U.S. ENERGY CORP. & SUBSIDIARIES

Compensation Committee Charter

(as adopted April 26, 2004 and amended on August 9, 2006)

Role of the Compensation Committee

The Compensation Committee is appointed by the Board of Directors to:

- assist the Board in fulfilling its responsibility to oversee the compensation and benefits of the Company's executive officers and other employees of U. S. Energy Corp; and

- prepare any reports on executive compensation required by Nasdaq and by the rules and regulations of the Securities and Exchange Commission for inclusion in the Company's annual proxy statements, if necessary.

Qualifications and Appointment of Compensation Committee Members

On the recommendation of the Governance Committee, the Board of Directors appoints the Chair and the members of the Compensation Committee, having determined their qualifications. Compensation Committee members shall serve at the pleasure of the Board of Directors and for such term or terms as the Board may determine.

The Compensation Committee shall consist of no fewer than three members. Each member of the Compensation Committee shall be independent, a "Non-Employee Director" for the purposes of Rule 16b-3 under the Securities Exchange Act of 1934, and an "outside director" for the purposes of Section 162(m) of the Internal Revenue Code.

Compensation Committee Responsibilities

In carrying out its responsibilities, the Compensation Committee shall:

- Oversee the development and administration of the Company's compensation and benefit programs, including equity-based incentive programs, for executive officers and other employees of the Company;

- With respect to the Chief Executive Officer: approve the corporate goals and objectives relevant to the Chief Executive Officer's total compensation;

- Evaluate the Chief Executive Officer's performance in light of such goals and objectives; and endorse, for approval by the full Board of Directors, the Chief Executive Officer's total compensation package, including stock options, stock grants and bonuses, based on such evaluation. In accordance with NASDAQ rule 4350(c) the Chief Executive Officer may not be present during these

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compensation discussions. The Compensation Committee may, however, at its discretion invite the CEO/Chairman and or other senior management team members into the discussions to ask their opinions regarding appropriate compensation levels and evaluation of performance. Actual deliberations approving the compensation package of the CEO/Chairman will be done solely by the Compensation Committee without the CEO/Chairman present;

- Review performance, in comparison to previously established goals, work performed by all Executive Officers and any employees which are compensated in excess of $100,000 per year or who are required to be disclosed in the annual Proxy Statement pursuant to Item 201(d) of Regulation S-K. Executive Officers, in addition to the CEO and Chairman, include the President/COO, Chief Financial Officer, Treasurer, Vice Presidents, and General Counsel. During the review process as well as the recommendation of compensation packages, the CEO/Chairman of the Company is allowed to participate with the Compensation Committee pursuant to NASDAQ rule 4350(c). Although the CEO/Chairman is allowed to participate in all discussions regarding Executive Officers and employees compensated in excess of $100,000 per year, the CEO/Chairman will recuse himself/herself during the actual setting of compensation packages for any Executive Officers or employees compensated in excess of $100,000 per year who are related to the CEO/Chairman. (For definition of related individuals or family members please see U.S. Energy Corp. policy on nepotism.);

- On behalf of the Board of Directors, oversee the administration of the Company's compensation and benefit programs;

- Exercise sole authority to retain, terminate and approve the fees and other retention terms of any compensation consultant retained to assist the Committee in evaluating Chief Executive Officer or senior executive officer compensation;

- Make regular reports to the Board of Directors about the Committee's activities; and

- Meet at least two times a year, either in person or telephonically.

The Compensation Committee may delegate to a subcommittee or to the Chief Executive Officer or other officer of the Company such of its duties and responsibilities as the Committee deems to be in the best interests of the Company, provided such delegation is not prohibited by law.

Annual Committee Report to Shareholders

Annually, the Committee shall produce, if necessary, any report on executive compensation that is required by the rules and regulations of the Securities and Exchange

Commission for inclusion in the Company's proxy statement in accordance with applicable rules and regulations of the Commission.

Annual Evaluation of the Committee's Performance

Annually, the Committee shall conduct an evaluation of its performance.

Pursuant to the Nominating Committee Charter it is the responsibility of the Compensation Committee to determine participation in Executive Compensation and Retirement Plans for any newly appointed Executive Officers. Compensation Plans to which this policy does not apply are:

- First time salary determination unless it is in excess of $100,000 at which time the Compensation Committee will work directly with the Nominating Committee and Management of the Company to establish proper base compensation ranges to be offered to potential candidates for Executive Officer positions.
- ESOP – This plan has established rules for participation which are governed by the Internal Revenue Code as well as the Fair Labor Standards Act and the U.S. Department of Labor. The Compensation Committee may not change any of the provisions of participation in the ESOP.
- Established health and life insurance plans – these plans have detailed participation rules which may not be altered by the Compensation Committee.
- 401(k) – This retirement plan is governed by Federal laws and administered by a Trustee. The Compensation Committee may not alter the participation rules of this plan.
- 1992 Restricted Stock Bonus Plan and the 1996 Stock Award Plan. Both these Plans are completely filled and may not be altered.
- The granting of equity instruments to directors, officers and employees must be pursuant to an approved plan which has been voted on by the shareholders pursuant to NASDAQ rule 4350(i)(A). No equity instruments in the form of common stock, options etc. may be granted by the Compensation Committee to employees, directors or officers without a formal plan being first established and secondly voted up on and approved by a majority vote of the shareholders.

The Compensation Committee can evaluate each newly appointed Executive Officer and determine to what level he/she is allowed to participate in established Executive Compensation and Retirement Plans. The criteria on which the Compensation Committee should determine participation are (1) professional credentials, (2) education, (3) industry experience, (4) special skills within the field of expertise, (5) years of service to the Company and (6) recommendations of the Nominating Committee.

Those Plans in which the Compensation Committee may make recommendations to the full Board of Directors on behalf of newly appointed Executive Officers under the First Amendment to the Nominating Committee Charter:

- 2001 Stock Bonus Plan – this plan was approved by a vote of the shareholders of U.S. Energy Corp. Any modification to the number of participants or number of shares available annually to the Executive Officers must be approved by the shareholders. As long as an Executive Officer is vacating a position the Compensation Committee, subject to a one year waiting period, may determine to what level the newly appointed Executive Officer may participate in this Plan. The approval may be for 100% of the previous Executive Officer's participation, some percentage thereof or a graduated percentage over time.
- 2001 ISOP (Incentive Stock Option Plan) – this plan was approved by the shareholders of the Company and includes an evergreen provision which allows the number of shares available for option exercise under the plan to be "renewed" pursuant to the number of shares of common stock the Company has outstanding. This provision of the 2001 ISOP makes optionable shares available from time to time. The Compensation Committee can recommend that options be granted to the newly elected Executive Officer when available. The options must be granted at market and may not have a life longer than 10 years.

All other Plans are governed by the specific terms of each Plan. The Compensation Committee is not allowed to change the terms with the exception of the unanimous consent of the full Board of Directors.

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