thousands) Years ended December 31,		
	2012	2011	2010
Current income tax expense (benefit)			
Federal	$ --	$ --	$ (104)
State	--	--	--
	$ --	$ --	$ (104)
Deferred income tax expense (benefit)			
Federal	$ (1,093)	$ (3,316)	$ (1,543)
State	(64)	(195)	(91)
	$ (1,157)	$ (3,511)	$ (1,634)

The effective income tax rate differs from the U.S. Federal Statutory income tax rate due to the following:

	(in thousands) Years ended December 31,		
	2012	2011	2010
	$ (4,164)	$ (2,828)	$ (853)

Federal statutory income tax rate			
State income taxes, net of federal benefit	(245)	(166)	(50)
Incentive stock options	12	246	258
Percent depletion carryover	(177)	(807)	(1,067)
Valuation allowance	3,512	--	--
Other	(95)	44	(26)
	$ (1,157)	$ (3,511)	$ (1,738)

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The components of deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	(in thousands)	
	December 31, 2012	December 31, 2011
Deferred tax assets:		
Net operating loss	$ 2,899	$ 2,547
Derivative instruments	(170)	215
Asset retirement obligation	247	184
Stock based compensation	313	288
Deferred compensation	382	357
Alternative minimum tax credit	706	706
Contribution carryover	37	28
Equity investments	(91)	37
Percentage depletion carryover	2,100	1,924
	$ 6,423	$ 6,286
Deferred tax liabilities:		
Property and equipment	(2,854)	(7,385)
Marketable securities	(57)	(44)
	$ (2,911)	$ (7,429)
Net deferred tax assets (liabilities)	3,512	(1,143)
Less: Valuation Allowance	(3,512)	--
Deferred tax liability	$ --	$ (1,143)

During the year ended December 31, 2012, deferred tax assets increased $137,000 and deferred tax liabilities decreased by $4.5 million. The change in net deferred tax liabilities was a decrease of $4.7 million compared to the previous year. This resulted in a net deferred asset of $3.5 million, which is fully offset by a valuation allowance. The change from a net deferred liability of $1.2 million at December 31, 2011 to net zero deferred assets at December 31, 2012 reesulted in a deferred tax benefit of $1.2 million.

USE has net operating loss carryovers as of December 31, 2012 of $9.5 million for federal income tax purposes and $6.9 million for financial reporting purposes. The difference of $2.6 million relates to tax deductions for compensation expense for financial reporting purposes for which the benefit will not be recognized until the related deductions reduce taxes payable. The net operating loss carryovers may be carried back two years and forward twenty years from the year the net operating loss was generated. The net operating losses may be used to offset taxable income through 2031. In addition, USE has alternative minimum tax credit carry-forwards of $706,000 which are available to offset future federal income taxes over an indefinite period.

The statute of limitations is closed for the tax years through 2008.

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USE adopted the applicable provisions of ASC 740 to recognize, measure, and disclose uncertain tax positions in the financial statements. Under ASC 740, tax positions must meet a “more-likely-than-not” recognition threshold to be recognized. During the year ended December 31, 2011, no adjustments were recognized for uncertain tax positions. USE recognizes interest and penalties related to uncertain tax positions in income tax expense (benefit). No interest or penalties related to uncertain tax positions have been accrued.

L. SEGMENTS AND MAJOR CUSTOMERS

During the years ended December 31, 2012, 2011, and 2010, USE, for financial reporting purposes, operated two business segments, the exploration for and sale of oil and gas, and mining. USE’s operating segments are reflected in the tables below:

	(In thousands) For the years ended December 31,		
	2012	2011	2010
Revenues:			
Oil and gas	$ 32,534	$ 30,958	$ 26,548
Total revenues:	32,534	30,958	26,548
Operating expenses:			
Oil and gas	30,870	25,549	16,683
Mineral properties	2,899	2,364	1,878
Total operating expenses:	33,769	27,913	18,561
Interest expense			
Oil and gas	169	268	--
Mineral properties	24	36	48
Total interest expense:	193	304	48
Operating (loss) income			
Oil and gas	$ 1,495	$ 5,141	$ 9,865
Mineral properties	(2,923)	(2,400)	(1,926)
Operating income (loss) from identified segments	(1,428)	2,741	7,939
General and administrative expenses	(9,109)	(8,261)	(8,973)
Add back interest expense	193	304	48
	849	(717)	(332)

Other revenues and expenses:								
(Loss) income before income taxes	$	(9,495	)	$	(5,933	)	$	(1,318	)
Depreciation depletion and amortization expense:								
Oil and gas	$	14,893		$	13,997		$	10,610
Mineral properties		127			102			77
Corporate		436			494			380
Total depreciation expense	$	15,456		$	14,593		$	11,067

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	(In thousands)		
	December 31, 2012	December 31, 2011	December 31, 2010
Assets by segment			
Oil and gas	$ 93,839	$ 109,141	$ 75,639
Mineral	20,747	20,755	20,800
Corporate	26,241	32,543	59,577
Total assets	$ 140,827	$ 162,439	$ 156,016

M. SHAREHOLDERS' EQUITY

Stock Option Plans

Employee Stock Option Plans. In December 2001, the Board of Directors adopted (and the shareholders subsequently approved) the U.S. Energy Corp. 2001 Incentive Stock Option Plan (the "2001 ISOP") for the benefit of USE's employees. The 2001 ISOP (amended with the approval of the shareholders in 2004 and 2007) reserved for issuance 25% of USE's shares of common stock issued and outstanding at any time. The 2001 ISOP had a term of 10 years and expired on December 6, 2011. Options issued under the 2001 ISOP remain exercisable until their expiration date under the terms of the 2001 ISOP.

In June 2012, the Board of Directors adopted (and the shareholders approved) the U.S. Energy Corp. 2012 Equity and Performance Incentive Plan (the "2012 Equity Plan") for the benefit of USE's employees. The 2012 Equity Plan reserved for issuance 1,200,000 shares of USE's common stock. The 2012 Equity Plan has a term of 10 years.

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A summary of the Employee Stock Option Plans activity in all plans for the year ended December 31, 2012, 2011 and 2010 is as follows:

	Year ended December 31,					
	2012		2011		2010	
	Employee Options	Weighted Average Exercise Price	Employee Options	Weighted Average Exercise Price	Employee Options	Weighted Average Exercise Price
Outstanding at beginning of the period	2,318,399	$ 3.94	3,011,647	$ 3.87	3,711,114	$ 3.64
Granted	150,000	$ 2.32	--	$ --	--	$ --
Forfeited	(10,000)	$ 2.32	--	$ --	--	$ --
Expired	(194,950)	$ 4.47	(200,000)	$ 3.90	--	$ --
Exercised	(4,167)	$ 2.52	(493,248)	$ 3.51	(699,467)	$ 2.63
Outstanding at period end	2,259,282	$ 3.80	2,318,399	$ 3.94	3,011,647	$ 3.87
Exercisable at period end	2,119,282	$ 3.90	2,108,399	$ 3.84	2,404,148	$ 3.78
Weighted average fair value of options granted during the period		$ 1.30		$ --		$ --

During the year ended December 31, 2012, a total of 4,167 options were exercised by employees by the surrender of 3,097 shares valued at $10,000. In the year ended December 31, 2011, 493,248 options were exercised by the payment of $34,000 in cash and surrender of 368,804 shares valued at $1.9 million. In the year ended December 31, 2010, 699,467 options were exercised by the payment of $63,000 in cash and surrender of 325,195 shares valued at $1.8 million.

Option related compensation expense is recognized over the vesting period of the options and is calculated using the Black Scholes option pricing model. USE initially assumed no forfeitures, but has subsequently reduced the cumulative expense based on historical forfeiture. The total expense associated with employee stock options for the years ended December 31, 2012, 2011 and 2010 was $33,000, $947,000 and $1.0 million, respectively. As of December 31, 2012, there was $165,000 of total unrecognized expense related to unvested stock options, which is being amortized through 2015.

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The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2012:

Grant Price Range	Employee Options Outstanding at December 31, 2012	Weighted average remaining contractual life in years	Weighted average exercise price	Employee Options exercisable at December 31, 2012	Weighted average exercise price
$ 2.32	140,000	9.53	$ 2.32	--	$ --
$ 2.33 - $2.46	386,869	1.50	$ 2.46	386,869	$ 2.46
$ 2.47 - $2.52	408,645	5.72	$ 2.52	408,645	$ 2.52
$ 2.53 - $3.86	273,768	2.78	$ 3.86	273,768	$ 3.86
$ 3.87 - $4.97	1,050,000	4.57	$ 4.97	1,050,000	$ 4.97
	2,259,282	4.34	$ 3.82	2,119,282	$ 3.90

The following table sets forth the number of options available for grant as well as the intrinsic value of the options outstanding and exercisable:

	2012	2011	2010
Available for future grant	1,060,000	--	3,765,506
Intrinsic value of option exercised	$ 4,000	$ 888,000	$ 1,956,000
Aggregate intrinsic value of options outstanding	$ --	$ 351,000	$ 6,660,000
Aggregate intrinsic value of options exercisable	$ --	$ 351,000	$ 5,526,000

Director Option Plan. As of December 31, 2012, there were 150,000 director options outstanding to purchase shares of USE's common stock. Of the total outstanding options, 63,335 were exercisable. USE values these options using the Black-Scholes option pricing model and expenses that value over various terms based on the nature of the award. Activity for the periods ended December 31, 2012, 2011 and 2010 for director options is presented in the following table:

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	Year ended December 31,					
	2012		2011		2010	
	Director Options	Weighted Average Exercise Price	Director Options	Weighted Average Exercise Price	Director Options	Weighted Average Exercise Price
Outstanding at beginning of the period	210,000	$ 3.10	320,000	$ 2.95	581,367	$ 2.91
Granted	80,000	$ 2.78	20,000	$ 4.19	10,000	$ 5.04
Forfeited	--	$ 2.52	(20,000)	$ 2.52	(20,000)	$ 2.52
Expired	(120,000)	$ 3.05	(5,000)	$ 3.90	--	$ --
Exercised	(20,000)	$ 2.52	(105,000)	$ 2.92	(251,367)	$ 2.97
Outstanding at period end	150,000	$ 3.05	210,000	$ 3.10	320,000	$ 2.95
Exercisable at period end	63,335	$ 3.01	183,334	$ 2.91	276,667	$ 2.93
Weighted average fair value of options granted during the period		$ 1.59		$ 2.34		$ 2.99

During the year ended December 31, 2012, a total of 20,000 director options were exercised by the payment of $50,000 in cash. In the year ended December 31, 2011, 105,000 options were exercised by the payment of $62,000 in cash and the surrender of 62,104 shares valued at $245,000. In the year ended December 31, 2010, 251,367 warrants were exercised by the payment of $746,000 in cash. The total expense associated with director stock options for the years ended December 31, 2012, 2011 and 2010 was $69,000, $6,000 and $66,000, respectively. As of December 31, 2012, there was $112,000 of total unrecognized expense related to unvested stock options, which is being amortized through 2015.

The following table summarizes information about director options outstanding and exercisable at December 31, 2012:

Grant Price Range	Director Options Outstanding at December 31, 2012	Weighted average remaining contractual life in years	Weighted average exercise price	Director Options exercisable at December	Weighted average exercise price

31, 2012

$	2.32	10,000	9.53	$	2.32	--	$	-
$	2.33 - $2.52	40,000	5.72	$	2.52	40,000	$	2.52
$	2.53 - $2.85	70,000	9.22	$	2.85	10,000	$	2.85
$	2.86 - $4.19	20,000	8.48	$	4.19	6,668	$	4.19
$	4.20 - $5.04	10,000	7.48	$	5.04	6,667	$	5.04
		150,000	8.10	$	3.05	63,335	$	3.01

These options are held by current and former directors of USE.

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USE has computed the fair values of its employee and director options using the Black Scholes pricing model and the following weighted average assumptions:

	Year Ended December 31,		
	2012	2011	2010
Risk-free interest rate	0.82% to 1.41%	1.77%	2.24%
Expected lives (years)	5.0 to 6.0	6.0	6.0
Expected volatility	61.87% to 63.59%	59.64%	63.79%
Expected dividend yield	--	--	--

Employee Stock Ownership Plan

The Board of Directors of USE adopted the U.S. Energy Corp. 1989 Employee Stock Ownership Plan ("ESOP") in 1989, for the benefit of all USE's employees. Employees become eligible to participate in the ESOP after one year of service which must consist of at least 1,000 hours worked. After the employee becomes a participant in the plan, he or she must have a minimum of 1,000 hours of service in each plan year to be considered for allocations of funding from USE. Employees become 20% vested after three years of service and increase their vesting by 20% each year thereafter until such time as they are fully vested after eight years of service.

An employee's total compensation paid, which is subject to federal income tax, up to an annual limit of $250,000 for the year ended December 31, 2012, and $245,000 for the years ended December 31, 2011 and 2010, is the basis for computing how much of the total annual funding is contributed into his or her personal account. An employee's compensation divided by the total eligible compensation paid to all plan participants is the percentage that each participant receives on an annual basis. USE funds 10% of all eligible compensation annually in the form of common stock and may fund up to an additional 15% to the plan in common stock. As of December 31, 2012, all shares of USE's stock that have been contributed to the ESOP have been allocated. The estimated fair value of shares that are not vested is approximately $27,000.

During the year ended December 31, 2012, the Board of Directors of USE approved a contribution of 161,624 shares to the ESOP at the price of $1.50 for a total expense of $242,000. This compares to contributions to the ESOP during the year ended December 31, 2011 and 2010 of 98,958 and 42,802 shares to the ESOP at prices of $2.91 and $6.08 per share, respectively. The expense for the contributions during the years ended December 31, 2011 and 2010 were $287,000 and $260,000, respectively.

N. COMMITMENTS, CONTINGENCIES AND OTHER

Legal Proceedings

From time to time, we are party to certain legal actions and claims arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not expect these matters to have a materially adverse effect on our financial position or results of operations. Following are currently pending legal matters:

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Water Rights Litigation –Mt. Emmons Project

On July 25, 2008, we filed an Application for Finding of Reasonable Diligence with the Colorado Water Court ("Water Diligence Application") concerning the conditional water rights associated with the Mt. Emmons Project (Case No. 2008CW81). The conditional water decree ("Decree") requires the Company to file its proposed plan of operations and associated permits with the Forest Service and BLM within six years of entry of the Decree, or within six years of the final determination of the pending patent application, whichever occurs later. The BLM issued the mineral patents on April 2, 2004. Although the issuance of the patents was appealed, on April 30, 2007, the United States Supreme Court made a final determination (by denial of certiorari) upholding BLM's issuance of the mineral patents. The Company filed the plan of operations on March 31, 2010.

On August 11, 2010, High Country Citizen's Alliance ("HCAA"), Crested Butte Land Trust and Star Mountain Ranch Association, Inc. ("Opposers") filed a motion for summary judgment alleging that the plan of operations did not comply with the United States Forest Service ("USFS") regulations and did not satisfy certain "reality check" limitations contained in the Decree. On September 24, 2010, we filed a response to the motion for summary judgment responding that the plan of operations complied with USFS and BLM regulations and satisfied the reality check limitations. The U.S. Department of Justice also filed a response on behalf of the USFS and BLM asserting that the Court cannot second guess the USFS's determination that the plan of operations satisfied USFS and BLM regulations.

On November 24, 2010 the District Court Judge denied the Opposers's motion for summary judgment and held that Company had until April 30, 2013 to comply with the reality check provision of the Decree, which is six years after the Supreme Court denied certiorari in the judicial proceeding. The question of the adequacy of the Water Diligence Application is pending.

Appeal of Approval of Notice of Intent to Conduct Prospecting for the Mt. Emmons Project

On March 8, 2008, HCCA filed a request for hearing before the Colorado Mine Land Reclamation Board ("Board") of the approval of a "Notice of Intent to Conduct Prospecting" ("NOI") for the Mt. Emmons Project, which was approved by the Division of Reclamation, Mining and Safety of the Colorado Department of Natural Resources ("DRMS") on January 3, 2008. The approved NOI provides for continued exploration of the molybdenum deposit to update, improve and verify, in accordance with current industry standards and legal requirements, mineralization data that was collected by Amax in the late 1970s. On May 14, 2008, the MLRB denied HCCA's request for hearing and also denied its request for a declaratory order. Citing Colorado law, the Board determined that HCCA did not have standing or the right to appeal DRMS's approval of the NOI under Colorado law.

On August 28, 2008, HCCA appealed the MLRB's decision in Denver District Court. Plaintiff: High Country Citizen's Alliance v. Defendants: Colorado Mined Land Reclamation Board, Colorado Division of Reclamation Mining and Safety and U.S. Energy Corp., Case No.: 08CV6156 (District Court, 2d Jud. Dist., City and County of Denver). The Board has filed an answer with the Court. The DRMS and the Company both filed the responsive pleadings in addition to motions to dismiss the HCCA complaint.

On February 24, 2011, the District Court issued an order dismissing all of HCCA's claims concerning the appeal of the NOI holding that: (i) HCCA does not have standing to request judicial review on the merits of the DRMS's approval of the NOI and (ii) HCCA does not have standing to request a declaratory order. This decision upholds the Board's May 14, 2008 decision denying HCCA's request for hearing

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and its request for a declaratory order because HCCA did not have standing or the right to appeal DRMS's approval of the NOI under Colorado law.

Appeal of Modification – Notice of Intent to Conduct Prospecting for the Mt. Emmons Project

On January 20, 2010 the Company submitted Modification MD-03 ("MD-03") to the NOI. On November 15, 2010 DRMS issued its determination that MD-03 was complete, the activities proposed were prospecting and that MD-03 was approved. On November 19, 2010 HCCA filed an appeal with the Board claiming that: (i) the proposed activities were not prospecting, but rather development and mining, (ii) the current financial warranty amount was insufficient to cover the proposed activities and (iii) the permit should be conditioned upon its compliance with other federal and local governmental agency requirements.

On January 12, 2011, the Board on a vote 4-1 vote upheld DRMS's approval of MD-03 and its determination that: (i) the activities proposed by the NOI and MD-03 are prospecting, not development or mining, (ii) the current financial warranty amount is sufficient to cover the proposed activities and (iii) DRMS's decision not to make its approval of MD-03 contingent on permits or licenses that may be required by federal, other state, or local agencies was proper and affirmed that decision. On March 2, 2011, HCCA appealed MLRB's decision on MD-03 to the Denver, Colorado District Court, which is currently pending.

On June 30, 2012, the District Court affirmed the Board's decision on all matters including our position that the current financial warranty amount was sufficient to cover the proposed activities. The District Court dismissed the HCCA's complaint and authorized our reimbursement of costs reimbursed from HCCA upon the filing the proper paperwork. On July 25, 2012, HCCA filed an appeal of the District Court's decision with the Colorado Court of Appeals.

Brigham Oil & Gas, L.P.

On June 8, 2011, Brigham Oil & Gas, L.P. ("Brigham"), as the operator of the Williston 25-36 #1H Well, filed an action in the State of North Dakota, County of Williams, in District Court, Northwest Judicial District, Case No. 53-11-CV-00495 to interplead to the court the undistributed suspended funds from this well to protect itself from potential litigation. Brigham became aware of an apparent dispute with respect to ownership of the mineral interest between the ordinary high water mark and the ordinary low water mark of the Missouri River. Brigham has suspended payment of certain proceeds of production related to the minerals in and under this property pending resolution of the apparent dispute. Energy One is a working interest owner in this well as a result of a participation agreement and a joint operating agreement with Brigham and Energy One's legal position is aligned with Brigham. All funds due to Energy One on this well have been distributed to Energy One and there are no undistributed suspended funds held in suspense by Brigham for Energy One. Although initially listed as a defendant in this proceeding, Brigham and Energy One anticipate filing with the court documents to change Energy One's status to an additional plaintiff.

Mining Permits

The Mount Emmons molybdenum property is located on fee property within the boundary of USFS land. Although mining of the mineral resource will occur on the fee property, associated ancillary activities will occur on USFS land. USE submitted a full mine plan of operations in part to satisfy the requirements of the conditional water rights decree on October 10, 2012. Under the procedures mandated

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(Continued)

by National Environmental Protection Act ("NEPA"), the USFS will prepare an environmental analysis in the form of an Environmental Assessment and/or and Environmental Impact Statement to evaluate the predicted environmental and social economic impacts of the proposed development and mining of the Mount Emmons molybdenum property. The NEPA process provides for public review and comment of the proposed plan.

Obtaining and maintaining the various permits for the mining operations at Mount Emmons will be complex, time-consuming, and expensive. Changes in a mine's design, production rates, quality of material mined, and many other matters, often require submission of the proposed changes for agency approval prior to implementation. In addition, changes in operating conditions beyond our control, or changes in agency policy and Federal and State law, could further affect the successful permitting of the mine operations.

Although USE believes that the plan of operations for Mount Emmons will ultimately be approved by the USFS, this cannot be guaranteed. Moreover, the timing and cost, and ultimate success of the mining operation, cannot be predicted.

401(K) Plan

The Board of Directors of USE adopted the U.S. Energy Corp. 401(K) Plan in 2004. USE matches 50% of an employee's salary deferrals up to a maximum contribution per employee of $4,000 annually. USE expensed $54,000, $57,000, and $49,000 for the years ended December 31, 2012, 2011 and 2010, respectively, related to these contributions.

Executive Officer Compensation

In December 2001, the Board of Directors adopted (and the shareholders subsequently approved) the 2001 Stock Award Plan to compensate its executive officers. The Stock Award Plan was amended on June 22, 2007 with shareholder approval. Under the plan, 20,000 shares may be issued annually to each officer during his employment. During the years ended December 31, 2012, 2011 and 2010, USE collectively issued 60,000, 75,000, and 80,000 shares of stock to these officers, respectively. While in USE's employ, the officers have agreed not to sell, pledge or otherwise dispose of or encumber the shares granted under the 2001 Stock Award Plan. In consideration of this agreement USE has agreed to pay all taxes due on the shares granted to the officers. With the approval of the 2012 Equity Plan by the shareholders at the June 29, 2012 Annual Meeting, the 2001 Stock Compensation Plan (the "2001 SCP") terminates on April 20, 2013. The last shares issued under the 2001 SCP will be issued in April 2013. All future stock awards will be issued pursuant to the 2012 Equity Plan.

USE committed to pay the surviving spouse of the former Chairman and Founder, who passed away on September 4, 2006, one years' full salary and 50% of that amount annually for an additional four years thereafter. During the three years ended December 31, 2012, 2011, and 2010, USE paid $0, $57,000, and $85,000, respectively. The Board of Directors also approved payment of 50% of the then existing wages to USE's former General Counsel for a period of five years. USE has paid $85,000 annually under this agreement beginning at the date of retirement, January 12, 2007, to January 12, 2012.

On October 20, 2005, the Board of Directors adopted an Executive Retirement Policy for the then Chairman/CEO President/COO and CFO/Treasurer/V.P. Finance. Under the terms of the Retirement Plan, the retired executive will receive payments equaling 50% of the greater of (i) the amount of compensation the Executive Officer received as base cash pay on his/her final regular pay check or (ii)

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the average annual pay rate, less all bonuses, he/she received over the last five years of his/her employment with Company. To be eligible for this benefit, the executive officer must serve in one of the designated executive offices for 15 years, reach the age of 60 and be an employee of USE on December 31, 2010. Under each executive's employment contract USE has also agreed to pay for health insurance for the executive and his spouse from date of retirement, after age 60, until the executive is eligible for Medicare. During 2007, the Board of Directors voted unanimously to fund the retirement benefit for the then active officers who qualified under the plan. The funding is held in a separate trust account that is managed by an independent trustee and is subject only to the claims of creditors in the event of insolvency of USE. At December 31, 2012, USE had funded the executive retirement account with the amount calculated by a third party actuary, of $1.0 million, which is recorded as Other Long Term Assets. Additional amounts will be deposited annually until each executive's 60th birthday. As of June 30, 2011 the former CFO/Treasurer/V.P. Finance retired. During the year ended December 31, 2012 and 2011 the former CFO/Treasurer/V.P. Finance received payments totaling $122,000 and $50,000, respectively from the Retirement Plan. At December 31, 2012, there were two officers who were included in the Retirement Plan and three that may qualify for the health insurance benefit.

Compensation expense for executives under the retirement plan for the year ended December 31, 2012, 2011 and 2010 was $80,000, $72,000, and $314,000, respectively. The total accrued liability for executive retirement under all plans at December 31, 2012, 2011 and 2010 was $903,000, $947,000, and $1.0 million, respectively.

USE has also established a mandatory retirement age of 70 unless the board specifically requests the services of an employee or officer beyond that age. Certain officers and one employee have agreements for payment of severance in the event of a change of control of USE.

Operating Leases

USE is the lessor of portions of the office buildings and building improvements that it owns. USE occupies the majority of its main office building. The leases are accounted for as operating leases and provide for minimum monthly receipts of $8,000 through December 31, 2013. Rental income under the agreements was $170,000, $101,000, and $98,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Future minimum receipts for non-cancelable operating leases are $77,000 for the year ended December 31, 2013.

U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

O. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	(In thousands except per share data) Three Months Ended			
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Operating revenues	$ 8,038	$ 7,639	$ 8,522	$ 8,335
Operating (loss)	$ (5,932)	$ (2,709)	$ (991)	$ (712)
Income (loss) before income tax and discontinued operations	$ (6,131)	$ (3,155)	$ 624	$ (833)
Benefit from (provision for) income taxes	$ (1,250)	$ 1,285	$ (379)	$ 388
Discontinued operations, net of tax	$ (548)	$ (75)	$ (1,235)	$ 64
Net income (loss)	$ (7,929)	$ (1,945)	$ (990)	$ (381)
Loss per share, basic				
Continuing operations	$ (0.27)	$ (0.07)	$ 0.01	$ (0.01)
Discontinued operations	(0.02)	--	(0.05)	--
	$ (0.29)	$ (0.07)	$ (0.04)	$ (0.01)
Basic weighted average shares outstanding	27,475,813	27,468,355	27,460,483	27,438,584

Loss per share, diluted				
Continuing operations	$ (0.27)	$ (0.07)	$ 0.01	$ (0.01)
Discontinued operations	(0.02)	--	(0.05)	--
	$ (0.29)	$ (0.07)	$ (0.04)	$ (0.01)
Diluted weighted average shares outstanding	27,475,813	27,468,355	27,460,483	27,438,584

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U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

	(In thousands except per share data) Three Months Ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Operating revenues	$ 7,107	$ 9,972	$ 8,148	$ 4,883
Operating income (loss)	$ (2,475)	$ 875	$ 400	$ (4,864)
Income (loss) before income tax and discontinued operations	$ (2,362)	$ 1,022	$ 339	$ (4,932)
Benefit from (provision for) income taxes	$ 2,671	$ (892)	$ (618)	$ 2,594
Discontinued operations, net of tax	$ (3,100)	$ 138	$ 204	$ 129
Net income (loss)	$ (2,791)	$ 268	$ (75)	$ (2,209)
Income (loss) per share, basic				
Continuing operations	$ 0.01	$ --	$ (0.01)	$ (0.08)
Discontinued operations	(0.12)	0.01	0.01	--
	$ (0.11)	$ 0.01	$ --	$ (0.08)
Basic weighted average shares outstanding	27,288,470	27,259,174	27,220,049	27,186,438
Income (loss) per share, diluted				
	$ 0.01	$ --	$ (0.01)	$ (0.08)

Continuing operations				
Discontinued operations	(0.12)	0.01	0.01	--
	$ (0.11)	$ 0.01	$ --	$ (0.08)
Diluted weighted average shares outstanding	27,288,470	27,862,098	27,866,544	27,186,438

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U.S. ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011, and 2010
(Continued)

	(In thousands except per share data) Three Months Ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Operating revenues	$ 5,023	$ 5,717	$ 6,218	$ 7,709
Operating income (loss)	$ (2,862)	$ (958)	$ (297)	$ 1,250
Income (loss) before income tax and discontinued operations	$ (2,359)	$ (950)	$ (176)	$ 2,340
Benefit from (provision for) income taxes	$ 1,975	$ 634	$ 17	$ (888)
Discontinued operations, net of tax	$ (1,549)	$ 81	$ 28	$ 75
Net income (loss)	$ (1,933)	$ (235)	$ (131)	$ 1,527
Income (loss) per share, basic				
Continuing operations	$ (0.02)	$ (0.01)	$ --	$ 0.06
Discontinued operations	(0.05)	--	--	--
	$ (0.07)	$ (0.01)	$ --	$ 0.06
Basic weighted average shares outstanding	26,973,834	26,855,513	26,734,636	26,487,162
Income (loss) per share, diluted				
Continuing operations	$ (0.02)	$ (0.01)	$ --	$ 0.05

Discontinued operations	(0.05)	--	--	--
	$ (0.07)	$ (0.01)	$ --	$ 0.05
Diluted weighted average shares outstanding	26,973,834	26,855,513	26,734,636	27,785,572

P. SUBSEQUENT EVENTS

Asset Sales

During the first quarter of 2013, the Company sold its corporate aircraft for $1.9 million and its aircraft hangar and related facilities for $767,000.

On March 5, 2013, the Company entered into a Purchase and Sale Agreement ("PSA") with an undisclosed buyer to sell its Remington Village apartment complex located in Gillette, Wyoming for $15.0 million. The PSA is subject to a 30 day due diligence period whereby $150,000 in earnest money will be non-refundable. The transaction is anticipated to close on May 6, 2013 although there is no assurance that the transaction will close at this time. If the closing takes place, after selling costs, the Company expects to net $14.8 million from this sale and will retire a $9.6 million note related to this asset with the proceeds from the sale.

Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Effectiveness of Disclosure Controls and Procedures

We are required to maintain disclosure controls and procedures (as defined by Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that required information is recorded, processed, summarized and reported within the required timeframe, as specified in the rules set forth by the SEC. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012 and, based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Forward looking statements regarding the effectiveness of internal controls during future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2012, our internal control over financial reporting was effective based on those criteria.

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Our internal control over financial reporting as of December 31, 2012, has been audited by Hein & Associates LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Hein & Associates LLP's report on our internal control over financial reporting appears on page 133 of this Annual Report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited U.S. Energy Corp. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. U.S. Energy Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, U.S. Energy Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of U.S. Energy Corp. and subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012, and our report dated March 15, 2013 expressed an unqualified opinion.

HEIN & ASSOCIATES LLP
Denver, Colorado
March 15, 2013

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Item 9B – Other Information

None

PART III

In the event a definitive proxy statement containing the information being incorporated by reference into this Part III is not filed within 120 days of December 31, 2012, we will file such information under cover of a Form 10-K/A.

Item 10 – Directors, Executive Officers and Corporate Governance

The information required by Item 10 with respect to directors and certain executive officers is incorporated herein by reference to our Proxy Statement for the Meeting of Shareholders to be held on June 21, 2013, under the captions “Proposal 1: Election of Directors”, “Filing of Reports under Section 16(a)”, and “Business Experience of Directors, Nominees and Officers”.

USE has adopted a Code of Ethics. A copy of the Code of Ethics will be provided to any person without charge upon written request addressed to Steven R. Youngbauer, Secretary, 877 North 8th West, Riverton, Wyoming 82501.

Information Concerning Executive Officers Who Are Not Directors

Steven R. Youngbauer is not a director of the Company. Mr. Youngbauer (age 63) has been the General Counsel and Corporate Secretary of the Company since January 23, 2007. He serves at the will of the board of directors. There are no understandings between Mr. Youngbauer and any other person pursuant to which he was named an officer or General Counsel. He has no family relationships with any of the other executive officers or directors of the Company. During the past five years, Mr. Youngbauer has not been involved in any Reg. S-K Item 401(f) proceeding.

Steven D. Richmond is not a director of the Company. Mr. Richmond (age 42) has been Chief Financial Officer of the Company since September 7, 2012. He serves at the will of the board of directors. There are no understandings between Mr. Richmond and any other person pursuant to which he was named an officer. He has no family relationships with any of the other executive officers or directors of the Company. During the past five years, Mr. Richmond has not been involved in any Reg. S-K Item 401(f) proceeding.

Item 11 - Executive Compensation

The information required by Item 11 is incorporated herein by reference to the Proxy Statement for the Meeting of Shareholders to be held on June 21, 2013, under the captions “Executive Compensation” and “Non-Employee Director Compensation”.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference to the Proxy Statement for the Meeting of Shareholders to be held on June 21, 2013, under the caption "Principal Holders of Voting Securities" and “Ownership by Officers and Directors”.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated herein by reference to the Proxy Statement for the Meeting of Shareholders to be held on June 21, 2013, under the caption "Certain Relationships and Related Transactions."

Item 14 - Principal Accounting Fees and Services

The information required by Item 14 is incorporated herein by reference to the Proxy Statement for the Meeting of Shareholders to be held on June 21, 2013, under the caption "Principal Accountant Fees and Services".

Glossary of Oil and Gas Terms

The following are abbreviations and definitions of certain terms commonly used in the oil and gas industry and in this report. The definitions of proved developed reserves, proved reserves and proved undeveloped reserves have been abbreviated from the applicable definitions contained in Rule 4-10(a)(2-4) of Regulation S-X.

3-D seismic. The method by which a three dimensional image of the earth's subsurface is created through the interpretation of reflection seismic data collected over surface grid. 3-D seismic surveys allow for a more detailed understanding of the subsurface than do conventional surveys and contribute significantly to field appraisal, development and production.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

Bcfe. One billion cubic feet of natural gas equivalent. In reference to natural gas, natural gas equivalents are determined using the ratio of 6 Mcf of natural gas to 1 Bbl of oil, condensate or natural gas liquids.

Boe. A barrel of oil equivalent is determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquid.

Completion. The installation of permanent equipment for the production of oil or natural gas. Completion of the well does not necessarily mean the well will be profitable.

Completion Rate. The number of wells on which production casing has been run for a completion attempt as a percentage of the number of wells drilled.

Developed Acreage. The number of acres, which are allocated or assignable to producing wells or wells capable of production.

Development Well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry Well. A well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion of an oil or gas well.

Exploratory Well. A well drilled to find and produce oil or natural gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.

Fault. A break in the rocks along which there has been movement of one side relative to the other side.

Fault Block. A body of rocks bounded by one or more faults.

Gross Acres or Gross Wells. The total acres or wells, as the case may be, in which we have a working interest.

Lease Operating Expenses. The expenses, usually recurring, which pay for operating the wells and equipment on a producing lease.

Mcf. One thousand cubic feet of natural gas.

MMBtu. One million Btu, or British Thermal Units. One British Thermal Unit is the quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

Net Acres or Net Wells. Gross acres or wells multiplied, in each case, by the percentage working interest we own.

Net Production. Production that we own less royalties and production due others.

Oil. Crude oil, condensate or other liquid hydrocarbons.

Operator. The individual or company responsible for the exploration, development, and production of an oil or gas well or lease.

Pay. The vertical thickness of an oil and gas producing zone. Pay can be measured as either gross pay, including non-productive zones or net pay, including only zones that appear to be productive based upon logs and test data.

PV10. The pre-tax present value of estimated future revenues to be generated from the production of proved reserves calculated in accordance with SEC guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.

Proved Developed Reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved Reserves. The estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved Undeveloped Reserves. Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Royalty. An interest in an oil and gas lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage (or of the proceeds of the sale thereof), but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage. Royalties may be either landowner's royalties, which are reserved by the owner of the leased acreage at the time the lease is granted, or overriding royalties, which are usually reserved by an owner of the leasehold in connection with a transfer to a subsequent owner.

Standardized Measure. The after-tax present value of estimated future revenues to be generated from the production of proved reserves calculated in accordance with SEC guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.

Trend. A geographical area that has been known to contain certain types of combinations of reservoir rock, sealing rock and trap types containing commercial amounts of hydrocarbons.

Working Interest. An interest in an oil and gas lease that gives the owner of the interest the right to drill for and produce oil and natural gas on the leased acreage and requires the owner to pay a share of the costs of drilling and production operations.

PART IV

Item 15 – Exhibits and Financial Statement Schedules

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Report of Independent Registered Public Accounting Firm	81
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Consolidated Balance Sheets as of December 31, 2012 and 2011	82
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Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2012, 2011 and 2010	86
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All schedules are omitted because the required information is not applicable or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the Consolidated Financial Statement and Notes thereto.

(b) Exhibits. The following exhibits are filed or furnished with or incorporated by reference into this report on Form 10-K:

3.1**	Restated Articles of Incorporation (incorporated by reference form Exhibit 4.1 to the Company's Registration Statement on Form S-3, [333-162607] filed October 21, 2009)
3.2**	Restated Bylaws, as amended through April 17, 2009 (incorporated by reference from Exhibit 3.2 to the Company's Report on Form 8-K filed April 21, 2009)
4.1(a)**	Wells Fargo Bank, National Association – Credit Agreement (incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed August 2, 2010)
4.1(b)**	Wells Fargo Bank, National Association – Mortgage Agreement (incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed August 2, 2010)
4.1(c)**	Wells Fargo Bank, National Association – Guaranty (incorporated by reference from Exhibit 10.3 to the Company's Form 8-K filed August 2, 2010)
10.1**†	USE 2001 Officers' Stock Compensation Plan (incorporated by reference from Exhibit 4.21 to the Company's Annual Report on Form 10-K filed September 13, 2002)

10.2**†	2001 Incentive Stock Option Plan (amended in 2003) (incorporated by reference from Exhibit 4.2 to the Company's Annual Report on Form 10-K filed April 15, 2005)
10.3**	2008 Stock Option Plan for Independent Directors and Advisory Board Members (incorporated by reference from Exhibit 4.3 to the Company's Annual Report on Form 10-K filed March 13, 2009)
10.4**	U.S. Energy Corp. Employee Stock Option Plan (incorporated by reference from Exhibit 4.1 to the Company's S-8 filed April 13, 2012)
10.5**	2012 Equity Plan (incorporated by reference from Appendix A to the Company's Proxy Statement Form DEF14A filed April 30, 2012)
10.5.1*	Form of Grant to the 2012 Equity Plan

10.6**	Form of Production Payment Royalty Agreement (Exhibit A to the Asset Purchase Agreement with sxr Uranium One, Inc.) (incorporated by reference from Exhibit 10.2 to the Company's Report on Form 8-K filed February 23, 2007)
10.7(a)**†	Executive Employment Agreement – Keith G. Larsen (effective 4-20-12) (incorporated by reference from Exhibit 10.1 to the Form 8-K filed January 17, 2012)
10.7(b)**†	Executive Employment Agreement – Mark J. Larsen (effective 4-20-12) (incorporated by reference from Exhibit 10.2 to the Form 8-K filed January 17, 2012)
10.7(c)**†	Executive Employment Agreement – Steven R. Youngbauer (effective 4-20-12) (incorporated by reference from Exhibit 10.3 to the Form 8-K filed January 17, 2012)
10.8**	Agreement for Purchase of Leasehold Interests in McKenzie and Williams Counties, North Dakota (Brigham Oil & Gas, L.P.) (incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K filed March14, 2012)
10.9(a)**	Agreement for Purchase of Leasehold Interests in McKenzie County, North Dakota (Geo Resources, Inc.) (incorporated by reference from Exhibit 10.7(a) to the Company's Annual Report on Form 10-K filed March14, 2012)
10.9(b)**	Amendments (5) to Agreement for Purchase of Leasehold Interest in McKenzie County, North Dakota (Geo Resources, Inc.) (incorporated by reference from Exhibit 10.7(b) to the Company's Annual Report on Form 10-K filed March14, 2012)
14.0**	Code of Ethics (incorporated by reference from Exhibit 14 to the Company's Annual Report on Form 10-K filed March 30, 2004)
21.1*	Subsidiaries of Registrant
23.0*	Consent of Ryder Scott Company L.P.
23.1*	Consent of Cawley, Gillespie & Associates, Inc.
23.2*	Consent of Netherland, Sewell & Associates, Inc.
23.3*	Consent of Independent Registered Accounting Firm (Hein & Associates LLP)
31.1*	Certification under Rule 13a-14(a) Keith G. Larsen

31.2*	Certification under Rule 13a-14(a) Steven D. Richmond
32.1*	Certification under Rule 13a-14(b) Keith G. Larsen
32.2*	Certification under Rule 13a-14(b) Steven D. Richmond
99.1*	Reserve Report (Cawley, Gillespie & Associates, Inc.)
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

* Filed herewith. ** Previously filed.
† Exhibit constitutes a management contract or compensatory plan or agreement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

U.S. ENERGY CORP. (Registrant)

Date: March 15, 2013	By:	/s/ Keith G. Larsen KEITH G. LARSEN, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 15, 2013	By:	/s/ Keith G. Larsen KEITH G. LARSEN, Director, Chairman and CEO (Principal Executive Officer)
Date: March 15, 2013	By:	/s/ Steven D. Richmond STEVEN D. RICHMOND Chief Financial Officer (Principal Financial Officer)
Date: March 15, 2013	By:	/s/ Bryon G. Mowry BRYON G. MOWRY Principal Accounting Officer
Date: March 15, 2013	By:	/s/ Mark J. Larsen MARK J. LARSEN, President and Director
Date: March 15, 2013	By:	/s/ Robert Scott Lorimer ROBERT SCOTT LORIMER, Director
Date: March 15, 2013	By:	/s/ Stephen V. Conrad STEPHEN V. CONRAD, Director
Date: March 15, 2013	By:	s/ Jerry W. Danni JERRY W. DANNI, Director
Date: March 15, 2013	By:	/s/ Leo A. Heath LEO A. HEATH, Director
Date: March 15, 2013	By:	/s/ Thomas R. Bandy THOMAS R. BANDY, Director

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