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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. |X|

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |\_|

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. |\_|

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. Our selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION,  
DATED JULY 16, 2004

UNITED ENERGY CORP.

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2,500,000 SHARES

COMMON STOCK

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TO BE OFFERED BY THE  
HOLDER OF A SECURED  
CONVERTIBLE TERM NOTE  
AND COMMON STOCK PURCHASE  
WARRANT OF  
UNITED ENERGY CORP.  
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This prospectus relates to the sale of up to 2,500,000 shares of our common stock by Laurus Master Fund, Ltd., as the selling stockholder. The shares offered by this prospectus include 1,750,000 shares of our common stock issuable upon conversion of an outstanding secured convertible term note, 450,000 shares issuable on account of interest and any possible penalties or anti-dilution adjustments relating to the term note and up to 300,000 shares of our common stock issuable upon exercise of an outstanding common stock purchase warrant. These shares may be sold by the selling stockholder from time to time in the over-the-counter market or other national securities exchange or automated interdealer quotation system on which our common stock is then listed or quoted, through negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices.

Pursuant to registration rights granted to the selling stockholder, we are obligated to register the shares which may be acquired upon conversion of a secured convertible term note and exercise of a common stock purchase warrant by the selling stockholder. We will receive none of the proceeds from the sale of the shares by the selling stockholder, except upon exercise of the common stock purchase warrant. We will bear all expenses of registration incurred in connection with this offering, but all selling and other expenses incurred by the selling stockholder will borne by it.

Our common stock is quoted on the OTC Bulletin Board under the symbol UNRG.OB. The high and low bid prices for shares of our common stock on July 13, 2004, were \$1.06 and \$.95 per share, respectively, based upon bids that represent prices quoted by broker-dealers on the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

The selling stockholder and any broker-dealer executing sell orders on behalf of the selling stockholder may be deemed to be "underwriters" within the meaning of the Securities Act of 1933. Commissions received by any broker-dealer may be deemed to be underwriting commissions under the Securities Act of 1933.

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These securities involve a high degree of risk. Please carefully review  
the section titled "Risk Factors" beginning on page 2.  
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NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES

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COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES  
OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION  
TO THE CONTRARY IS A CRIMINAL OFFENSE.

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THE DATE OF THIS PROSPECTUS IS JULY \_\_, 2004

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS.  
WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM  
THAT CONTAINED IN THIS PROSPECTUS. THIS PROSPECTUS IS NOT AN OFFER TO SELL, OR A  
SOLICITATION OF AN OFFER TO BUY, SHARES OF COMMON STOCK IN ANY JURISDICTION  
WHERE OFFERS AND SALES WOULD BE UNLAWFUL. THE INFORMATION CONTAINED IN THIS  
PROSPECTUS IS COMPLETE AND ACCURATE ONLY AS OF THE DATE ON THE FRONT COVER OF  
THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY  
SALE OF THE SHARES OF COMMON STOCK.

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SUMMARY

You should read the following summary together with the more detailed information contained elsewhere in this prospectus, including the section titled "Risk Factors," regarding our company and the common stock being sold in this offering. Unless the context otherwise requires, "we," "our," "us" and similar phrases refer to United Energy Corp.

OUR BUSINESS

We develop, manufacture and sell environmentally friendly specialty chemical products. Our leading product, KH30(R), a multifunctional dispersant, and related line of biodegradable products, KX91(R) and KH30S(R), are used as cleaners in oil and gas wells, pipelines and storage tanks. These products are designed to remove and prevent the buildup of paraffin and asphalt in wells to increase production for our oil industry customers.

We also produce and sell our Uniproof(R) proofing paper (sometimes known as "blue line" paper), which has a photosensitive coating and is used in the graphic arts and printing industry. This product has historically accounted for the largest share of our revenue, but has become less a focus in recent years due to a slowdown in the printing industry.

Although still in testing, in the future we expect to release a new environmentallyfriendly product called Slick Barrier, which is an underwater protective coating that prevents the adherence of barnacles to the hulls of boats.

CORPORATE INFORMATION

Our principal executive offices are located at 600 Meadowlands Parkway, #20, Secaucus, New Jersey 07094, and our telephone number is (201) 8420288. We also maintain a regional sales office in Houston, Texas to service our oil industry customers. Our website is located at www.unitedenergycorp.net. Information on our website is not part of this prospectus.

THE OFFERING

Common stock offered by the selling stockholder:

Number of shares that may be issued upon conversion of outstanding secured convertible term note.....2,200,000 shares

Number of shares that may be issued upon exercise of outstanding common stock purchase warrant..... 300,000

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Total shares offered.....2,500,000  
Common stock outstanding.....22,180,270 shares (1)  
Use of proceeds.....We will receive none of  
the proceeds from the  
sale of the shares by the  
selling stockholder,  
except upon exercise of  
the common stock purchase  
warrant.  
OTC Bulletin Board symbol.....UNRG.OB

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(1) As of July 15, 2004. Does not include shares of our common stock that are reserved for issuance pursuant to an outstanding secured convertible term note and common stock purchase warrant, and shares available for future issuance under our 2001 Equity Incentive Plan.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following material risks, together with the other information contained in this prospectus, before you decide to buy our common stock. If any of the following risks actually occur, our business, results of operations and financial condition would likely suffer. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

WE HAVE A CURRENT ACCUMULATED DEFICIT OF \$10.5 MILLION AND IF WE CONTINUE TO INCUR OPERATING LOSSES, WE MAY BE UNABLE TO SUPPORT OUR BUSINESS PLAN, WHICH WILL HAVE A DETRIMENTAL EFFECT ON THE LONGTERM CAPITAL APPRECIATION OF OUR STOCK.

We have incurred losses in each of our last three fiscal years. As of March 31, 2004, we had an accumulated deficit of \$10,543,092. If we continue to incur operating losses and fail to become a profitable company, we may be unable to support our business plan, namely to support the marketing efforts for our KH30(R) oil and gas well cleaner. We incurred net losses of \$2,569,098, \$2,829,000 and \$1,364,576 in the fiscal years ended March 31, 2004, 2003 and 2002, respectively. The net loss for the fiscal year ended March 31, 2004 is due in part to lowerthanexpected sales of Uniproof proofing paper during that period. Our future profitability depends in large part on our ability to successfully market and support our KH30 oil and gas well cleaner. We cannot assure you that we will achieve or sustain significant sales or profitability in the future. This will have a detrimental effect on the longterm capital appreciation of our stock.

THERE ARE SIGNIFICANT OBSTACLES TO ENTERING THE OIL AND GAS PRODUCING INDUSTRY WHICH HAVE CONTRIBUTED TO THE SLOW PACE AT WHICH OUR KH30 PRODUCT IS BEING INTRODUCED TO THE MARKET, MAKING OUR PROSPECTS LESS CERTAIN.

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Our business plan is focused largely on marketing efforts for KH30. Although we believe that the application of KH30 on a continuous basis will result in higher production and lower lease operating costs, the introduction of KH30 into the oil and gas producing industry has been extremely difficult. Many entrenched players such as the "hot oilers" and the major oil service companies who benefit from high markups on their proprietary products have no incentive to promote the use of KH30. Moreover, oil production engineers are extremely reluctant to risk damage to a well from a product that does not have the endorsement and backing of a major enterprise. Consequently, the pace of introduction of KH30 has been much less rapid than we initially expected. If we and our KH30 marketing partners are unable to successfully achieve market acceptance for KH30, our future results of operations and financial condition will be adversely affected, making our prospects less certain.

IF WE ARE UNABLE TO IMPROVE SALES OF UNIPROOF, WE MAY NOT BE ABLE TO GENERATE SUBSTANTIAL REVENUES OR ACHIEVE PROFITABILITY, WHICH WOULD SERIOUSLY IMPAIR OUR ABILITY TO MARKET KH30.

Our success to date has been substantially dependent on sales of our Uniproof proofing paper. Sales of our Uniproof proofing paper accounted for approximately 46%, 59% and 74% of revenues for the fiscal years ended March 31, 2004, 2003 and 2002, respectively. Our business plan is to use whatever Uniproof proofing paper sales we realize to provide cash flow to support worldwide marketing efforts for our KH30 oil and gas well cleaner and, to a lesser extent, the other specialty chemical products developed by us. The decline in the level of the United States economy during calendar years 2001-2004 severely impacted the level of proofing paper sales. This decline resulted in large part from a drop in the number of advertising pages in publications, one of the main markets in which our proofing paper is used. Revenues for the fiscal year ended March 31, 2004 were \$972,051, a \$1,260,575, or 56%, decrease from revenues of \$2,232,626 in the previous fiscal year. The decrease in revenues was primarily due to a decrease in Uniproof paper sales. If we are unable to generate significant revenue from this product, or fail to develop significant revenue from other products in its place, our business plan and financial condition will be severely affected.

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THE SUCCESS OF OUR KH30 PRODUCT WILL BE HIGHLY DEPENDENT UPON THE LEVEL OF ACTIVITY AND EXPENDITURES IN THE OIL AND NATURAL GAS INDUSTRIES AND A DECREASE IN THE LEVEL OF ACTIVITY OR EXPENDITURES WOULD IN ALL LIKELIHOOD ADVERSELY IMPACT SALES OF KH30 AND, THEREBY, OUR BUSINESS AND PROSPECTS.

We anticipate that demand for our oil and gas cleaning product will depend on oil and gas industry activity and expenditure levels that are directly affected by trends in oil and natural gas prices. We anticipate that demand for KH30 will be particularly sensitive to the level of development, production and exploration activity of, and the corresponding capital spending by, oil and natural gas companies. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty, political stability and a variety of other factors that are beyond our control. Any prolonged reduction in oil and natural gas prices will depress the level of exploration, development and production activity. Lower levels of activity are expected to result in a corresponding decline in the demand for our oil and gas well products, which could have an adverse impact on our prospects, results of operations and financial condition. Factors affecting the prices of oil and natural gas include:

- o worldwide political, military and economic conditions, including the

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ability of OPEC (the Organization of Petroleum Exporting Countries) to set and maintain production levels and prices for oil and gas;

- o overall level of global economic growth and activity;
- o global weather conditions;
- o the level of production by nonOPEC countries;
- o the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves; and
- o actual and perceived changes in the supply and demand for oil and natural gas.

Spending on exploration and production activities and capital expenditures for refining and distribution facilities by large oil and gas companies will have a significant impact on our ability to market and sell KH30, which is expected to comprise a substantial portion of our chemicals operations. Through the fiscal year ended March 31, 2004, increased customer spending contributed to higher levels of worldwide drilling activity, especially gas drilling in the United States. Historically, the markets for oil and gas have been volatile and are likely to continue to be volatile in the future.

IF OUR STRATEGIC PARTNERS DO NOT EFFECTIVELY MARKET OUR PRODUCTS, WE WILL NOT GENERATE SIGNIFICANT SALES OR PROFITS AND WE DO NOT CURRENTLY HAVE THE INTERNAL RESOURCES TO MARKET OUR PRODUCTS DIRECTLY.

We utilize third parties to assist in marketing, selling and distributing our products. We believe that the establishment of a network of thirdparty strategic partners, particularly abroad, with extensive and specific knowledge of the various applications in the oil and gas industry and printing market, respectively, is important for us to succeed in these sectors. We cannot assure you that our current or future strategic partners will purchase our products at sufficient levels or provide us with adequate support. If one or more of our partners underperforms or if any of our strategic relationships are terminated or otherwise disrupted, our operating performance, results of operations and financial condition will be adversely affected.

WE DEPEND ON A SMALL NUMBER OF CUSTOMERS FOR A SUBSTANTIAL PERCENTAGE OF OUR REVENUES, BUT WE HAVE NO LONGTERM CONTRACTS OR BINDING PURCHASE COMMITMENTS FROM THESE CUSTOMERS.

We currently have a limited number of recurring customers for our products, none of whom have entered into longterm contracts or binding purchase commitments with us. A significant portion of our revenue is earned in

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connection with sales of Uniproof proofing paper to the Alameda Company of Anaheim, California. During the fiscal years ended March 31, 2004, 2003 and 2002, sales attributable to Alameda represented approximately 46.3%, 59% and 74%, respectively, of our total revenues. Alameda did not place a paper order with us from July 2003 to March 2004, but did place a significant paper order with us in April 2004. Revenue from Alameda is expected to continue to decline as a percentage of our total revenues. A decision by Alameda to discontinue its relationship with us could result in a significant loss of revenue to us.

WE RELY ON THIRD PARTIES FOR THE RAW MATERIALS NECESSARY TO MAKE OUR



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PRODUCTS, LEAVING US POTENTIALLY VULNERABLE TO SUBSTANTIAL COST INCREASES AND DELAYS.

All of the raw materials necessary for the manufacture of our products are generally available from multiple sources, although we have negotiated favorable arrangements with our current suppliers. If one or more of our current suppliers were no longer able to supply the raw materials needed by us, we would be required to negotiate arrangements with alternate suppliers, which would likely include some cost or delay, which could be substantial. In addition, no assurance can be given that any alternative arrangements would be on terms as favorable as our current arrangements.

WE DEPEND ON INDEPENDENT MANUFACTURERS OF OUR PRODUCTS; ANY PROLONGED INTERRUPTION IN THEIR BUSINESS COULD CAUSE US TO LOSE OUR CUSTOMERS.

We do not own any manufacturing facilities. Our chemical products are generally manufactured by contract blenders at a number of different facilities. Chemical blenders are relatively easy to replace. The photosensitive coating for our Uniproof proofing paper is applied by one independent coater. While we believe these facilities have the capacity to meet our current production needs and also meet all applicable environmental regulations, we cannot be certain that these facilities will continue to meet our product needs or comply with existing or new environmental laws. In addition, these facilities are subject to risks of fire and other damage which would disrupt production of our products. To the extent we were or could be forced to find alternate facilities due to these disruptions at any facility, it would likely involve delays in manufacturing and potentially significant costs.

The chemical blenders and independent coater are bound by confidentiality agreements which obligate them not to disclose or use our proprietary information. A breach of one or more of these confidential agreements could have a detrimental effect on our business and prospects.

BECAUSE OF OUR SPECIALTY CHEMICAL BUSINESS, ENVIRONMENTAL PROBLEMS AND LIABILITIES COULD ARISE AND BE COSTLY FOR US TO CLEANUP.

We are subject to various foreign, federal, state and local laws and regulations relating to the protection of the environment including the Industrial Site Recovery Act, a New Jersey statute requiring clearance by the state prior to any sale of an industrial facility. These laws may provide for retroactive, strict liability for damages to natural resources or threats to public health and safety, or rendering a party liable for environmental damage without regard to its negligence or fault. Sanctions for noncompliance may include revocation of permits, corrective action orders, and administrative or civil penalties in criminal prosecution. We have not to date incurred any serious liabilities under environmental laws and regulations, and believe that we are in substantial compliance with applicable laws and regulations. Nevertheless, we cannot be certain that we will not encounter environmental problems or incur environmental liabilities in the future which could adversely affect our business.

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BECAUSE WE ARE SMALLER AND HAVE FEWER FINANCIAL AND MARKETING RESOURCES THAN MANY OF OUR COMPETITORS, WE MAY NOT BE ABLE TO SUCCESSFULLY COMPETE IN THE VERY COMPETITIVE SPECIALTY CHEMICAL AND PRINTING INDUSTRIES.

We compete directly or indirectly with other producers of specialty chemical products with similar uses, most of which are, or have aligned themselves with, more established companies, have greater brand recognition and have greater financial and marketing resources than we have. Generally, we

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attempt to compete by offering what we hope to be lower prices and better service. However, the prices for our KH30 and related line of cleaners are higher than competing products, and with these products, we attempt to compete by emphasizing product effectiveness and environmental safety.

We also believe that our efforts to patent the KH30 oil well cleaner in the principal oil producing countries worldwide will improve our competitive position in this market. However, we are aware that other companies may try to imitate our products or invalidate our patents. We have in the past vigorously enforced our trade secrets, such as those relating to Uniproof, and intend to continue to do so in the future. We recognize that we may incur significant costs to defend our intellectual property and that intellectual property rights provide less than complete protection.

For our Uniproof proofing paper, our principal competitor is E.I. duPont de Nemours & Co., which controls in excess of 95% of the U.S. proofing paper market estimated at \$80 million to \$100 million per year. duPont has a longer operating history, significantly larger customer base and significantly greater brand recognition and financial, marketing and other resources than we do. We attempt to compete with duPont in terms of what we consider to be better prices and service.

WE MAY NOT BE ABLE TO RETAIN RONALD WILEN, OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, WHO WE NEED TO SUCCEED, AND ADDITIONAL QUALIFIED PERSONNEL ARE EXTREMELY DIFFICULT TO ATTRACT.

Our performance depends, to a significant extent, upon the efforts and abilities of Ronald Wilen, our Chairman and Chief Executive Officer. We do not have an employment agreement with Mr. Wilen and do not maintain any keyman insurance on his life for our benefit. The loss of the services of Mr. Wilen would have a serious and adverse effect on our business, financial condition and results of operations. Our success will also be dependent to a great extent upon our ability to recruit and retain additional senior management personnel. Over the past year we have been seeking to hire additional personnel with marketing skills and experience relevant to the development and sale of KH30 and related products. Competition is intense for highly skilled personnel in our industry and, accordingly, no assurance can be given that we will be able to hire or retain necessary personnel.

OUR MANAGEMENT OWNS A SUBSTANTIAL AMOUNT OF OUR STOCK AND IS CAPABLE OF INFLUENCING OUR AFFAIRS.

Our directors and executive officers beneficially own approximately 30.4% of our outstanding common stock. These shareholders will be able to significantly influence the election of the members of our board of directors and significantly influence the outcome of corporate actions requiring shareholder approval, such as mergers and acquisitions. This level of ownership, together with particular provisions of our articles of incorporation, bylaws and Nevada law, may have a significant effect in delaying, deferring or preventing any change in control and may adversely affect the voting and other rights of other shareholders.

IF WE CANNOT PROTECT OUR PROPRIETARY RIGHTS AND TRADE SECRETS OR IF WE WERE FOUND TO BE INFRINGING ON THE PATENTS AND PROPRIETARY RIGHTS OF THIRD PARTIES, OUR BUSINESS WOULD BE SUBSTANTIALLY HARMED.

Our success depends in part on our ability to protect the proprietary nature of our products, preserve our trade secrets and operate without infringing the proprietary rights of third parties. If other companies obtain and copy our technology or other companies claim that we are making unauthorized use of their proprietary technology, we may get involved in lengthy and costly disputes to resolve questions of ownership of the technology. If we are found to

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be infringing on the proprietary rights of others, we could be required to seek licenses to use necessary technology. We cannot assure you that any licenses of thirdparty patents or proprietary rights would be made available to us on acceptable terms, if at all. In addition, the laws of some "third world" countries may not protect

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our intellectual property. To protect our proprietary rights, we seek patents and we enter into confidentiality agreements with our employees, manufacturers and marketing and distribution partners with respect to proprietary rights and unpatented trade secrets. We cannot assure you that patent applications in which we hold rights will result in the issuance of patents or that any issued patents will provide significant protection for our technology and products. In addition, we cannot assure you that other companies will not independently develop competing technologies that are not covered by our patents. There is also no assurance that confidentiality agreements will provide adequate protection for our trade secrets, knowhow or other proprietary information in the event of any unauthorized use or disclosure. Any unauthorized disclosure and use of our proprietary technology could have an adverse effect on our business, prospects, results of operations and financial condition.

IF AN EVENT OF DEFAULT OCCURS UNDER THE SECURED CONVERTIBLE TERM NOTE ISSUED TO LAURUS, IT COULD RESULT IN A SERIOUS PROBLEM FOR US AND CAUSE US TO CURTAIL OUR OPERATIONS OR SELL SOME OF OUR ASSETS TO REPAY THE NOTE.

On March 24, 2004, we issued a \$1,750,000 secured convertible term note to Laurus Master Fund, Ltd. That note provides for the following events of default:

- o failure to pay interest and principal payments when due,
- o a breach by us of any material covenant, term or condition of the note or in any related agreement,
- o a breach by us of any material representation or warranty made in the note or in any related agreement,
- o we make an assignment for the benefit of our creditors, or a receiver or trustee is appointed for us,
- o any money judgment or similar final process filed against us for more than \$250,000, which remains unvacated, unbonded or unstayed for a period of 90 days,
- o any form of bankruptcy or insolvency proceeding is instituted by or against us, which is not vacated within 90 days,
- o our common stock is suspended for five consecutive days or five days during any ten consecutive days from our principal trading market, and
- o our failure to timely deliver shares of our common stock when due upon conversions of the note.

If we default on the note and the holder demands all payments due and payable, we will be required to pay 120% of the outstanding principal amount of the note and any accrued interest. The cash required to pay those amounts will most likely come out of our working capital. Since we rely on our working capital for our daytoday operations, a default on the note could have a serious and adverse effect on our business, operating results and financial condition to such an extent that we are forced to restructure, sell some of our

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assets or curtail our operations, any of which would have a detrimental effect on the value of our common stock.

### RISKS RELATED TO OUR COMMON STOCK

THE PUBLIC MARKET FOR OUR COMMON STOCK HAS BEEN CHARACTERIZED BY A LOW VOLUME OF TRADING AND OUR STOCKHOLDERS MAY NOT BE ABLE TO RESELL THEIR SHARES AT OR ABOVE THE PRICE AT WHICH THEY PURCHASED THEIR SHARES, IF AT ALL.

Historically, the volume of trading in our common stock has been low. A more active public market for our common stock may not develop or be sustained. The market price of our common stock may fluctuate significantly in response to factors, some of which are beyond our control. These factors include:

- o product liability claims or other litigation;
- o the announcement of new products or product enhancements by us or our competitors;
- o developments concerning intellectual property rights and regulatory approvals;
- o quarterly variations in our competitors' results of operations;
- o developments in our industry; and
- o general market conditions and other factors, including factors unrelated to our own operating performance.

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The stock market in general has recently experienced extreme price and volume fluctuations. In particular, market prices of securities of specialty chemical products companies have experienced fluctuations that often have been unrelated or disproportionate to the operating results of these companies. Continued market fluctuations could result in extreme volatility in the price of shares of our common stock, which could cause a decline in the value of our shares. Price volatility may be worse if the trading volume of our common stock is low.

OUR COMMON STOCK MAY BE CONSIDERED A "PENNY STOCK" AND MAY BE DIFFICULT TO SELL WHEN DESIRED.

The SEC has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock has been less than \$5.00 per share. This designation requires any broker or dealer selling these securities to disclose specified information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of stockholders to sell their shares. In addition, since our common stock is currently quoted on the OTC Bulletin Board, stockholders may find it difficult to obtain accurate quotations of our common stock and may experience a lack of buyers to purchase our shares or a lack of market makers to support the stock price.

A SIGNIFICANT NUMBER OF OUR SHARES ARE ELIGIBLE FOR SALE AND THEIR SALE OR POTENTIAL SALE WILL PROBABLY DEPRESS THE MARKET PRICE OF OUR STOCK.

Sales of a significant number of shares of our common stock in the

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public market could harm the market price of our common stock. As additional shares of our common stock become available for resale in the public market pursuant to this registration of shares, the supply of our common stock will increase, which could decrease its price. Some or all of the shares of our common stock also may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect on the market for our common stock. In general, a person who has held restricted shares for a period of one year may, upon the filing with the SEC of a notification on Form 144, sell into the market common stock in an amount equal to the greater of 1% of the outstanding shares or the average weekly number of shares sold in the last four weeks prior to such sale. These sales may be repeated once each three months, and all of the restricted shares may be sold by a nonaffiliate after they have been held two years.

WE DO NOT ANTICIPATE PAYING DIVIDENDS ON OUR COMMON STOCK IN THE FORESEEABLE FUTURE AND THEREFORE YOU SHOULD NOT BUY THIS STOCK IF YOU WISH TO RECEIVE CASH DIVIDENDS.

We currently intend to retain our future earnings to support operations and to finance expansion and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

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### SPECIAL NOTE REGARDING FORWARDLOOKING STATEMENTS

This prospectus, exhibits and associated documents contain "forwardlooking" statements, as well as historical information. Although we believe that the expectations reflected in these forwardlooking statements are reasonable, we can give no assurance that the expectations reflected in these forwardlooking statements will prove to be correct or will be realized. Our actual results could differ materially from those anticipated in forwardlooking statements as a result of certain factors, including matters described in the section titled "Risk Factors." Forwardlooking statements include those that use forwardlooking terminology, such as the words "anticipate," "believe," "estimate," "expect," "intend," "may," "project," "plan," "will," "shall," "should," and other words of similar meaning, including when used in the negative. All statements that address expectations or projections about the future, including statements about the company's strategy for growth, product development, market position, expenditures and financial results, are forwardlooking statements. Although we believe that the expectations reflected in these forwardlooking statements are reasonable and achievable, these statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forwardlooking statements. Important factors that could cause our actual results, performance or achievements to differ from these forwardlooking statements include the factors described in the "Risk Factors" section and elsewhere in this prospectus.

All forwardlooking statements attributable to us are expressly qualified in their entirety by these and other factors. We undertake no obligation to update or revise these forwardlooking statements, whether to reflect events or circumstances after the date initially filed or published, to reflect the occurrence of unanticipated events or otherwise.

### WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement with the U.S. Securities and

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Exchange Commission, or the SEC, on Form SB2 to register the shares of our common stock being offered by this prospectus. In addition, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that we file at the SEC's public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1800SEC0330 for further information regarding the public reference facilities. The SEC maintains a website, <http://www.sec.gov>, that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including us. Our SEC filings are also available to the public from commercial document retrieval services. Information contained on our website should not be considered part of this prospectus.

You may also request a copy of our filings at no cost by writing or telephoning us at:

United Energy Corp.  
600 Meadowlands Parkway, #20  
Secaucus, New Jersey 07094  
Attention: Mr. Robert Giunta  
(201) 8420288

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### USE OF PROCEEDS

The selling stockholder will receive all of the proceeds from the sale of the shares offered for sale by it under this prospectus. We will receive none of the proceeds from the sale of the shares by the selling stockholder, except upon exercise of the outstanding common stock purchase warrant. In that case, we would receive \$450,000. We will bear all expenses incident to the registration of the shares of our common stock under federal and state securities laws other than expenses incident to the delivery of the shares to be sold by the selling stockholder. Any transfer taxes payable on these shares and any commissions and discounts payable to underwriters, agents, brokers or dealers will be paid by the selling stockholder.

### MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

As of July 15, 2004, there were 455 record holders of our common stock and there were 22,255,270 shares of our common stock outstanding. We have not previously declared or paid any dividends on our common stock and do not anticipate declaring any dividends in the foreseeable future.

The following table shows the high and low bid prices of our common stock as quoted on the OTC Bulletin Board and the "Pink Sheets," as described below, by quarter during each of our last two fiscal years ended March 31, 2004 and 2003 and for each quarter after March 31, 2004. From May 3, 2000 to April 25, 2002, our shares were quoted on the Pink Sheets. Beginning April 26, 2002, our stock has been quoted on the OTC Bulletin Board. These quotes reflect interdealer prices, without retail markup, markdown or commissions and may not represent actual transactions. The information below was obtained from those organizations, for the respective periods.

| Fiscal Year<br>ended March 31 | Quarter | High | Low |
|-------------------------------|---------|------|-----|
|-------------------------------|---------|------|-----|

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| Year | Quarter                               | High Bid Price | Low Bid Price |
|------|---------------------------------------|----------------|---------------|
| 2003 | First Quarter (April-June 2002)       | \$3.85         | \$1.60        |
|      | Second Quarter (July-September 2002)  | 2.40           | 1.20          |
|      | Third Quarter (October-December 2002) | 3.20           | 1.30          |
|      | Fourth Quarter (January-March 2003)   | 2.10           | 1.28          |
| 2004 | First Quarter (April-June 2003)       | \$1.43         | \$.98         |
|      | Second Quarter (July-September 2003)  | 2.30           | .80           |
|      | Third Quarter (October-December 2003) | 1.75           | .27           |
|      | Fourth Quarter (January-March 2004)   | 1.08           | .40           |
| 2005 | First Quarter (April-June 2004)       | \$1.08         | \$.52         |
|      | Second Quarter (through July 13)      | \$1.06         | \$.86         |

The high and low bid prices for shares of our common stock on July 13, 2004, were \$1.06 and \$.95 per share, respectively, based upon bids that represent prices quoted by brokerdealers on the OTC Bulletin Board. These quotations reflect interdealer prices, without retail markup, markdown or commissions, and may not represent actual transactions. The aggregate market value of our stock held by nonaffiliates on July 13, 2004 was \$17,432,410 (using the closing price of \$1.06 per share). For information concerning principal shareholders, see "Security Ownership of Certain Beneficial Owners and Management."

This prospectus covers 2,500,000 shares of our common stock offered for sale by the selling stockholder. The shares offered by this prospectus include 1,750,000 shares of our common stock issuable upon conversion of an outstanding secured convertible term note, an additional 450,000 shares issuable on account of interest and any possible penalties or antidilution adjustments relating to the term note and up to 300,000 shares of our common

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stock issuable upon exercise of an outstanding common stock purchase warrant. See "Principal and Selling Stockholders."

#### DIVIDEND POLICY

While there are no restrictions on the payment of dividends, we have not declared or paid any cash or other dividends on shares of our common stock in the last two years, and we presently have no intention of paying any cash dividends in the foreseeable future. Our current policy is to retain earnings, if any, to finance the expansion of our business. The future payment of dividends will depend on the results of operations, financial condition, capital expenditure plans and other factors that we deem relevant and will be at the sole discretion of our board of directors.

#### EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding the status of our existing equity compensation plans at March 31, 2004.

| PLAN CATEGORY   | NUMBER OF SECURITIES TO BE<br>ISSUED UPON EXERCISE OF<br>OUTSTANDING OPTIONS,<br>WARRANTS AND RIGHTS | WEIGHTED AVERAGE EXERCISE<br>PRICE OF OUTSTANDING<br>OPTION, WARRANTS AND<br>RIGHTS | REMAINING<br>FOR FUTURE<br>UNDER EQUITY<br>COMPENSATION<br>(EXCLUDING<br>REFLECTED<br>SECOND<br>COLUMN) |
|---|--|---|---|
| Equity compensation plans<br>approved by security holders     | 2,205,000  | \$1.32  | 1,795,  |
| Equity compensation plans not<br>approved by security holders | 4,225,000  | \$1.70  | --  |
| Total   | 6,430,000  |   | 1,795,  |

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

You should read the following description of our financial condition and results of operations in conjunction with the financial statements and accompanying notes included in this prospectus beginning on page F1.

#### OVERVIEW

Our business plan from fiscal 2001 through fiscal 2004 was to use Uniproof proofing paper sales to provide the cash flow to support worldwide marketing efforts for our KH30 and related oil well cleaner products and, to a lesser extent, the other environmentally friendly specialty chemical products developed by us. Today, we are focused almost exclusively on our specialty chemical products business.

On March 24, 2004, we completed the sale of a secured convertible term note in the principal amount of \$1,750,000. In connection with the sale of the note, we issued to the selling shareholder a common stock purchase warrant covering 300,000 shares and paid a fee to the selling shareholder of \$61,250. We received net proceeds of \$1,590,250, after expenses, from the consummation of the sale.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an ongoing basis, we evaluate our estimates, including those related to product returns, bad debts, inventories, intangible assets, longlived assets and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different



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assumptions or conditions.

### REVENUE RECOGNITION

Our primary source of revenue is from sales of our products. We recognize revenue upon shipment and transfer of title.

### ALLOWANCE FOR DOUBTFUL ACCOUNTS

We monitor our accounts and note receivable balances on a monthly basis to ensure they are collectible. On a quarterly basis, we use our historical experience to determine our accounts receivable reserve. Our allowance for doubtful accounts is an estimate based on specifically identified accounts, as well as general reserves. We evaluate specific accounts where we have information that the customer may have an inability to meet its financial obligations. In these cases, management uses its judgment, based upon the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. We also establish a general reserve for all customers based upon a range of percentages applied to aging categories. These percentages are based on historical collection and writeoff experience. If circumstances change, our estimate of the recoverability of amounts due to us could be reduced or increased by a significant amount. A change in estimated recoverability would be accounted for in the period in which the facts that give rise to the change become known.

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### RESULTS OF OPERATIONS

#### COMPARISON OF FISCAL YEAR ENDED MARCH 31, 2004 TO FISCAL YEAR ENDED MARCH 31, 2003

**Sales.** Sales decreased to \$972,051 for the year ended March 31, 2004 from \$2,232,626 for the year ended March 31, 2003. The \$1,260,575, or 56%, decrease in sales was due principally to a 71% decrease in sales of our Uniproof proofing paper due to a lower level of orders from our primary customer. Sales for our specialty chemical products including KH30 and KX91, and our Green Globe / Qualchem product line decreased by 8%. The decrease was related to a 62% decline in the level of U.S. Military sales during the year. This was partially offset by a 54% increase in sales of our KH30 family of products reflecting a higher order level. We believe that last fiscal year the U.S. Government stocked up on orders and then cut its orders during the 2004 fiscal year due to other military priorities. Our three largest customers accounted for 63% of revenues for the year ended March 31, 2004 compared with 84% for the comparable period in 2003.

**Cost of Goods Sold.** Cost of goods sold decreased to \$488,385, or 50% of sales, for the year ended March 31, 2004 from \$1,332,791, or 60% of sales, for the year ended March 31, 2003. The decrease in cost of goods sold was primarily due to the reduced volume of Uniproof proofing paper sales and the change in the mix of products sold reflecting margins on Uniproof paper sales compared to the prior fiscal year.

**Selling, General and Administrative Expenses.** General and administrative expenses decreased to \$2,674,968, or 275% of sales, for the year ended March 31, 2004 from \$3,627,983, or 162% of sales, for the year ended March 31, 2003. The decrease in general and administrative expenses are primarily related to lower salaries and benefits due to the departure of certain

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executives, lower legal and accounting fees and the reduction in certain marketing expenses that were incurred to develop product branding, logos, brochures and a website in 2002.

Oil Well Operating and Maintenance Cost net. During the year ended March 31, 2004, our wells produced oil which generated \$34,636 in revenues and incurred operating costs and maintenance and repair costs of \$137,298. In April 2004, we sold the oil well leases located in Laramie County, Wyoming for \$15,000, and a 4.5% royalty on all future oil sales from these wells.

Depreciation, Amortization and Depletion. Depreciation, amortization and depletion increased to \$155,439 for the year ended March 31, 2004 from \$83,481 for the year ended March 31, 2003 reflecting additions to fixed assets for laboratory analytical equipment, manufacture of additional S2 system equipment units and capitalized legal costs related to patent filings for our S2 system and KH30 and related products.

Interest Income, Net of Interest Expense. We had net interest income of \$2,082 for the year ended March 31, 2004 compared with net interest income of \$57,629 in the corresponding period in 2003. The decrease was due primarily to lower investment earnings on the reduced remaining funds raised from our private placement in May 2002.

Impairment loss. During the year ended March 31, 2004, we tested our goodwill by estimating its fair value using a discounted cash flow analysis. As a result, we recorded a goodwill impairment charge of \$51,310 related to the Green Globe segment. We also reviewed the carrying value of the oil well leases held by United Oil Corp. We estimated that the carrying value of the oil leases should be adjusted due to the sale of the oil well leases in April 2004. As a result, we recorded an oil lease impairment loss of \$70,467.

Legal Settlement. For the year ended March 31, 2003, we reached an agreement to settle and discontinue a lawsuit. In the settlement, we agreed to pay an aggregate of \$75,000 in three installments. No legal settlements were made during the year ended March 31, 2004.

Net Loss. For the year ended March 31, 2004, we incurred a net loss of \$2,569,098, or \$0.12 per share, as compared to a net loss of \$2,829,000 for the year ended March 31, 2003, or \$0.13 per share. The decrease in the loss was the result of a lower level of general and administrative expenses. The average number of shares of common stock used in calculating earnings per share increased to 22,180,270 shares from 21,456,982 shares.

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### COMPARISON OF FISCAL YEAR ENDED MARCH 31, 2003 TO FISCAL YEAR ENDED MARCH 31, 2002

Sales. Sales increased to \$2,232,626 for the year ended March 31, 2003 from \$1,387,851 for the year ended March 31, 2002. The \$844,775, or 60%, increase in sales was due principally to a 60% increase in sales of our Uniproof proofing paper due to a general increase in orders and the addition of a new customer for the Uniproof product. Sales for our specialty chemical products including our KH30 and KX91 and our Green Globe / Qualchem product line increased by 62% as our orders increased as a result of our marketing activity and the U.S. Government replenished stocks of our military products as a result of the higher level of U.S. Military sales activity during the year. Our three largest customers accounted for 84% of revenues for the year ended March 31, 2003 compared with 86% for the comparable period in 2002.

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Cost of Sales. Cost of sales increased to \$1,332,791, or 60% of sales, for the year ended March 31, 2003 from \$756,391, or 55% of sales, for the year ended March 31, 2002. The higher cost of sales reflected the increased levels of sales and the higher percentage of cost of sales in fiscal 2003 was primarily due the increased cost of production for the Uniproof paper which was only partially offset by higher margins on specialty chemical products.

Selling, General and Administrative Expenses. General and administrative expenses increased to \$3,627,983, or 162% of sales, for the year ended March 31, 2003 from \$1,763,446, or 127% of sales, for the year ended March 31, 2002. The increase in general and administrative expenses are primarily related to the salaries, the cost of compensation from options and benefits of new staff added beginning in May 2002, nonrecurring marketing expenses related to developing promotional brochures, logos and product branding, design and implementation costs of a new website, certain legal and accounting services and KH30 customer trials on wells and storage tanks, and increased level of travel related to meetings with potential customers.

Executive Services Contributed by Management. The year ended March 31, 2001 included an expense of \$250,000 related to imputed but unpaid salaries for services contributed by senior management. In 2002, such amount was \$187,500 representing the first three quarters of the year. In the fourth quarter of fiscal year 2002, each of the two officers received options for the value of their services and one of the officers began to draw a salary. In the year ended 2003, the amount of imputed salaries was \$0, as the executives were paid a regular salary.

Depreciation and Amortization. Depreciation and amortization increased to \$83,481 for the year ended March 31, 2003 from \$20,031 for the year ended March 31, 2002 reflecting additions to fixed assets for laboratory analytical equipment, manufacture of additional S2 system equipment units and capitalized legal costs related to patent filings for our S2 system and KH30 and related products.

Interest Income, Net of Interest Expense. We had net interest income of \$57,629 for the year ended March 31, 2003 compared with net interest expense of \$4,408 in the corresponding period in 2002. The increase was due primarily to the investment earnings on the remaining funds raised from our private placement in May 2002.

Legal Settlement. During the year ended March 31, 2002, we settled another litigation matter in the amount of \$20,651. For the year ended March 31, 2003, we reached an agreement to settle and discontinue a lawsuit. In the settlement, we agreed to pay an aggregate of \$75,000 in three installments.

Net Loss. For the year ended March 31, 2003, we incurred a net loss of \$2,829,000, or \$0.13 per share, as compared to a loss of \$1,364,576 for the year ended March 31, 2002, or \$0.09 per share. The increased loss is primarily a result of higher expenses for the year. The average number of shares used in calculating earnings per share increased 5,434,657 to 21,456,982 shares primarily as a result of 6,000,000 shares issued in connection with our private placement in May 2002.

### LIQUIDITY AND CAPITAL RESOURCES

Since 1995, operations have been financed primarily through loans, equity contributions from directors and executive officers and from third parties supplemented by funds generated by our business. As of March 31, 2004, we had \$1,518,025 in cash and cash equivalents.

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Net Cash Used in Operating Activities. During the fiscal year ended March 31, 2004, net cash used in operating activities was \$1,913,167 compared with \$2,998,776 for the fiscal year ended March 31, 2003. This was primarily a result of the lower expense levels during the year.

Net Cash Used in Investing Activities. During the fiscal year ended March 31, 2004, net cash used in investing activities decreased to \$280,000 compared with \$444,494 for the year ended March 31, 2003. The decrease was primarily a result of a reduced level of expenditures for purchase of fixed assets to support operations and capitalized legal fees required to file patent applications for our KH30, KX91 and S2 system.

Net Cash Provided by Financing Activities. Net cash generated from financing activities decreased to \$1,590,250 resulting from the net proceeds from sale of a secured convertible term note on March 24, 2004 in the amount of \$1,750,000 which was partially offset by \$159,750, as discussed below, of financing costs paid. This compares to cash provided from financing activities of \$5,365,800 for the year ended March 31, 2003 resulting from net proceeds from our private placement in May 2002.

On March 24, 2004, pursuant to a Securities Purchase Agreement dated as of the same date, we completed the sale of a secured convertible term note in the principal amount of \$1,750,000. The note, which has a term of three years and accrues interest at the greater of the prime rate of interest (as published in The Wall Street Journal) or 4% per annum, is convertible into shares of our common stock at a conversion price of \$1.00 per share.

In connection with the sale of the note, we paid the purchaser of the note a fee of \$61,250 and issued the purchaser a sevenyear common stock purchase warrant to purchase up to 300,000 shares of our common stock at prices ranging from \$1.25 per share to \$1.75 per share. Also, in connection with the sale of the note, we agreed to register for resale the shares of common stock into which the note is convertible and the warrant is exercisable.

During the past two fiscal years ended March 31, 2004 and 2003, we have recorded aggregate losses from operations of \$5,398,098 and have incurred total negative cash flows from operations of \$4,911,943 for the same twoyear period. The report of the independent registered public accounting firm with respect to our financial statements included in this prospectus includes a "going concern" qualification, indicating that our recurring losses and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Our continued existence is dependent upon several factors, including increased sales volumes, collection of existing receivables and the ability to achieve profitability from the sale of our product lines. In order to increase our cash flow, we are continuing our efforts to stimulate sales and cut back expenses not directly supporting our sales and marketing efforts.

### CONTRACTUAL OBLIGATIONS

Below is a table which presents our contractual obligations commitments at March 31, 2004:

| Contractual Obligations | Total | Less than<br>1 Year | 13 Years | 45 Years | After<br>5 Years |
|-------------------------|-------|---------------------|----------|----------|------------------|
| -----                   | ----- | -----               | -----    | -----    | -----            |

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|                   |              |           |           |           |       |
|-------------------|--------------|-----------|-----------|-----------|-------|
| Convertible Note  | \$1,750,000  | \$349,998 | \$699,996 | \$700,006 | \$ -- |
| Operating leases  | 381,603      | 128,303   | 219,540   | 33,760    |       |
| Total contractual |              |           |           |           |       |
| Cash obligations  | \$ 2,131,603 | \$478,301 | \$919,536 | \$733,766 | \$ -- |
|                   | =====        | =====     | =====     | =====     | ===== |

REPORTING BY SEGMENTS

We are primarily a specialty chemicals company because of our determination in fiscal 1998 to close our printing equipment division and focus primarily on the sale of our KH30 oil well cleaner and related products. However, a significant portion of our revenues has been related to the printing and the graphic arts industry. During the past three fiscal years, we have derived additional revenues by acting as a graphic arts products distributor.

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The following table shows the proportion of total revenues by segment in each of the last three fiscal years:

| FISCAL YEAR | SPECIALTY    |           |
|-------------|--------------|-----------|
|             | GRAPHIC ARTS | CHEMICALS |
| 2002.....   | \$1,061,317  | \$326,534 |
| 2003.....   | 1,700,738    | 531,888   |
| 2004.....   | 486,075      | 486,976   |

OFFBALANCE SHEET ARRANGEMENTS

We do not currently have any offbalance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

INFLATION

We do not believe that inflation in the cost of our raw materials has had in the past or will have in the future any significant negative impact on our operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Exit or Disposal Activities." SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized at their fair values when the liabilities are incurred. Under previous guidance, liabilities for certain exit costs were recognized at the date that management committed to an exit plan, which is generally before the actual liabilities are incurred. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002. This statement had no effect on our consolidated financial statements.

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In December 2002, the FASB issued SFAS No. 148, "Accounting for StockBased Compensation Transition and Disclosure." This statement amends the disclosure and certain transition provisions of Statement 123, "Accounting for StockBased Compensation." Its disclosure provisions, which apply to all entities with employee stockbased compensation, are effective for fiscal years ending after December 15, 2002. SFAS 148:

- o requires all entities with stockbased employee compensation arrangements to provide additional disclosures in their summary of significant accounting policies note for entities that use the intrinsic value method of APB No. 25, "Accounting for Stock Issued to Employees", to account for employee stock compensation for any period presented, their accounting policies note should include a tabular presentation of pro forma net income and earnings per share using the fair value method.
- o permits entities changing to the fair value method of accounting for employee stock compensation to choose from one of three transition methods the prospective method, the modified prospective method, or the retroactive restatement method. The prospective transition method, however, will not be available for entities that initially apply the fair value method in fiscal years beginning after December 15, 2003.
- o requires interimperiod pro forma disclosures if stockbased compensation is accounted for under the intrinsic value method in any period presented. We do not expect the adoption of this statement to have a material impact on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantors" Accounting and Disclosure Requirements for Guarantees, Including Indirect Guaranties of Indebtedness of Others." This interpretation

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elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The disclosure provisions of this interpretation were effective for our March 31, 2003 consolidated financial statements. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after March 31, 2003. This interpretation had no effect on our consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." This interpretation clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB issued a revision to Interpretation No. 46 to clarify some of the provisions of Interpretation No. 46, and to exempt certain entities from its requirements. The provisions of the interpretation need to be applied in the first reporting period that ends after December 15, 2004, except for entities

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that are considered to be specialpurpose entities which need to be applied as of December 31, 2003. This interpretation is not expected to have any effect on our consolidated financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46R (revised December 2003), Consolidation of Variable Interest Entities (VIE'S), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. We will be required to adopt FIN 46R in the first fiscal period ending after March 15, 2004. Upon adoption of FIN 46R, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. It is not anticipated that the effect of this interpretation, if any, on our consolidated financial statements would be material.

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BUSINESS

### OVERVIEW

We develop and distribute environmentally friendly specialty chemical products with applications in several industries and markets. Our current line of products includes:

- o KH30 paraffin dispersant for the oil industry and related products KH30S and KX91;
- o Uniproof specialtycoated proofing paper for the printing industry; and
- o following additional testing, "Slick Barrier" underwater protective coatings for use in marine applications.

Through our whollyowned subsidiary, Green Globe Industries, Inc., we provide the U.S. military with a variety of environmentally friendly, nonhazardous, biodegradable solvents and cleaners under our trade name "Qualchem." Green Globe is a qualified supplier for the U.S. military and has sales contracts currently in place.

We have developed and patented a system referred to as our "S2 System," to work with our environmentallyfriendly paraffin dispersants products. This patented technology produces high volumes of steam and heat at variable pressures and temperatures to completely dissolve most deposits of paraffin and asphaltene within oil wells, pipelines or storage tanks. The S2 System apparatus is portable, compact and easy to use. We are further developing the process to enhance and support sales of KH30 and its related products for the oil industry and for other potential applications.

A key component of our business strategy is to pursue collaborative joint working and marketing arrangements with established international oil and oil service companies. We intend to enter into these relationships to more rapidly and economically introduce our KH30 product line to the worldwide

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marketplace for refinery, tank and pipeline cleaning services. We are currently negotiating potential working arrangements with several companies, including Altena Cleaning B.V., one of Europe's leading refinery cleaning organizations, and Petroleos de Venezuela S.A., the stateowned oil company, and have set up small sales offices in The Netherlands and Venezuela to assist with proposed joint projects.

We provide specialty chemical and graphic arts products to our customers and generated revenues of \$972,051 for the fiscal year ended March 31, 2004 and \$2,232,626 for the fiscal year ended March 31, 2003. As of March 31, 2004, we employed nine persons and use the services of five other individuals under consulting or product/production cooperation arrangements.

### ORGANIZATIONAL HISTORY

We were originally incorporated in Nevada in 1971 as Aztec Silver Mining Co. We engaged in the manufacturing and distribution of printing equipment from 1995 through 1998. During that period, we began to develop specialty chemical products for use in the printing industry. In March 1998, we discontinued our printing equipment operations and changed our business focus to the development of specialty chemical products.

### BUSINESS OPERATIONS AND PRINCIPAL PRODUCTS

#### KH30, KH30S AND KX91 CHEMICALS

KH30 is a mixture of modified oils, dispersants and oilbased surfactants designed to control paraffin and asphaltene deposits in oil wells. When applied in accordance with our recommended procedures, KH30 has resulted in substantial production increases of between two and five times in paraffinaffected oil and gas wells by allowing for a faster penetration of paraffin and asphaltene deposits. KH30 disperses and suspends paraffin and asphaltene in a freeflowing state and prevents solids from sticking to each other or to oil well equipment. KH30 is patented in the United States, Australia, Russia, Nigeria, Venezuela, Vietnam and the OAPI (the Africa Intellectual

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Property Organization, which includes the countries of BurkinaFaso, Benin, Central African Republic, Congo, Ivory Coast, Cameroon, Gabon, Guinea, GuineaBissau, Mali, Mauritania, Niger, Senegal, Chad and Togo). We have 12 additional country patent applications pending in most of the major oilproducing countries around the world (including the European Union and Canada).

Although we believe that the application of KH30 on a continuous basis will result in higher production and lower lease operating costs in oil wells, the introduction of KH30 into the oil and gas producing industry has been difficult. Many entrenched players such as the "hot oilers" and the major oil service companies who benefit from high markups on their proprietary products have no incentive to promote the use of KH30. Moreover, oil production engineers are reluctant to risk damage to a well from a product that does not have the endorsement and backing of a major enterprise. Consequently, the pace of introduction of KH30 has been much slower than we initially anticipated. We believe that this situation has begun to change as a result of our marketing efforts with several oil service companies and well owners beginning to use our products after successful trials.

To increase sales of our KH30 product we are currently expanding our marketing efforts by producing a marketing brochure and supplemental sales



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material. We have also developed two products, KH30S and KX91, as extensions of our original KH30. We expect to continue developing additional applications for our KH30 product.

KX91 is a patentpending chemical blend specifically developed for the rapid removal of paraffin and asphaltene deposits from oil wells. It has been effective for the removal of heavy deposits due to its wetting ability, dispersability and solvency. KX91 works to rapidly dissolve deposits at low concentrations with limited contact time and can perform in extreme (400F to 2300F) temperature ranges. It also has low emulsifying tendencies with brine water. In laboratory tests, KX91 has been effective at low concentrations to enhance the flow of very heavy crude oil (low API gravity).

KH30S is a proprietary chemical composition, specifically developed as a drag reducer to reduce flow impairment caused by paraffin and asphaltene depositions and high viscosity crude oil. KH30S lowers the viscosity of very heavy crude oil (low API gravity) with flow enhancement in pipelines and oil wells at low concentrations. It provides an inhibitive thin barrier film on various metal surfaces and exhibits good compatibility with most commonly used materials of construction.

### UNIPROOF PROOFING PAPER

We have developed a photosensitive coating that is applied to paper to produce what is known in the printing industry as proofing paper or "blue line" paper. We developed this formulation over several years of testing. The formulation is technically in the public domain as being within the scope of an expired patent of duPont. However, the exact formulation utilized by us, to the best of our knowledge, has not been duplicated by other companies and we protect it as a trade secret.

We introduced our proofing paper product in June 1999. Sales of Uniproof proofing paper totaled \$481,636 for the fiscal year ended March 31, 2004, \$1,692,735 for the fiscal year ended March 31, 2003 and \$1,033,574 for the fiscal year ended March 31, 2002.

### SLICK BARRIER

Slick Barrier is an underwater protective coating which prevents the adherence of barnacles to boat hulls. The product is environmentally friendly and biodegradable, which we believe to be particularly appealing in fresh water marine applications. The product is currently being tested on pleasure boats throughout the United States and Europe. A patent application for "Slick Barrier" was filed in 2003, and we are applying for trademark protection both nationally and internationally. We expect to release this product in 2005, although no specific date has been set.

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### GREENGLOBE INDUSTRIES

In November 1998, we acquired all of the outstanding shares of Green Globe in exchange for 30,000 shares of our common stock. Green Globe is operated as a separate subsidiary and sells its products under the tradename Qualchem.(TM) The acquisition of Green Globe has given us access to the chemistry and product lines of Green Globe which include environmentally friendly paint strippers and cleaners, many of which have been qualified for use by the U.S. military. Of particular note in the Green Globe line was the development of dual package cleaning and drying "wipes" which produce a clear,

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nonreflective coating on glasses, computer screens and instrument panels. The wipes were developed, and have received U.S. military approval, for the cleaning of the instrument panels of combat aircraft.

### MANUFACTURING AND SALES

All of the raw materials necessary for the manufacture of our products are generally available from multiple sources, although we have negotiated favorable arrangements with our current suppliers and would have to repeat the process if one or more of our current suppliers were no longer to be able to supply these raw materials to us. We do not own any special manufacturing facilities. Our chemical products are generally manufactured by contract blenders at a number of different locations. This method of manufacturing has reduced the need for us to invest in facilities and to hire the employees to staff them. Chemical blenders are relatively easy to replace and are bound by confidentiality agreements, where appropriate, which obligate them not to disclose or use our proprietary information.

We are not responsible for any environmental expenditures with respect to the manufacturing of our products. First, the chemical products that we use are generally "environmentally friendly" products in that they are low in toxicity and rank high in biodegradability. Further, any environmental issues involved in manufacturing are the responsibility of the blending facilities, provided they receive adequate and accurate information from us as to the components of the chemicals involved.

Currently, the photosensitive coating for our Uniproof proofing paper is applied by an independent coater which is bound by a confidentiality agreement that obligates it not to disclose or use our confidential information. We believe this facility has the capacity to meet our production needs for the foreseeable future and also meets all environmental manufacturing regulations now or expected to be enacted. We believe that the services of this facility can be duplicated by others. We believe the need for a contract with the coater is obviated by the coater's clear economic benefit from continuing to provide services to us. We are more concerned about a precipitous event, such as damage to the coater's facility, which could result in an interruption of Uniproof production. We believe that alternate coating sources do exist and that the coater could be replaced, although with at least some interruption in production flow.

We sell our Uniproof proofing paper to three customers. The largest, The Alameda Company of Anaheim, California, accounted for approximately 93% of our graphic arts sales and 46.3% of our total customer sales for the fiscal year ended March 31, 2004. In fiscal 2003, Alameda accounted for approximately 78% of graphic arts sales and 59% of total customer sales and, in fiscal 2002, accounted for approximately 97% of graphic arts sales and 74% of total customer sales. Alameda did not place a paper order with us from July 2003 to March 2004, but did place a significant paper order with us in April 2004. Revenue from Alameda is expected to continue to decline as a percentage of our total revenues. A decision by Alameda to discontinue its relationship with us could result in a significant loss of revenue to us.

Another Uniproof paper purchaser accounted for approximately 6.4% of our total customer sales in the fiscal year ended March 31, 2004, but has not been a significant customer since. The General Services Administration and Defense Supply Center, which purchased our QualChem aircraft cleaning products and paint removers, accounted together for approximately 6.1% of our total customer sales in the fiscal year ended March 31, 2004. In the fiscal year ended March 31, 2004, two oil field service companies, which purchased our KH30 and KX91 oil well cleaning products, accounted for approximately 10.2% and 4.3%, respectively, of our total customer sales.

Except for these current and former customers, no other single entity has accounted for more than 10% of our sales during any of the fiscal years ended March 31, 2004, 2003 and 2002.

All of our products are sold in U.S. dollars and, therefore, we have had no foreign currency fluctuation risk.

Our current operations do not require a substantial investment in inventory other than minimum commitments to our distributors. However, we anticipate that any growth in our business will require us to maintain higher levels of inventory.

Our order backlog at each of March 31, 2004 was insignificant as we generally ship product as orders are received.

#### MARKETING AND DISTRIBUTION

We have engaged the services of independent contractors to market our KX30 and KX91 oil dispersant products. These contractors work under various nonexclusive commission and distribution agreements and have substantial contacts among oil well owners and major oil companies in the United States, Mexico, South America, Africa, Europe and the Middle East. These contractors earn a commission based upon the sales value of the products that they sell. These independent contractors use our marketing materials, brochures and website to interest clients and to describe the attributes of our products.

Although we have not achieved the volume of sales we had anticipated for the oil dispersant products, there have been significant barriers to entry in this market. Most of these potential customers require substantial testing of our product to prove its efficacy at cleaning wells, tanks and flow lines. In many cases, additional laboratory testing is required to prove that our chemical products are compatible with refinery systems and will not interfere with certain chemical processes and safety requirements of the potential clients. This process of testing has taken a great deal longer than was originally anticipated. We believe that we have made significant inroads and expect a higher volume of sales in the second quarter of the fiscal year ending March 31, 2005.

#### RESEARCH AND DEVELOPMENT

KH30, KX91 and KH30S chemical products for the oil industry and Uniproof proofing paper are developed and ready for market. Slick Barrier is in testing. All of these products are the result of research and development expenditures paid to vendors, excluding allocation of internal costs, estimated to be \$229,219, \$181,370 and \$58,300 for the fiscal years ended March 31, 2004, 2003 and 2002, respectively. We have had available the services of one research chemist and one analytical chemist, as well as one petroleum engineer, to lead in the development of our products. A significant amount of market adaptation has taken place in the field involving the development of application procedures for products. We do not anticipate having to make significant research and development expenditures on existing products in the future. However, we do expect to continue to develop new products to complement our existing product lines.

COMPETITION

We compete directly or indirectly with other producers of specialty chemical products with similar uses, most of which are more established companies and have greater resources than we have. Generally, we attempt to compete by offering what we hope to be lower prices and better service. However, our KH30, KX91 and KH30S products for the oil industry are often more expensive, and with these products we attempt to compete by emphasizing product effectiveness and environmental safety.

For our Uniproof proofing paper, our principal competition is E.I. duPont de Nemours & Co., which controls in excess of 95% of the United States proofing paper market estimated to be \$80 million to \$100 million per year. Currently, we have been able to compete with duPont in terms of what we believe to be better prices and service. We believe the market will continue to welcome an alternative to duPont and we plan to continue our current marketing practices.

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PROPRIETARY TECHNOLOGIES

With respect to our formulations which are proprietary, we have patented our KH30 oil well cleaner patented in the United States, Australia, Russia, Nigeria, Venezuela, Vietnam and OAPI. We also have 12 additional country patent applications pending in most of the major oilproducing countries around the world (including the European Union and Canada). We believe our patent is strong and will help our competitive position. However, we are aware that others may try to imitate our product or invalidate our patents. We have in the past vigorously enforced our trade secrets such as the one relating to our Uniproof proofing paper, and intend to continue to do so in the future. However, we recognize that intellectual property rights provide less than complete protection. We believe that no other company is currently producing a product similar to KH30.

In addition to applying for patent protection on our KH30 product, we have also registered "KH30" as a trademark. Trademark protection has also been obtained for the "Uniproof" name for our proofing paper. We anticipate applying for both patent and trademark protection for our other products in those jurisdictions where we deem such protection to be beneficial.

EMPLOYEES

As of March 31, 2004, we employed nine persons and had available the services of five other individuals under consulting or product/production cooperation arrangements. The latter arrangement is meant to include a situation where a chemist, engineer or significant marketing person is engaged by an organization under contract with us to manufacture or market one or more of our products.

PROPERTIES

We lease 9,600 square feet of office space at 600 Meadowlands Parkway, #20, Secaucus, New Jersey 07094. Under the terms of the lease, which runs through June 2007, the monthly rent is \$9,035. See "Certain Relationships and Related Transactions." In addition, we lease office space of approximately 1,350 square feet in Midland, Texas as a regional sales office at a rate of \$759 per month. This lease runs through September 2005.

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We use independent nonaffiliated contract chemical blending and manufacturing facilities in various locations around the United States for the manufacture of our products. We contract the production of our products to independent manufacturers and blenders and our products are therefore produced at the manufacturing facilities of those entities. We do not own any manufacturing facilities.

### LEGAL PROCEEDINGS

In July 2002, an action was commenced against us in the Court of Common Pleas of South Carolina, Pickens County, brought by Quantum International Technology, LLC and Richard J. Barrett. Plaintiffs allege that they were retained as a sales representative of ours and in that capacity made sales of our products to the United States government and to commercial entities. Plaintiffs further allege that we failed to pay to plaintiffs agreed commissions at the rate of 20% of gross sales of our products made by plaintiffs. The complaint seeks an accounting, compensatory damages in the amount of all unpaid commissions plus interest thereon, punitive damages in an amount treble the compensatory damages, plus legal fees and costs. Plaintiffs maintain that they are entitled to receive an aggregate of approximately \$350,000 in compensatory and punitive damages, interest and costs. In June 2003, the action was transferred from the court in Pickens County to a Master in Equity sitting in Greenville, South Carolina and was removed from the trial docket. The action, if tried, will be tried without a jury. No trial date has yet been scheduled. We believe we have meritorious defenses to the claims asserted in the action and intend to vigorously defend the case. We also believe that the actual amount of damages will be under \$10,000.

No other legal proceedings are currently pending or threatened against us.

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### MANAGEMENT

#### EXECUTIVE OFFICERS AND DIRECTORS

The following table shows the positions held by our board of directors and executive officers during the fiscal year ended March 31, 2004.

| NAME                | AGE | POSITION  |
|---------------------|-----|---|
| -----               | --- | -----   |
| Ronald Wilen        | 64  | Chairman of the Board, Chief Executive Officer and Director |
| James McKeever, CPA | 38  | Interim Chief Financial Officer                             |
| Louis Bernstein     | 54  | Director  |
| Andrea Pampanini    | 63  | Director  |
| Martin Rappaport    | 67  | Director  |

The principal occupations for the past five years (and, in some instances, for prior years) of each of our executive officers and directors are as follows:

RONALD WILEN. Mr. Wilen has served as our Chief Executive Officer and a member of our board since October 1995. Mr. Wilen served as our President from October 1995 to August 2001, and has been our Chairman of the Board since August 2001.

JAMES MCKEEVER, CPA. Mr. McKeever has been our Interim Chief Financial Officer since January 2004. He also continues to be a partner in the accounting

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firm of Abrams & McKeever CPA's, which he joined in January 2000. Mr. McKeever has more than 14 years' experience in public accounting and financial and reporting, and is a member of the American Institute of Certified Public Accountants.

LOUIS BERNSTEIN. Mr. Bernstein has served as a member of our board since September 2003. Mr. Bernstein is currently the Assistant General Counsel of Pfizer Inc., one of the world's largest pharmaceutical companies, where he has served as Pfizer's corporate counsel since December 1975.

ANDREA PAMPANINI. Mr. Pampanini has served as a member of our board since December 2001. Mr. Pampanini is an organizational advisor with extensive restructuring, marketing and strategic planning experience serving, among other industries, the chemical, petroleum, pharmaceutical, basic metals, electrical equipment, power generation and heavy industrial goods sectors. In 1989, Mr. Pampanini founded Turnaround Associates Inc., a consulting firm specializing in the financial and operational organization of medium to largesized companies. Since 1998, Mr. Pampanini has been a member of Leadership Strategies LLC, a group of professionals specializing in strategic planning and personal leadership coaching. Mr. Pampanini has devoted a major portion of his career to the Middle East, including serving as Executive Vice President of Development Resources Corporation from 1971 to 1977, during which time he supervised the final phases of the Dez hydroelectric power and irrigation project in Iran.

MARTIN RAPPAPORT. Mr. Rappaport has served as a member of our board since June 2001. Mr. Rappaport is selfemployed. For more than 30 years, he has developed and managed commercial and residential real estate (including owning the building where our office is located). Mr. Rappaport is an active supporter and contributor to Blythedale Children's Hospital in Valhalla, New York.

Directors are elected annually and serve until the next annual meeting of the Company's stockholders, and until their successors have been elected and have qualified. Officers are appointed to their positions, and continue in such positions, at the discretion of the directors.

### COMMITTEES OF THE BOARD

We do not currently have any formal board committees.

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### DIRECTOR COMPENSATION

Each nonemployee director receives options for 10,000 shares of our common stock in lieu of an annual retainer and meeting fees. Other than the 10,000 options granted, there are no special fees, contracts entered into, or payments made in consideration of any director's service as a director

### INDEBTEDNESS OF EXECUTIVE OFFICERS AND DIRECTORS

No executive officer, director or any member of these individuals' immediate families or any corporation or organization with whom any of these individuals is an affiliate is or has been indebted to us since the beginning of our last fiscal year.

### FAMILY RELATIONSHIPS

There are no family relationships among our executive officers and directors.

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### LEGAL PROCEEDINGS

During the past five years, none of our executive officers, directors, promoters or control persons has been involved in a legal proceeding material to an evaluation of the ability or integrity of such person.

### EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth, for the years indicated, all cash compensation paid, distributed or accrued for services, including salary and bonus amounts, rendered in all capacities by our chief executive officer and all other executive officers who received or are entitled to receive remuneration in excess of \$100,000 during the stated periods.

| Name and<br>Principal Position<br>-----          | Fiscal<br>year<br>----- | Annual Compensation           |               |                 | Long-term Compensation          |  |           |
|--|-------------------------|-------------------------------|---------------|-----------------|---------------------------------|--|-----------|
|  |                         | Salary                        | Bonus         | Other<br>Annual | Restricted<br>Stock<br>Award(s) | Securities<br>Underlying<br>Options/SARs | LT<br>Pay |
|  |                         | -----<br>Compensation<br>(\$) | -----<br>(\$) | -----<br>(1)    | -----<br>(#)                    | -----<br>(\$)                            |           |
| Ronald Wilen<br>Chairman and CEO                 | 2004                    | 196,931                       | -             | 22,266(2)       | -                               | -  |           |
|  | 2003                    | 206,923                       | -             | 22,308(2)       | 100,000                         | 100,000                                  |           |
|  | 2002                    | 79,500                        | -             | 18,642(2)       | -                               | 400,000                                  |           |
| Rodney I. Woods (3)<br>President                 | 2004                    | 9,617                         | -             | 1,385           | -                               | -  |           |
|  | 2003                    | 192,308                       | 75,000        | 3,492           | -                               | 500,000                                  |           |
|  | 2002                    | -                             | -             | -               | -                               | -  |           |
| Sanford M. Kimmel (4)<br>Chief Financial Officer | 2004                    | 88,467                        | 3,014         | 12,485          | -                               | -  |           |
|  | 2003                    | 110,584                       | 21,986        | 13,439          | -                               | 62,500                                   |           |
|  | 2002                    | -                             | -             | -               | -                               | -  |           |

(1) We pay for medical insurance for all employees. Included in the table is the amount of the premiums paid by us dependent on the coverage provided.

(2) During the fiscal years ended March 31, 2004, 2003 and 2002, we paid for the leases on two automobiles used by Mr. Wilen under monthly lease payments. We also paid for medical insurance for Mr. Wilen at a rate of \$925.68 per month. The financial statements reflect imputed salaries for Mr. Wilen totaling \$93,750 for the fiscal year ended March 31, 2002.

(3) Mr. Woods resigned as our President and a member of our board in April 2003.

(4) Mr. Kimmel resigned as our Chief Financial Officer in December 2003.

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| Name   | Number of Securities Underlying Options/SARs Granted | Percent of Total Options/SARs Granted to Employees in Fiscal Year | Exercise or Base Price |
|--|--|---|------------------------|
| -----  | -----  | -----   | -----                  |
|  | (#)  |   | (\$/Sh)                |
| Ronald Wilen<br>Chairman and CEO                 | --   | --  | --                     |
| Rodney I. Woods (1)<br>President                 | --   | --  | --                     |
| Sanford M. Kimmel (2)<br>Chief Financial Officer | --   | --  | --                     |

(1) Mr. Woods resigned as our President and a Director in April 2003.

(2) Mr. Kimmel resigned as our Chief Financial Officer in December 2003.

AGGREGATED OPTION/SAR EXERCISES IN FISCAL YEAR ENDED MARCH 31, 2004 AND FISCAL YEAR END OPTION/SAR VALUES

| Name   | Shares Acquired on Exercise | Value Realized | Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End Exercisable/Unexercisable | Value |
|--|-----------------------------|----------------|---|-------|
| -----  | -----                       | -----          | -----   | ----- |
|  | (#)                         | (\$)           | (#)   |       |
| Ronald Wilen<br>Chairman and CEO                 | --                          | --             | 500,000   |       |
| Rodney I. Woods (1)<br>President                 | --                          | --             | --  |       |
| Sanford M. Kimmel (2)<br>Chief Financial Officer | --                          | --             | --  |       |

(1) Mr. Woods resigned as President and a Director in April 2003.

(2) Mr. Kimmel resigned as our Chief Financial Officer in December 2003.

STOCK OPTION PLAN

In August 2001, our stockholders approved the 2001 Equity Incentive Plan which provides for the grant of stock options to purchase up to 2,000,000 shares of common stock to any employee, nonemployee director or consultant at our board's discretion. Under the 2001 Equity Incentive Plan, options may be exercised for a period up to ten years from the date of grant. Options issued to employees are exercisable upon vesting, which can range between the date of the



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grant to up to five years.

An amendment and restatement of the 2001 Equity Incentive Plan increasing the number of shares issuable under the plan to a total of 4,000,000 was approved by our board of directors in May 2002 and was approved by our shareholders at our 2003 annual meeting.

Under the plan, options are granted to nonemployee directors upon election at the annual meeting of stockholders at a purchase price equal to the fair market value on the date of grant. In addition, nonemployee

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director stock options shall be exercisable in full twelve months after the date of grant unless determined otherwise by the compensation committee.

There were stock options to purchase 1,795,000 shares of our common stock available for future grant as of March 31, 2004 under the 2001 Equity Incentive Plan.

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### STOCK OWNERSHIP

#### SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information regarding the number of shares of our common stock beneficially owned on July 15, 2004, by each of our directors, each of our executive officers named in the Summary Compensation Table above, all of our executive officers and directors as a group, and by any person or "group," as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, known to us to own beneficially more than 5% of the outstanding shares of our common stock. Except as otherwise set forth below, the address of each of the persons listed below is c/o United Energy Corp., 600 Meadowlands Parkway, #20, Secaucus, New Jersey 07094.

| NAME AND ADDRESS<br>OF BENEFICIAL OWNER                                | AMOUNT AND<br>NATURE OF<br>BENEFICIAL<br>OWNERSHIP (1) | PERCENT OF<br>CLASS (1) |
|--|--|-------------------------|
| Ronald Wilen   | 4,087,000 (2)  | 18.0%                   |
| James McKeever, CPA  | 3,000  | *                       |
| Louis Bernstein  | --   | *                       |
| Andrea Pampanini   | 42,500 (3)   | *                       |
| Martin Rappaport   | 3,020,100 (4)  | 13.0%                   |
| Rodney I. Woods (5)  | 100,000 (6)  | *                       |
| Sanford M. Kimmel (5)  | --   | *                       |
| All current executive officers and<br>directors as a group (5 persons) | 7,152,600  | 30.4%                   |

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5% or Greater Stockholders:

|  |               |      |
|--|---------------|------|
| John Holmgren<br>301 Merritt 7<br>Norwalk, CT 06851                                      | 1,500,000 (7) | 6.7% |
| UNRG Investments LLC<br>3960 Howard Hughes Parkway<br>5th Floor<br>Las Vegas, NV 89109   | 1,500,000 (7) | 6.7% |
| LSR Capital UNRG, LLC<br>50 Charles<br>Lindbergh Blvd., Suite 500<br>Uniondale, NY 11553 | 1,500,000 (7) | 6.7% |

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|  |               |       |
|--|---------------|-------|
| Robert L. Seaman<br>515 Madison Ave.<br>New York, NY 10022   | 2,361,627 (8) | 10.6% |
| Laurus Master Fund, Ltd.<br>c/o Ironshore<br>Corporate Services Ltd.<br>P.O. Box 1234<br>G.T. Queensgate House, South Church<br>Street Grand Cayman, Cayman Islands<br>----- | 2,050,000 (9) | 8.5%  |

\* Less than 1% of outstanding shares.

- (1) Unless otherwise indicated in these footnotes, each stockholder has sole voting and investment power with respect to the shares beneficially owned. All share amounts reflect beneficial ownership determined pursuant to Rule 13d3 under the Exchange Act. All information with respect to beneficial ownership has been furnished by the respective director, executive officer or stockholder, as the case may be.
- (2) Includes (i) stock options to purchase 400,000 shares at an exercise price of \$1.11 per share, and (ii) stock options to purchase 100,000 shares at an exercise price of \$1.80 per share, which are currently exercisable.
- (3) Includes (i) stock options to purchase 10,000 shares at an exercise price of \$.70 per share and 10,000 shares at an exercise price of \$1.80 per share, which are currently exercisable, but are subject to reduction, on a proportional basis, if Mr. Pampanini voluntarily resigns as a director prior to November 2004.
- (4) Includes (i) stock options to purchase 10,000 shares at an exercise price of \$.70 per share and 10,000 shares at an exercise price of \$1.80 per share, which are currently exercisable, but are subject to reduction, on a proportional basis, if Mr. Rappaport voluntarily resigns as a director prior to November 2004; (ii) stock options to purchase 50,000 shares at an exercise price of \$1.11 per share and warrants to purchase 750,000 shares of common stock at an exercise price of \$2.00 per share, which are currently exercisable.
- (5) Mr. Woods resigned as our President and a member of our board in April 2003 and Mr. Kimmel resigned as our Chief Financial Officer in December 2003.

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- (6) Represents a warrant to purchase shares of common stock at an exercise price of \$1.00 per share, which are currently exercisable.
- (7) Includes 1,000,000 shares of common stock and warrants to purchase 500,000 shares of common stock.
- (8) Includes (i) 1,861,627 shares held by Mr. Seaman; (ii) 100,000 shares held by the law firm Seaman & Wehle, of which Mr. Seaman is a member; and (iii) options to purchase 400,000 shares at an exercise price of \$1.11 per share, all of which are currently exercisable.
- (9) Represents 1,750,000 shares which may be acquired immediately upon conversion of an outstanding secured convertible term note at a conversion price of \$1.00 per share and 300,000 shares which may be purchased immediately upon exercise of an outstanding common stock purchase warrant at an average exercise price of \$1.50 per share. Does not include an additional 450,000 shares which may be issuable on account of interest and any possible penalties or antidilution adjustments. As further discussed below, the convertible note and warrant contain provisions which restrict Laurus from beneficially owning in excess of 4.9% of our outstanding shares of common stock. See "Principal and Selling Stockholders" and "Description of Securities."

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Martin Rappaport, one of our directors, owns the building in which we lease our principal executive offices in Secaucus, New Jersey. We pay approximately \$100,000 per year under the lease, excluding real estate taxes. We believe that this transaction was advantageous to us and was on terms no less favorable to us than could have been obtained from unaffiliated third parties.

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### PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth:

- o the name of the selling stockholder;
- o the number of shares of common stock beneficially owned by the selling stockholder as of July 15, 2004;
- o the maximum number of shares of common stock that may be offered for the account of the selling stockholder under this prospectus; and
- o the amount and percentage of common stock that would be owned by the selling stockholder after completion of the offering, assuming a sale of all of the common stock that may be offered by this prospectus.

Except as otherwise noted below and elsewhere in this prospectus, the selling stockholder has not, within the past three years, had any position, office or other material relationship with us. The selling stockholder is not a member of the National Association of Securities Dealers, Inc.

Beneficial ownership is determined under the rules of the U.S. Securities and Exchange Commission. The number of shares beneficially owned by a person includes shares of common stock underlying warrants, stock options and

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other derivative securities to acquire our common stock held by that person that are currently exercisable or convertible within 60 days after May 6, 2004. The shares issuable under these securities are treated as outstanding for computing the percentage ownership of the person holding these securities, but are not treated as outstanding for the purposes of computing the percentage ownership of any other person.

| NAME   | BENEFICIAL OWNERSHIP<br>PRIOR TO THIS OFFERING (1) | SHARES                         |               | BENEFICIAL<br>AFTER<br>-----<br>NUMBER<br>SHARES |
|--|--|--------------------------------|---------------|--|
|  |  | REGISTERED IN<br>THIS OFFERING |               |  |
| Laurus Master Fund, Ltd. (4)<br>c/o Ironshore Corporate Services Ltd.<br>P.O. Box 1234 G.T.<br>Queensgate House, South Church Street<br>Grand Cayman, Cayman Islands | 2,050,000  |                                | 2,500,000 (2) |  |

- (1) Beneficial ownership as of July 15, 2004, for the selling stockholder based upon information provided by the selling stockholder or known to us.
- (2) This number includes 1,750,000 shares of our common stock issuable upon conversion of an outstanding secured convertible term note, up to 300,000 shares of our common stock issuable upon exercise of an outstanding common stock purchase warrant, and an additional 450,000 shares issuable on account of interest and any possible penalties or antidilution adjustments relating to the term note.
- (3) Assumes the sale of all shares of common stock registered pursuant to this prospectus, although the selling stockholder is under no obligation known to us to sell any shares of common stock at this time.
- (4) Laurus Capital Management, LLC, a Delaware limited liability company, may be deemed a control person of the shares owned by Laurus Master Fund, Ltd. David Grin and Eugene Grin are the principals of Laurus Capital Management, LLC. The address for Messrs. Grin is 825 Third Avenue, 14th Floor, New York, New York 10022.

The terms of the term note and warrant, under which the shares of common stock are included for resale under this prospectus, prohibit conversion of the note or exercise of the warrant to the extent that conversion of the note and exercise of the warrant would result in Laurus, together with its affiliates, beneficially owning in excess of 4.9% of our outstanding shares of common stock. Laurus may waive the 4.9% limitation upon 75 days' prior written notice to us. This limitation does not preclude Laurus from converting or exercising the note or warrant and selling shares underlying the note or warrant in stages over time, where each stage does not cause it and its affiliates to beneficially own shares in excess of the limitation percentage.

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### PLAN OF DISTRIBUTION

#### DISTRIBUTION BY SELLING STOCKHOLDERS

We are registering the shares of our common stock covered by this prospectus for the selling stockholder. As used in this prospectus, "selling stockholder" includes the donees, transferees or others who may later hold the selling stockholder's interests. The selling stockholder will act independently of us in making decisions with respect to the timing, manner and size of each sale. The selling stockholder may, from time to time, sell all or a portion of its shares of common stock on the OTC Bulletin Board or on any national securities exchange or automated interdealer quotation system on which our common stock may be listed or traded, in negotiated transactions or otherwise, at prices then prevailing or related to the current market price or at negotiated prices. One or more underwriters on a firm commitment or best efforts basis may sell the shares of common stock directly or through brokers or dealers or in a distribution. The methods by which the shares of common stock may be sold include:

- o a block trade (which may involve crosses) in which the broker or dealer engaged will attempt to sell the shares of common stock as agent, but may position and resell a portion of the block, as principal, to facilitate the transaction,
- o purchases by a broker or dealer, as principal, and resales by such broker or dealer for its account pursuant to this prospectus,
- o ordinary brokerage transactions and transactions in which the broker solicits purchasers or through marketmakers,
- o transactions in put or call options or other rights (whether exchange-listed or otherwise) established after the effectiveness of the registration statement of which this prospectus is a part, and
- o privately negotiated transactions.

Laurus has agreed, pursuant to the securities purchase agreement between Laurus and us, that neither Laurus nor any of its affiliates and investment partners will or will cause any person or entity, directly or indirectly, to engage in "short sales" of our common stock for as long as the term note is outstanding. "Short sales" are contracts for the sale of shares of stock that the seller does not own, or certificates which are not within the seller's control, so as to be available for delivery at the time when, under applicable rules, delivery must be made.

In addition, any of the shares of common stock that qualify for sale pursuant to Rule 144 promulgated under the Securities Act of 1933 may be sold in transactions complying with that Rule, rather than pursuant to this prospectus.

For sales to or through brokerdealers, these brokerdealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholder or the purchasers of the shares, or both. We have advised the selling stockholder that the antimanipulative provisions of Regulation M under the Securities Exchange Act of 1934 may apply to its sales in the market and have informed it that it must deliver copies of this prospectus. We are not aware, as of the date of this prospectus, of any agreements between the selling stockholder and any brokerdealers with respect to the sale of the shares of common stock.

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The selling stockholder and any brokerdealers or agents participating in the distribution of our shares may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any commissions received by any brokerdealer or agent and profit on any resale of shares of common stock may be deemed to be underwriting commissions under the Securities Act of 1933. The commissions received by a brokerdealer or agent may be in excess of customary compensation. If the selling stockholder is deemed to be an "underwriter," the selling stockholder may have liability for the accuracy of the contents of this prospectus under the Securities Act of 1933.

At a time a particular offer of shares is made by the selling stockholder, a prospectus supplement, if required, will be distributed that will set forth the names of any underwriters, dealers or agents and any discounts,

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commissions and other terms constituting compensation from the selling stockholder and any other required information.

In connection with distributions of the selling stockholder's shares, or otherwise, the selling stockholder may enter into hedging transactions with brokerdealers or others prior to or after the effective time of the arrangement. These brokerdealers may engage in short sales of shares or other transactions in the course of hedging the positions assumed by them or otherwise. The selling stockholder may also:

- o sell shares short and redeliver shares to close out short positions,
- o enter into option or other transactions with brokerdealers or others that may involve the delivery to those persons the shares, and brokerdealers may resell those shares pursuant to this prospectus, and
- o pledge the shares to a brokerdealer or others and, upon a default, these persons may effect sales of the shares pursuant to this prospectus.

We have advised the selling stockholder that open positions in shares of common stock covered by this prospectus prior to the registration statement, of which this prospectus is a part, being declared effective by the U.S. Securities and Exchange Commission may constitute a violation of Section 5 of the Securities Act of 1933. The selling stockholder advised us that it did not have an open position in the common stock covered by this prospectus at the time of its response to our inquiry.

In order to comply with securities laws of some states, if applicable, the shares of our common stock may be sold only through registered or licensed brokerdealers.

The selling stockholder will be subject to applicable provisions of the Securities Exchange Act of 1934 and its rules and regulations, including without limitation, Rule 102 under Regulation M. These provisions may limit the timing of purchases and sales of our common stock by the selling stockholder. Rule 102 under Regulation M provides, with limited exceptions, that it is unlawful for the selling stockholder or its affiliated purchaser to, directly or indirectly, bid for or purchase or attempt to induce any person to bid for or purchase, for an account in which the selling stockholder or affiliated purchaser has a beneficial interest in any securities that are the subject of the distribution during the applicable restricted period under Regulation M. All of the above may affect the marketability of our common stock.

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The selling stockholder may offer all of the shares of our common stock for sale immediately. Because it is possible that a significant number of shares could be sold at the same time under this prospectus, these sales, or that possibility, may have a depressive effect on the market price of our common stock.

We will receive none of the proceeds from the sale of the shares of common stock by the selling stockholder, except upon exercise of the outstanding common stock purchase warrant.

We will pay all costs and expenses incurred in connection with the registration under the Securities Act of 1933 of the shares of common stock offered by the selling stockholder, including all registration and filing fees, listing fees, printing expenses, and our legal and accounting fees. We estimate that these fees and expenses will total approximately \$65,000. The selling stockholder will pay all of its own brokerage fees and commissions, if any, incurred in connection with the sale of its shares of common stock. In addition, we have agreed to indemnify the selling stockholder against certain liabilities, including liabilities under the Securities Act of 1933.

We cannot assure you, however, that the selling stockholder will sell any of the shares of common stock it may offer.

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### DESCRIPTION OF SECURITIES

Our authorized capitalization consists of 100,000,000 shares of common stock, par value \$.01 per share. As of July 15, 2004, there were issued and outstanding:

- o 22,255,270 shares of common stock,
- o A secured convertible term note in the principal amount of \$1,750,000, of which the principal, interest and any possible fees under the note may be converted into shares of common stock at a conversion price of \$1.00 per share,
- o a common stock purchase warrant to purchase 300,000 shares of common stock at an average exercise price of \$1.50 per share, and
- o stock options to purchase 2,205,000 shares of common stock at an average weighted price of \$1.32 per share.

The following summary of the important provisions of our common stock, secured convertible term note, common stock purchase warrant, articles of incorporation and bylaws is qualified by reference to the provisions of our articles of incorporation and bylaws and the forms of note and warrant incorporated by reference as exhibits to the registration statement of which this prospectus is a part.

#### COMMON STOCK

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of our common stock entitled to vote in any election of directors may elect all of

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the directors standing for election. Holders of our common stock are entitled to receive dividends ratably, if any, as may be declared from time to time by our board of directors out of funds legally available. Upon the liquidation, dissolution or winding up of the company, the holders of our common stock are entitled ratably to our net assets available after the payment of all liabilities. Holders of our common stock have no preemptive, subscription, redemption or conversion rights, and there are no redemption or sinking fund provisions applicable to the common stock. The outstanding shares of our common stock are validly issued, duly authorized, fully paid and nonassessable.

### SECURED CONVERTIBLE TERM NOTE

On March 24, 2004, we issued a secured convertible term note, which has a term of three years and accrues interest at the greater of the prime rate of interest, currently 4% per year (as published in the Wall Street Journal), or 4% per year. Interest is payable monthly in arrears commencing on May 1, 2004, and on the first day of each consecutive calendar month after that date. Monthly amortization payments commence on October 1, 2004, at the rate of \$58,333.

The interest rate is subject to reduction in .25% increments on a monthbymonth basis if specified conditions are met, including that the shares of common stock underlying the conversion of the note and the common stock purchase warrant are registered with the SEC and whether and to what extent the average price of our common stock exceeds the fixed conversion price.

The holder of the note has the option to convert all or a portion of the note (including principal, interest and penalties) into shares of common stock at any time, subject to specified limitations, at a fixed conversion price of \$1.00 per share. The conversion price is subject to adjustment for stock splits, stock dividends and similar events. Our obligations under the note are secured by a first priority security interest in our assets.

We have the option of prepaying the note by paying to the holder a sum of money equal to 120% of the principal amount of the note, together with accrued but unpaid interest and any and all other sums due, accrued or payable to the holder arising under the note outstanding on the day written notice of redemption is given to the holder. A notice of redemption shall not be effective with respect to any portion of the note for which the holder has a pending election to convert shares.

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The terms of the note prohibit conversion of the note to the extent that conversion of the note would result in the holder, together with its affiliates, beneficially owning in excess of 4.99% of our outstanding shares of common stock. A holder may waive the 4.99% limitation upon 75 days' prior written notice to us.

### COMMON STOCK PURCHASE WARRANT

The common stock purchase warrant entitles the holder of the warrant to purchase up to 300,000 shares of our common stock from March 24, 2004 to March 24, 2011. The exercise price per share for the warrant is as follows: (i) \$1.25 for the first 100,000 shares, (ii) \$1.50 for the next 100,000 shares, and (iii) \$1.75 for the next 100,000 shares of common stock. The warrant may not be redeemed us.

The warrant may be exercised upon surrender of the warrant certificate on or prior to the expiration date at our offices with the "Form of Subscription" on the reverse side of the warrant certificate filled out and executed as indicated, accompanied by payment of the full exercise price for the



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number of shares being exercised under the warrant. In addition to the use of cash, certified or official bank check as payment for the exercise of the warrant, the warrant holder may also exercise the warrant by surrendering that number of shares of common stock issuable under the warrant with a fair market value equal to the exercise price of the portion of the warrant to be exercised.

The warrant contains provisions that protect the holder against dilution by adjustment of the purchase price in specified events, such as stock dividends, stock splits and similar events. The holder of the warrant will not possess any rights as a stockholder unless and until the holder exercises the warrant.

We may at any time during the term of the warrant reduce the then current exercise price to any amount and for any period of time deemed appropriate by our board of directors. The warrant does not confer upon the holder any voting or any other rights as a stockholder.

The terms of the warrant prohibit exercise of the warrant to the extent that exercise of the warrant would result in the holder, together with its affiliates, beneficially owning in excess of 4.99% of our outstanding shares of common stock. A holder may waive the 4.99% limitation upon 75 days' prior written notice to us.

### REGISTRATION RIGHTS

We have a registration rights agreements with the selling stockholder. All of the stock subject to the registration rights agreement is being registered in this prospectus in accordance with the terms of that agreement.

In connection with the issuance of the secured convertible term note and the common stock purchase warrant described above, we agreed to file a "resale" registration statement with the SEC covering the shares of our common stock issuable upon the conversion of the note and exercise of the warrant. We are obligated to maintain the effectiveness of the "resale" registration statement from its effective date through and until all securities registered under the registration statement have been sold or are otherwise able to be sold under Rule 144(k), in which case we will no longer be required to keep the registration statement effective. We agreed to use our best efforts to have the "resale" registration statement declared effective by the SEC as soon as possible and, in any event, by July 22, 2004.

### ANTITAKEOVER, LIMITED LIABILITY AND INDEMNIFICATION PROVISIONS

Articles of Incorporation and Bylaws. Pursuant to our articles of incorporation, our board of directors may issue additional shares of common stock. Any additional issuance of common stock could have the effect of impeding or discouraging the acquisition of control of us by means of a merger, tender offer, proxy contest or otherwise, including a transaction in which our stockholders would receive a premium over the market price for their shares, and thereby protects the continuity of our management. Specifically, if in the due exercise of its fiduciary obligations, the board of directors were to determine that a takeover proposal was not in our best interest, shares could be issued by our board of directors without stockholder approval in one or more transactions that might prevent or render more difficult or costly the completion of the takeover by:

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- o diluting the voting or other rights of the proposed acquirer or insurgent stockholder group;

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- o putting a substantial voting block in institutional or other hands that might undertake to support the incumbent board of directors; or
- o effecting an acquisition that might complicate or preclude the takeover.

Our bylaws also allow our board of directors to fix the number of directors in the bylaws. Our stockholders do not have cumulative voting in the election of directors. The effect of these provisions may be to delay or prevent a tender offer or takeover attempt that a stockholder may determine to be in his or its best interest, including attempts that might result in a premium over the market price for the shares held by the stockholders.

Nevada General Corporation Law. The Nevada General Corporation Law (NGCL) generally provides that a "resident domestic corporation" shall not engage in any "business combination" with an "interested stockholder" for a period of three years following the date that such stockholder became an interested stockholder unless prior to such date the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder. After three years, a "resident domestic corporation" is only authorized to engage in a combination which was either authorized by the board prior to the three years, authorized by a majority of disinterested stockholders or meets various fair price criteria.

For purposes of this statute, a "resident domestic corporation" is a domestic corporation that has 200 or more stockholders of record. An "interested stockholder" generally means any person that (i) is the beneficial owner, either directly or indirectly, of 10% or more of the voting power of the outstanding voting stock of the corporation or (ii) is an affiliate or associate of the corporation and was the beneficial owner, either directly or indirectly, of 10% or more of the voting power of the outstanding stock of the corporation at any time within the threeyear period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder. For purposes of this statute, an affiliate and associate of an interested stockholder is likewise considered to be an interested stockholder. The term "business combination" is broadly defined to include a wide variety of transactions, including mergers, consolidations, sales of 5% or more of a corporation's assets and various other transactions that may benefit an interested stockholder.

The NGCL also prohibits an acquirer, under certain circumstances, from voting shares of a target corporation's stock after crossing certain threshold ownership percentages, unless the acquirer obtains the approval of the target corporation's stockholders. The relevant threshold ownership percentages of the voting power of the corporation in the election of directors are: onefifth or more but less than onethird, onethird or more but less than a majority, and a majority or more. Once an acquirer crosses one of these thresholds, those shares acquired in an offer or acquisition and those shares acquired within the preceding ninety days become control shares and such control shares are deprived of the right to vote until disinterested stockholders restore the right. This provision will not apply if the articles of incorporation or bylaws of the target corporation in effect on the tenth day following the acquisition of a controlling interest provides that this provision does not apply.

The NGCL also provides that, unless otherwise provided in the corporation's articles or bylaws in effect on the tenth day following the acquisition of a controlling interest, in the event control shares are accorded full voting rights and the acquirer has acquired a majority or more of all voting power, all other stockholders who do not vote in favor of authorizing voting rights for the control shares may dissent, in accordance with the Nevada

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statutory procedures dealing with dissenters' rights, and obtain payment of the fair value of their shares.

This statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Limited Liability and Indemnification. Our articles of incorporation eliminates the personal liability of our directors and officers to us and our stockholders for damages for breach of any duty owed to us or our stockholders to the fullest extent permitted by law.

Under Nevada law, a corporation may indemnify a director or officer if (i) he or she is not liable pursuant to Section 78.138 of the NGCL for breaching fiduciary duties as an officer or director or where breach of duties

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involved intentional misconduct, fraud or a knowing violation of law, or (ii) acted in good faith and in a manner which he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the above provisions, we have been informed that, in the opinion of the SEC, that indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is Interstate Transfer Company, Salt Lake City, Utah.

### Market Information

Our common stock is quoted on the OTC Bulletin Board under the symbol UNRG.OB.

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### SHARES ELIGIBLE FOR FUTURE SALE

As of July 15, 2004, we had outstanding an aggregate of 22,255,270 shares of our common stock, assuming no exercises of outstanding warrants, stock options and other convertible securities. Upon conversion of the secured convertible term note and exercise of the common stock purchase warrant, the shares included in this prospectus will be freely tradeable without restriction or further registration under the Securities Act, unless they are purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act.

The 22,255,270 outstanding shares of our common stock not included in this prospectus and the 2,500,000 shares included in this prospectus, as of July 15, 2004, will be eligible for sale in the public market as follows:

### PUBLIC FLOAT

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As of July 15, 2004, the public float for our common stock consisted of 16,367,670 shares. These shares are freely tradeable without restriction or further registration under the Securities Act, unless they are purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act.

### RULE 144

In general, under Rule 144, as currently in effect, a person who has beneficially owned shares of our common stock for at least one year, including the holding period of prior owners other than affiliates, is entitled to sell within any threemonth period a number of shares that does not exceed the greater of:

- o 1% of the number of shares of our common stock then outstanding, which equaled 222,552 shares as of July 15, 2004, or
- o the average weekly trading volume of our common stock on the OTC Bulletin Board during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale.

Sales under Rule 144 are also subject to mannerofsale provisions, notice requirements and the availability of current public information about us. In order to effect a Rule 144 sale of our common stock, our transfer agent will require an opinion from legal counsel. We may charge a fee to persons requesting sales under Rule 144 to obtain the necessary legal opinions.

As of July 15, 2004, all of our shares of our common stock outstanding are available for sale under Rule 144, except for 75,000 shares of common stock.

### RULE 144(K)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale and who has beneficially owned shares for at least two years, including the holding period of certain prior owners other than affiliates, is entitled to sell those shares without complying with the mannerofsale, public information, volume limitation or notice provisions of Rule 144. Our transfer agent will require an opinion from legal counsel to effect a Rule 144(k) transaction. We may charge a fee to persons requesting transactions under Rule 144(k) to obtain the necessary legal opinions. On May 14, 2004, 6,000,000 shares of our common stock, issued in an institutional private placement on May 14, 2002, became eligible for sale under Rule 144(k).

### EQUITY INCENTIVE PLAN

As of July 15, 2004, stock options to purchase 2,205,000 shares of our common stock were outstanding under the 2001 Equity Incentive Plan. After this offering, we may determine to file a registration statement on Form S8 under the Securities Act of 1933 covering shares of common stock reserved for issuance under our Equity Incentive Plan. Based on the number of stock options outstanding and shares reserved for issuance under our Equity Incentive Plan, the Form S-8 registration statement would cover 4,000,000 shares. The Form S-8

registration

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statement would become effective immediately upon filing. At that point, subject to the satisfaction of applicable exercisability periods and Rule 144 volume limitations applicable to affiliates, shares of our common stock to be issued upon exercise of outstanding stock options granted pursuant to our Equity Incentive Plan will be available for immediate resale in the public market.

#### LEGAL MATTERS

The validity of the shares of common stock offered in this prospectus will be passed upon for us by our counsel, Greenberg Traurig, LLP, New York, New York. A shareholder of that firm beneficially owns 15,000 shares of our common stock.

#### EXPERTS

Our financial statements as of March 31, 2004 included in this prospectus and in the registration statement have been audited by Imowitz, Koenig & Co., LLP, New York, New York, independent public accountants, as stated in its report, appearing in this prospectus and in this registration statement and have been so included in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

Our financial statements as of March 31, 2003 and 2002, and for the years ended March 31, 2003 and 2002 included in this prospectus and in the registration statement have been audited by Grant Thornton LLP, independent registered public accounting firm, as stated in its report, appearing in this prospectus and in the registration statement and have been so included in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

#### CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On August 13, 2003, we dismissed Grant Thornton, LLP as our independent registered public accounting firm. Grant Thornton had been previously engaged as the principal accountants to audit our financial statements. We have engaged the firm of Imowitz, Koenig & Co., LLP, New York, New York, effective August 13, 2003, to act as our independent auditors for the fiscal year ended March 31, 2004.

Grant Thornton's report on our financial statements for the past two years did not contain an adverse opinion or a disclaimer of opinion, and the report was not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change accountants was approved by our board of directors.

During our two most recent fiscal years, and the subsequent interim periods, prior to August 13, 2003, there were no disagreements with Grant Thornton on any matter of accounting principles or practices, financial statement disclosure, auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Grant Thornton would have caused it to make reference to the subject matter of the disagreement in connection with its

reports.

UNITED ENERGY CORP. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of United Energy Corporation:

We have audited the accompanying consolidated balance sheet of United Energy Corporation (a Nevada corporation) and subsidiaries as of March 31, 2004 and the related consolidated statements of income, cash flows and stockholders' equity for the year then ended. These consolidated 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 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 the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Energy Corporation and subsidiaries as of March 31, 2004 and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses and negative cash flows

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from operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have also audited the schedule II for the year ended March 31, 2004. In our opinion, this schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information therein.

/s/ IMOWITZ, KOENIG & CO., LLP  
New York, New York  
May 11, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of United Energy Corporation:

We have audited the accompanying consolidated balance sheets of United Energy Corporation (a Nevada corporation) and subsidiaries as of March 31, 2003 and 2002 and the related consolidated statements of income, cash flows and stockholders' equity for the years then ended. These consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Energy Corporation and subsidiaries as of March 31, 2003 and 2002 and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited the schedule II for the years ended March 31, 2003 and 2002. In our opinion, this schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information therein.

/s/ GRANT THORNTON LLP  
New York, New York  
May 27, 2003

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UNITED ENERGY CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2004 AND 2003

|  | MARCH 31,<br>2004 | MARCH 31,<br>2003 |
|--|-------------------|-------------------|
|  | -----             | -----             |
| ASSETS   |                   |                   |
| CURRENT ASSETS:  |                   |                   |
| Cash and cash equivalents  | \$1,518,025       | \$2,120,942       |
| Accounts receivable, net of allowance for do<br>accounts of \$45,736 and \$48,113 respectively | 393,941           | 496,715           |
| Inventory, net of allowance of \$16,290 and<br>\$16,290, respectively                          | 176,487           | 211,344           |
| Note receivable, net of reserve of \$31,350 a<br>\$30,000, respectively                        | 63,650            | 149,034           |
| Prepaid expenses and other current assets  | 80,296            | 104,527           |
|  | -----             | -----             |
| Total current assets   | 2,232,399         | 3,082,562         |
| PROPERTY AND EQUIPMENT, net  | 243,313           | 268,597           |
| OTHER ASSETS:  |                   |                   |
| Goodwill, net  | 17,509            | 68,819            |
| Patents, net of accumulated amortization of<br>and \$44,253, respectively                      | 309,424           | 229,508           |
| Loans receivable   | 1,538             | 2,076             |
| Deposits   | 76,385            | 31,385            |
| Deferred financing costs, net of accumulated<br>amortization of \$2,000 and \$0, respectively  | 310,893           | -----             |
|  | -----             | -----             |
| Total assets   | \$3,191,461       | \$3,682,947       |
|  | =====             | =====             |

The accompanying notes are an integral part of these consolidated balance sheets

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UNITED ENERGY CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2004 AND 2003

|                                      | MARCH 31,<br>2004 | MARCH 31,<br>2003 |
|--------------------------------------|-------------------|-------------------|
|                                      | -----             | -----             |
| LIABILITIES AND STOCKHOLDERS' EQUITY |                   |                   |
| CURRENT LIABILITIES:                 |                   |                   |
| Accounts payable                     | \$ 276,115        | \$ 158,048        |
| Accrued expenses                     | 379,098           | 334,198           |
| Convertible term note payable        | 349,998           | -----             |
| Due to related parties               | 244,141           | 244,141           |



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|  |              |              |
|--|--------------|--------------|
| Total current liabilities  | 1,249,352    | 736,387      |
| LONG TERM LIABILITIES:   |              |              |
| Convertible term note payable  | 1,120,133    | --           |
| Total liabilities  | 2,369,485    | 736,387      |
| COMMITMENTS AND CONTINGENCIES (Note 7)   |              |              |
| STOCKHOLDERS' EQUITY:  |              |              |
| Common stock: \$0.01 par value 100,000,000 shares authorized; 22,180,270 shares issued and outstanding as of March 31, 2004 and 2003 | 221,802      | 221,802      |
| Additional paidin capital  | 11,143,266   | 10,698,752   |
| Accumulated deficit  | (10,543,092) | (7,973,994)  |
| Total stockholders' equity   | 821,976      | 2,946,560    |
| Total liabilities and stockholders' equity   | \$ 3,191,461 | \$ 3,682,947 |

The accompanying notes are an integral part of these consolidated balance sheets

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UNITED ENERGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED MARCH 31, 2004, 2003 AND 2002

|  | 2004        | 2003         |
|--|-------------|--------------|
| REVENUES, net                                | \$ 972,051  | \$ 2,232,626 |
| COST OF GOODS SOLD                           | 488,385     | 1,332,791    |
| Gross profit                                 | 483,666     | 899,835      |
| Selling, general and administrative          | 2,674,968   | 3,627,983    |
| Oil well operating and maintenance cost, net | 102,662     | --           |
| Executive services contributed by management | --          | --           |
| Depreciation, amortization and depletion     | 155,439     | 83,481       |
| Total operating expenses                     | 2,933,069   | 3,711,464    |
| Loss from operations                         | (2,449,403) | (2,811,629)  |

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|  |                |                |
|--|----------------|----------------|
| OTHER INCOME (EXPENSE), net:   |                |                |
| Interest income  | 8,765          | 59,377         |
| Interest expense   | (6,683)        | (1,748)        |
| Impairment loss  | (121,777)      | --             |
| Legal settlement   | --             | (75,000)       |
|  | -----          | -----          |
| Total other income (expense), net                                    | (119,695)      | (17,371)       |
|  |                |                |
| Net loss   | \$ (2,569,098) | \$ (2,829,000) |
|  | =====          | =====          |
| BASIC AND DILUTED LOSS PER SHARE:                                    |                |                |
| Total basic and diluted loss per share                               | \$ (0.12)      | \$ (0.13)      |
|  | =====          | =====          |
| WEIGHTED AVERAGE NUMBER OF SHARES,<br>OUTSTANDING, basic and diluted | 22,180,270     | 21,456,982     |
|  | =====          | =====          |

The accompanying notes are an integral part of these consolidated statements.

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UNITED ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED MARCH 31, 2004, 2003, AND 2002

|   | COMMON STOCK<br>SHARES | STOCK<br>AMOUNT | ADDITIONAL<br>PAIN-IN<br>CAPITAL | STOCK<br>SUBSCRIPTION<br>RECEIVABLE | ACCUMULATED<br>DEFICIENCY |
|---|------------------------|-----------------|----------------------------------|-------------------------------------|---------------------------|
|   | -----                  | -----           | -----                            | -----                               | -----                     |
| BALANCE, April 1, 2001  | 15,830,270             | \$158,302       | \$4,042,052                      | \$ (25,000)                         | \$ (3,780)                |
| Common stock issued for<br>conversion<br>of loan due to shareholder | 250,000                | 2,500           | 347,500                          | --                                  |                           |
| Write-off of subscription<br>receivable                             | --                     | --              | (25,000)                         | 25,000                              |                           |
| Common stock issued for<br>services received                        | 100,000                | 1,000           | 110,000                          | --                                  |                           |
| Options granted in<br>consideration<br>for consulting services      | --                     | --              | 455,900                          | --                                  |                           |
| Executive services contributed<br>by management                     | --                     | --              | 187,500                          | --                                  |                           |
| Net loss  | --                     | --              | --                               | --                                  | (1,360)                   |
|   | -----                  | -----           | -----                            | -----                               | -----                     |
| BALANCE, March 31, 2002   | 16,180,270             | 161,802         | 5,117,952                        | --                                  | (5,140)                   |
| Common stock issued for<br>Private placement                        | 6,000,000              | 60,000          | 5,940,000                        | --                                  |                           |
| Options granted in<br>consideration                                 |                        |                 |                                  |                                     |                           |

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|   |            |           |              |       |            |
|---|------------|-----------|--------------|-------|------------|
| for services  | --         | --        | 125,000      | --    |            |
| Private placement costs                                     | --         | --        | (484,200)    | --    |            |
| Net loss  | --         | --        | --           | --    | (2,82)     |
|   | -----      | -----     | -----        | ----- | -----      |
| BALANCE, March 31, 2003                                     | 22,180,270 | 221,802   | 10,698,752   | -     | (7,97)     |
| Options granted in consideration for services               | --         | --        | 9,700        | --    |            |
| Warrants granted in consideration for convertible term note | --         | --        | 281,670      | --    |            |
| Warrants granted in consideration for finance services      | --         | --        | 153,144      | --    |            |
| Net loss  | --         | --        | --           | --    | (2,56)     |
|   | -----      | -----     | -----        | ----- | -----      |
| BALANCE, March 31, 2004                                     | 22,180,270 | \$221,802 | \$11,143,266 | --    | \$ (10,54) |
|   | =====      | =====     | =====        | ===== | =====      |

The accompanying notes are an integral part of these consolidated statements.

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UNITED ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2004, 2003 AND 2002

|  | 2004           | 2003      |
|--|----------------|-----------|
|  | ----           | ----      |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                      |                |           |
| Net loss   | \$ (2,569,098) | \$ (2,82) |
| Adjustments to reconcile net loss to net cash used in operating activities |                |           |
| Depreciation, amortization and depletion                                   | 159,241        |           |
| Impairment loss  | 121,777        |           |
| Non-cash consulting expense  | -              |           |
| Options granted in consideration for services                              | 9,700          |           |
| Executive service contributed by management                                | -              |           |
| Changes in operating assets and liabilities                                |                |           |
| Decrease (increase) in accounts receivable, net                            | 102,774        | (4)       |
| Decrease (increase) in inventory, net                                      | 34,857         |           |
| Decrease in note receivable, net   | 85,384         |           |
| Decrease (increase) in prepaid expenses                                    | 24,231         |           |
| Increase in deposits   | (45,000)       | (         |
| Increase in related party payable  | -              |           |
| Increase (decrease) in accounts payable and accrued expenses               | 162,967        | (1        |
|  | -----          | -----     |
| Net cash used in operating activities                                      | (1,913,167)    | (2,9      |
|  | -----          | -----     |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                      |                |           |

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|  |             |       |
|--|-------------|-------|
| Payments/receipts for loans receivable-net             | 538         |       |
| Payments for acquisition of property and equipment-net | (177,843)   | (3)   |
| Payments for patent                                    | (102,695)   | (1)   |
|  | -----       | ----- |
| Net cash used in investing activities                  | (280,000)   | (4)   |
|  | -----       | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES:                  |             |       |
| Proceeds from convertible term note                    | 1,750,000   |       |
| Payment of financing costs                             | (159,750)   |       |
| Payments on line of credit                             | -           | (1)   |
| Proceeds from line of credit                           | -           |       |
| Payment of private placement costs                     | -           | (4)   |
| Proceeds from issuance of common stock                 | -           | 6,    |
|  |             |       |
| Net cash provided by financing activities              | 1,590,250   | 5,    |
|  |             |       |
| Net (decrease) increase in cash and cash equivalents   | (602,917)   | 1,    |
| CASH AND CASH EQUIVALENTS, beginning of period         | 2,120,942   |       |
|  | -----       | ----- |
| CASH AND CASH EQUIVALENTS, end of period               | \$1,518,025 | \$2,  |
|  | =====       | ===== |

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UNITED ENERGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2004, 2003 AND 2002

2004

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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

|                             |         |
|-----------------------------|---------|
| Cash paid during the period |         |
| Interest                    | \$2,882 |
| Income taxes                | \$2,154 |

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

|   |           |
|---|-----------|
| Issuance of warrants with convertible term loan               | \$281,670 |
| Issuance of warrants for financing costs                      | \$153,143 |
| Conversion of account receivable into note receivable         | \$-       |
| Conversion of accounts due to a shareholder into common stock | \$-       |

The accompanying notes are an integral part of these consolidated statements.

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UNITED ENERGY CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2004, 2003 AND 2002

## 1. DESCRIPTION OF BUSINESS AND BUSINESS PLAN

United Energy Corp. ("United Energy" or the "Company") considers its primary business focus to be the development, manufacture and sale of environmentally friendly specialty chemical products, in particular its KH30 and KX91 oil well cleaners and KH30S drag reducer products.

Green Globe is operated as a separate subsidiary of United Energy and sells its products under the tradename Qualchem(TM). Green Globe gives United Energy access to the chemistry and product lines of Green Globe which include environmentally friendly paint strippers and cleaners, many of which have been qualified for use by the U.S. Military. Green Globe developed a dual package of cleaning and drying "wipes" which produce a clear, nonreflective coating on glasses, computer screens and instrument panels. The "wipes" were developed for, and have received U.S. Military approval for, the cleaning of the instrument panels of combat aircraft.

United Energy's chemists have also developed an environmentally friendly fireretardant agent named FR15. FR15 begins as a concentrate which can be mixed with varying amounts of water, depending on the anticipated use. FR15 mixture also resists reignition once a fire has been extinguished. This product can also be used to reduce odors, such as those from decomposing garbage, and for soil remediation following petroleumbased contamination. Our FR15 product has been developed and successfully tested by several municipal fire departments. Underwriters Laboratories ("UL") did not have an approved test for FR15 as a dispersant. A reformulation of FR15 was developed to pass the UL fire extinguisher test. The reformulated product is being resubmitted for testing and certification by Underwriters Laboratories ("UL"). We expect that sales of FR15 will commence when the product receives UL certification.

United Energy also produces a specialty chemical product called UNIPROOF(R), which is a photosensitive coating that is applied to paper to produce what is known in the printing industry as proofing paper or "blue line" paper.

Slick Barrier is an underwater protective coating which prevents the adherence of barnacles to boat hulls. The product is another in the Company's line of environmental products in that it is environmentally friendly and biodegradable, which the Company believes to be particularly appealing in fresh water marine applications. The product is still being tested on pleasure boats throughout the United States and Europe. We expect to begin sales of the product by the beginning of 2005 . A patent application on this product is in process.

During the past two fiscal years ended March 31, 2004 and 2003, we have recorded aggregate losses from operations of \$5,398,098 and have incurred total negative cash flows from operations of \$4,911,943 for the same twoyear period. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our continued existence is dependent upon several factors, including

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increased sales volumes, collection of existing receivables and the ability to achieve profitability from the sale of our product lines. In order to increase our cash flow, we are continuing our efforts to stimulate sales and cut back expenses not directly supporting our sales and marketing efforts.

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of United Energy Corp. and its whollyowned subsidiary Green Globe Industries, Inc. and currently inactive subsidiary, NorGraphic Industries. All intercompany transactions and accounts have been eliminated in consolidation.

#### USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with accounting principals generally accepted in the United States of America requires United Energy to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an ongoing basis, United Energy evaluates its estimates, including those related to bad debts, inventories, intangible assets, contingencies and litigation. United Energy bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

#### REVENUE RECOGNITION

The Company's primary source of revenue is from the sales of its products. The Company recognizes revenue upon shipment and transfer of title.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of three months or less.

#### INVENTORIES

Inventories consist predominately of finished goods. Inventories are valued at the lower of cost (firstin, firstout method) or market.

#### ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company monitors its accounts and note receivable balances on a monthly basis to ensure they are collectible. On a quarterly basis, the Company uses its historical experience to determine its accounts receivable reserve. The Company's allowance for doubtful accounts is an estimate based on specifically identified accounts as well as general reserves. The Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations. In these cases, management uses its judgment, based upon the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the

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amount reserved. The company also establishes a general reserve based upon a range of percentages applied to aging categories. These percentages are based on historical collection and writeoff experience. If circumstances change, the Company's estimate of the recoverability of amounts due the company could be reduced or increased by a material amount. Such a change in estimated recoverability would be accounted for in the period in which the facts that give rise to the change become known.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation has been calculated over the estimated useful lives of the assets ranging from 3 to 15 years. Leasehold improvements are amortized over the lives of the respective leases (15 years), which are shorter than the useful life. The cost of maintenance and repairs is expensed as incurred.

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Depreciation and amortization expense for the years ended March 31, 2004, 2003 and 2002 was \$132,660, \$69,376, and \$3,660, respectively.

Property and equipment consists of the following at March 31, 2004 and 2003:

|   | 2004       | 2003       |
|---|------------|------------|
| Furniture and fixtures.....                             | \$ 68,036  | \$ 67,094  |
| Machinery and equipment.....                            | 366,098    | 233,585    |
| Vehicles.....   | 78,986     | 35,548     |
| Leasehold improvements.....                             | 26,203     | 25,253     |
| .....   | 539,323    | 361,480    |
| Less Impairment loss.....                               | (70,467)   | --         |
| Less Accumulated depreciation and<br>amortization ..... | (225,543)  | (92,883)   |
| Property and equipment, net.....                        | \$ 243,313 | \$ 268,597 |
|   | =====      | =====      |

### GOODWILL

The Company capitalized goodwill related to the acquisition of Green Globe in September of 1998. Goodwill represents cost in excess of fair value on the net assets acquired. Goodwill was amortized over a 15 year period using a straight line amortization method until the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets," on April 1, 2002. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). Effective April 1, 2002, the Company adopted the provisions of SFAS No. 142, which had no material effect on its results of operations and financial position.

As required by SFAS 142, the Company completed its transitional impairment testing of intangible assets. Under SFAS 142, the goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill.

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As of March 31, 2004 the Company completed its annual impairment testing of goodwill. The Company estimated the fair value of its goodwill by using discounted cash flow analysis. As a result of the impairment tests, the Company recorded a goodwill impairment charge of \$51,310 related to the Green Globe segment, during the year ended March 31, 2004.

Goodwill consists of the following at March 31, 2004 and 2003:

|                                | 2004      | 2003      |
|--------------------------------|-----------|-----------|
|                                | -----     | -----     |
| Goodwill                       | \$ 86,523 | \$ 86,523 |
| Less: Impairment loss          | 51,310    | -         |
| Less: Accumulated amortization | 17,704    | 17,704    |
|                                | -----     | -----     |
| Goodwill, net                  | \$ 17,509 | \$ 68,819 |
|                                | =====     | =====     |

### PATENTS

The Company capitalizes legal costs incurred to obtain patents. Amortization begins when the patent is approved using the straightline basis over the estimated useful life of 15 years.

### ACQUISITION OF OIL WELL LEASES

On April 4, 2003, the Company purchased oil leases for six oil wells in Laramie County, Wyoming (the "Wyoming Wells") for an aggregate purchase price of \$97,616. In addition to operating the wells, the Company used the wells to test its products. During the year ended March 31, 2004, the Wyoming Wells produced oil which generated \$34,636 in revenues and incurred operating costs and startup maintenance and repair costs of \$137,298.

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The Company has capitalized \$17,352 for the oil leases and \$68,571 for equipment, net of depreciation, amortization and depletion at March 31, 2004. The Company recorded an asset retirement obligation of \$30,000 to cover the cost of capping the wells in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company maintains a refundable, interestbearing deposit of \$75,000 with the State of Wyoming to cover the costs of eventual capping the wells in the event they are no longer operated or abandoned.

As of March 31, 2004 the company reviewed the carrying value of the oil well leases held by United Oil Corp. The Company estimated that the carrying value of the oil leases should be adjusted due to the sale of the oil well leases in April 2004 (see subsequent events footnote). As a result the Company recorded an oil leases' impairment loss of \$70,467 which has been included as a cumulative effect of an accounting change in the accompanying consolidated statement of income for the year ended March 31, 2004.

### ACCOUNTING FOR LONGLIVED ASSETS

The Company's longlived assets include property and equipment and patents.

In accordance with SFAS 144, longlived assets other than goodwill are reviewed on a periodic basis for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be



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recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

### INCOME TAXES

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and the income tax bases of assets and liabilities and for net operating loss carry forwards existing at the balance sheet date using enacted tax rates in effect for the years in which the taxes are expected to be paid or recovered. A valuation allowance is established when it is considered more likely than not that such assets will not be realizable. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in the period in which the tax change occurs.

### STOCKBASED COMPENSATION

At March 31, 2004, the Company has stock based compensation plans, which are described more fully in Note 10. As permitted by SFAS No.123, Accounting for Stock Based Compensation, the Company accounts for stockbased compensation arrangements with employees in accordance with provisions of Account Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Compensations expense for stock options issued to employees is based on the difference on the date of grant, between the fair value of the Company's stock and the exercise price of the option. Stock based employee compensation cost for the years ended March 31, 2004, 2003 and 2002 was \$0, \$125,000 and \$0, respectively. The Company accounts for equity instruments issued to nonemployees in accordance with the provisions of SFAS No.123 and Emerging Issues Task Force (EITF) Issue No.9618, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Stock based compensation for nonemployees was \$9,700, \$0 and \$455,900 for the years ended March 31, 2004, 2003 and 2002.

The following table illustrated the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to all stock based compensation:

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|   | Years ended March 31, |             |
|---|-----------------------|-------------|
|   | 2004                  | 2003        |
| Net Loss  |                       |             |
| As reported   | (2,569,098)           | (2,829,000) |
| Add:  |                       |             |
| Stock based compensation expenses included in reported net loss | 9,700                 | 125,000     |

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Deduct:

|   |             |             |
|---|-------------|-------------|
| Total stock based employee compensation expense determined under fair value based method for all awards | (1,361,668) | (1,194,605) |
| Pro forma   | (3,921,066) | (3,898,605) |
| Basic and diluted loss per common share   |             |             |
| As reported   | (0.12)      | (0.13)      |
| Pro forma   | (0.18)      | (0.18)      |

PER SHARE DATA

SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS"). The standard requires the presentation of basic EPS and diluted EPS. Basic EPS is calculated by dividing income/loss available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated by dividing income/loss available to common shareholders by the weighted average number of common shares outstanding adjusted to reflect potentially dilutive securities. Diluted loss per share for the years ended March 31, 2004, 2003 and 2002 does not include 6,430,000, 6,195,020 and 1,860,000 stock options and warrants since the inclusion of the outstanding stock options and warrants would be antidilutive.

CONCENTRATIONS OF RISK

Cash and Cash Equivalents

The Company maintains cash balances at financial institutions insured up to \$100,000 by the Federal Deposit Insurance Corporation. Balances exceeded these insured amounts during the year.

Accounts and Notes Receivable

The Company has one customer which accounted for 50% and 87% of the total accounts receivable at March 31, 2004 and 2003 respectively. Credit losses, if any, have been provided for in the consolidated financial statements and are based on management's expectations.

At March 31, 2003, the company converted an accounts receivable balance of \$179,034 to a one year note receivable. The note accrues interest at the rate of 4.5% and is paid down in 12 monthly payments and provides for a security interest in the inventory held by this customer. During the year ended March 31, 2004, the customer returned goods in the amount of \$30,225, which reduced the note. Principal payments in the amount of \$53,807 have also been paid. No interest has been paid to date. On March 28, 2004, the customer agreed to a balance of \$95,000, which they will pay \$5,000 per month.

Significant Customers

The Company's revenues from major customers, as a percentage of revenues, for the years ended March 31, 2004, 2003 and 2002, are as follows:

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|       |       |       |
|-------|-------|-------|
| 2004  | 2003  | 2002  |
| ----- | ----- | ----- |

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|                  |     |     |     |
|------------------|-----|-----|-----|
| Customer A ..... | 10% | 0%  | 0%  |
| Customer B ..... | 0%  | 4%  | 12% |
| Customer C ..... | 46% | 59% | 74% |
| Customer D ..... | 0%  | 15% | 0%  |
| Customer E ..... | 4%  | 10% | 0%  |

### Vendors

The Company has one vendor, which accounts for over 26%, 36% and 38% of the Company's supplies purchases for the years ended March 31, 2004, 2003 and 2002, respectively. The Company believes it can obtain the products from other vendors on terms suitable to the Company.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, note and loan receivable, inventory, accounts payable and accrued expenses approximate their fair values due to the shortterm maturity of these instruments.

### RECLASSIFICATIONS

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2003, the FASB issued FASB Interpretation No. 46R (revised December 2003), Consolidation of Variable Interest Entities ("VIE'S"), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The Company will be required to adopt FIN 46R in the first fiscal period ending after March 15, 2004. Upon adoption of FIN 46R, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. It is not anticipated that the effect of this interpretation, if any, on the Company's Consolidated Financial Statements would be material.

### 3. INVENTORY

Inventory consists of the following as of March 31, 2004 and 2003:

|                       | 2004       | 2003       |
|-----------------------|------------|------------|
|                       | ----       | ----       |
| Paper.....            | \$ 4,416   | \$ 19,957  |
| Blended chemical..... | 104,668    | 111,544    |
| Raw materials.....    | 67,403     | 79,843     |
|                       | -----      | -----      |
| Total inventory.....  | \$ 176,487 | \$ 211,344 |
|                       | =====      | =====      |

### 4. REVOLVING LINE OF CREDIT

The Company had a revolving line of credit which allowed the Company to borrow up to \$1,000,000 from Fleet Bank. Borrowings under the credit line bore interest at prime. Interest was payable monthly. The Company repaid the line of

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credit in full in May 2002 with the proceeds received from the private placement and the credit line was closed.

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### 5. RELATED PARTY TRANSACTIONS

The Company had an amount due to Robert Seaman, a major shareholder and former director of the Company. Amounts due to a related party as of March 31, 2004 and 2003 is \$244,141. These amounts are unsecured, noninterest bearing and due upon demand.

Martin Rappaport, a major shareholder and director of the Company, owns the property from which United Energy leases the 9,600 square foot facility it occupies in Secaucus, New Jersey. The Company pays approximately \$108,000 per year under the lease, excluding real estate taxes. The Company believes that the lease is at fair market value with leases for similar facilities.

### 6. CONVERTIBLE DEBT

On March 24, 2004, the Company issued a secured convertible term note in the amount of \$1,750,000, which has a term of three years and accrues interest at the greater of the prime rate of interest, currently 4% per year (as published in the Wall Street Journal), or 4% per year. Interest is payable monthly in arrears commencing on May 1, 2004, and on the first day of each consecutive calendar month after that date. Monthly amortization payments commence on October 1, 2004, at the rate of \$58,333.

The holder of the note has the option to convert all or a portion of the note (including principal, interest and penalties) into shares of common stock at any time, subject to specified limitations, at a fixed conversion price of \$1.00 per share. The conversion price is subject to adjustment for stock splits, stock dividends and similar events. The Company's obligations under the note are secured by a first priority security interest in the Company's assets.

|                                   |             |
|-----------------------------------|-------------|
| Convertible term note             | \$1,750,000 |
| Discount on convertible term note | (279,869)   |
|                                   | -----       |
| Current portion                   | (349,998)   |
|                                   | -----       |
| LongTerm Debt                     | \$1,120,133 |
|                                   | =====       |

Estimated maturities on longterm debt are as follows:

|      |           |
|------|-----------|
| 2004 | \$699,996 |
| 2005 | 420,137   |

### 7. COMMITMENTS AND CONTINGENCIES

#### LITIGATION

##### Sales Commission Claim

In July 2002, an action was commenced against us in the Court of Common Pleas of South Carolina, Pickens County, brought by Quantum International Technology, LLC and Richard J. Barrett. Plaintiffs allege that they were retained as a sales representative of ours and in that capacity made sales of our products to the United States government and to commercial entities.

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Plaintiffs further allege that we failed to pay to plaintiffs agreed commissions at the rate of 20% of gross sales of our products made by plaintiffs. The complaint seeks an accounting, compensatory damages in the amount of all unpaid commissions plus interest thereon, punitive damages in an amount treble the compensatory damages, plus legal fees and costs. Plaintiffs maintain that they are entitled to receive an aggregate of approximately \$350,000 in compensatory and punitive damages, interest and costs. In June 2003, the action was transferred from the court in Pickens County to a Master in Equity sitting in Greenville, South Carolina and was removed from the trial docket. The action, if tried, will be tried without a jury. No trial date has yet been scheduled. We believe we have meritorious defenses to the claims asserted in the action and intend to vigorously defend the case. The outcome of this matter cannot be determined at this time.

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### Texas Oil Field Accident

On October 29, 2002, an accident occurred at an oil well site near Odessa, Texas, where the Company's equipment and products were being used in the treatment of an oil well. Three lawsuits were commenced against the Company in Texas state court in Crane County, arising from this incident and one additional claim, though not formally commenced, was asserted. The insurance companies involved have settled all of the claims and the Company has paid only \$15,000 in legal out of pocket fees relating to these claims.

### Litigation Concerning a Former Employee

ON OR ABOUT MAY 16, 2003, THE COMPANY COMMENCED AN ACTION AGAINST JON HEBERT, A FORMER EMPLOYEE OF THE COMPANY IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY, SEEKING PRELIMINARY AND PERMANENT INJUNCTIVE AND OTHER RELIEF FOR VIOLATIONS BY MR. HEBERT OF EMPLOYMENT AND NONDISCLOSURE AGREEMENTS BETWEEN HIM AND THE COMPANY, RESULTING IN ALLEGED DISCLOSURES BY HEBERT OF THE COMPANY'S CONFIDENTIAL AND PROPRIETARY INFORMATION AND WRONGFUL SOLICITATION OF THE COMPANY'S CUSTOMERS. THE COMPANY ALLEGED THAT SALES OF PRODUCTS MANUFACTURED OR DISTRIBUTED BY HEBERT'S NEW EMPLOYER MAY, IN ADDITION, INFRINGE THE COMPANY'S PATENTS. AFTER A HEARING ON THE COMPANY'S MOTION FOR A PRELIMINARY INJUNCTION, THE COURT DENIED THE MOTION, BUT ORDERED EXPEDITED PROCEEDINGS IN THE MATTER.

On or about May 27, 2003, Mr. Hebert's current employer, Fluid Sciences, L.L.C., commenced two actions against the Company and one of its whollyowned subsidiaries, Nor Industries, Inc. One of the actions was commenced in the 15th Judicial District Court, Lafayette Parish, Louisiana. This action sought a declaratory judgment that the agreements between the Company and Mr. Hebert are not enforceable against Fluid Sciences, L.L.C as a matter of Louisiana's public policy and laws. In addition, the action sought judgment that the Company's efforts to enforce its agreements with Mr. Hebert are in restraint of trade and constitute unfair competition entitling Fluid Sciences, L.L.C. to injunctive relief and damages.

On or about May 27, 2003, a second action was commenced in the United States District Court for the Western District of Louisiana, entitled Fluid Sciences, L.L.C. v. United Energy Corp. and Nor Industries, Inc. The complaint in this action alleged that Fluid Sciences was entitled to a declaratory judgment that its products do not infringe the patents of the Company. The parties to the Hebert action and the Fluid Sciences actions settled and

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discontinued all of those actions without any further costs to the parties. Included in the settlements were agreements from Fluid Sciences, L.L.C. and Jon Herbert that, among other things, there will be no further violations of any Company patents.

SMK Industries, Inc. v. Nor Graphics, Inc.

In its Form 10K for the fiscal year ended March 31, 2002, the Company reported an action commenced against it in 1997 by SMK Industries seeking damages for breach of contract of approximately \$120,000. On June 18, 2003, the Company and plaintiff reached an agreement to settle and discontinue the lawsuit. The Company paid \$75,000.

### LEASE COMMITMENTS

The Company leases office facilities, equipment and autos under operating leases expiring on various dates through 2007. Certain leases contain renewal options. The following is a schedule by years, of future minimum lease payments under operating leases having remaining terms in excess of one year as of March 31, 2004.

| Year                         | Operating<br>Leases |
|------------------------------|---------------------|
| -----                        | -----               |
| 2005                         | 128,303             |
| 2006                         | 116,550             |
| 2007                         | 102,990             |
| 2008                         | 33,760              |
|                              | -----               |
| Total minimum lease payments | \$381,603           |
|                              | =====               |

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The expenses for all operating leases were \$131,509, \$120,214 and \$107,304 for the years ended March 31, 2004, 2003 and 2002, respectively.

### 8. STOCKHOLDERS' EQUITY

In connection with the convertible term note (see note 6), the Company issued warrants to purchase up to 300,000 shares of the Company's common stock at an exercise price per share ranging from \$1.00 to \$1.50. The warrants are fully exercisable for seven years from the date of issuance. The estimated fair value of the warrants of \$281,670 was recorded as a discount to the convertible term note and is being amortized to interest expense over the life of the note. The unamortized amount as of March 31, 2004 was \$279,869. As of March 31, 2004, these warrants were unexercised and outstanding.

The Company issued warrants in exchange for services provided in connection with the issuance of the convertible term note to purchase up to 175,000 shares of the Company's common stock at an exercise price per share of \$1.50. The warrants are fully exercisable for five years from the date of issuance. The estimated fair value of \$153,143 was recorded as a deferred financing cost and is being amortized over the life of the note. The unamortized amount as of March 31, 2004 was \$152,164. As of March 31, 2004, these warrants were unexercised and outstanding.

On May 14, 2002, the Company issued, in a private placement, an aggregate of 6,000,000 shares of its common stock at an aggregate price of \$6,000,000. In connection with the common stock issuance, the Company issued warrants to purchase 3,000,000 of the Company's common stock at an exercise

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price of \$2 per share exercisable for a five year period. The Company incurred \$484,000 in issuance expenses in connection with the financing. In addition, the Company issued 750,000 additional warrants to purchase 750,000 of the Company's common stock at an exercise price of \$0.60 per share with a five year term but not exercisable during the first two years from the grant date for relinquishing rights of immediate exercise of 500,000 warrants issued in connection with the private placement.

As part of the private placement transaction, the Company began the process of identifying and making employment offers to a new management team to focus on sales and marketing of KH30 and other products. Three of four of the new management team accepted employment starting in May 2002. Agreements with each of these executives have been cancelled as of March 31, 2004, and no new agreements are in place.

During year ended March 31, 2002, the Company issued an aggregate of 100,000 shares of common stock in exchange for consulting services. These issuances were recorded as an increase to equity and consulting expense for the fair value of the shares of common stock on their respective grant dates.

Until December 31, 2001, the CEO and CFO provided services to the Company for which they had not received any compensation. The financial statements through that date reflect a charge and associated credit to shareholders' equity reflecting the fair value of such contributed services. Both these individuals received option and/or cash compensation commencing in the fourth quarter and accordingly the Company ceased reflecting the value of contributed services as of January 1, 2002

### 9. INCOME TAXES

Deferred income taxes are provided for the temporary difference between the financial reporting basis and tax basis of the Company's assets and liabilities including those assets and liabilities recorded in connection with acquisitions. Deferred tax assets and liabilities result principally from recording certain expenses or income in the financial statements in a different period from recognition for income tax purposes. As of March 31, 2004, the Company had a net operating loss carryforward for tax purposes of approximately \$8,540,000, which is available to reduce its future taxable income and expires at various dates through 2023. \$106,000 expiring in 2015, \$820,000 expiring in 2016, \$889,000 expiring in 2017, \$736,000 expiring in 2018, \$100,000 expiring in 2020, \$782,000 expiring in 2021, \$2,692,000 expiring in 2022 and \$2,415,000 expiring in 2023. A full valuation allowance has been established against the deferred tax assets, which are mainly related to the net loss carryforward, due to the uncertainties surrounding the utilization of the carryforward and limitations resulting from a change in control. There are no other significant timing differences.

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Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating loss carryforwards before utilization.

### 10. EMPLOYEE BENEFITS PLAN

#### Stock Option Plans

In August 2001, the Company's stockholders approved, the 2001 Equity

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Incentive Plan (the "2001 Plan"), which provides for the grant of stock options to purchase up to 2,000,000 shares of common stock to any employee, nonemployee director, or consultant at the Board's discretion. Under the 2001 Plan, these options may be exercised for a period up to ten years from the date of grant. Options issued to employees are exercisable upon vesting, which can range between the date of the grant to up to 5 years.

An amendment and restatement of the 2001 Equity Incentive Plan increasing the number of shares for a total of 4,000,000 was approved by the Board of Directors on May 29, 2002 and was approved by the shareholders at the annual meeting.

Under the 2001 Plan, options are granted to nonemployee directors upon election at the annual meeting of stockholders at a purchase price equal to the fair market value on the date of grant. In addition, the nonemployee director stock options shall be exercisable in full twelve months after the date of grant unless determined otherwise by the compensation committee.

There were stock options to purchase 1,795,000 shares of common stock for future grant as of March 31, 2004 under the 2001 equity incentive plan.

### FAIR VALUE OF STOCK OPTIONS

For disclosure purposes under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the BlackScholes option valuation model with the following weightedaverage assumptions:

Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating loss carryforwards before utilization.

### 10. EMPLOYEE BENEFITS PLAN

#### Stock Option Plans

In August 2001, the Company's stockholders approved, the 2001 Equity Incentive Plan (the "2001 Plan"), which provides for the grant of stock options to purchase up to 2,000,000 shares of common stock to any employee, non-employee director, or consultant at the Board's discretion. Under the 2001 Plan, these options may be exercised for a period up to ten years from the date of grant. Options issued to employees are exercisable upon vesting, which can range between the date of the grant to up to 5 years.

An amendment and restatement of the 2001 Equity Incentive Plan increasing the number of shares for a total of 4,000,000 was approved by the Board of Directors on May 29, 2002 and was approved by the shareholders at the annual meeting.

Under the 2001 Plan, options are granted to non-employee directors upon election at the annual meeting of stockholders at a purchase price equal to the fair market value on the date of grant. In addition, the non-employee director stock options shall be exercisable in full twelve months after the date of grant unless determined otherwise by the compensation committee.

There were stock options to purchase 1,795,000 shares of common stock for future grant as of March 31, 2004 under the 2001 equity incentive plan.

### FAIR VALUE OF STOCK OPTIONS



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For disclosure purposes under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions:

|                               | 2004   | 2003   |
|-------------------------------|--------|--------|
|                               | ----   | ----   |
| Expected life (in years)..... | 10%    | 10%    |
| Risk-free interest rate.....  | 4.54%  | 4.73%  |
| Volatility.....               | 138.00 | 105.45 |
| Dividend Yield.....           | 0%     | 0%     |

Utilizing these assumptions, the weighted average fair value of options granted with an exercise price equal to their fair market value at the date of the grant is \$1.32 and \$1.78 for the years ended March 31, 2004 and 2003, respectively.

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Summary Stock Option Activity

The following table summarizes stock option information with respect to all stock options for the year ended March 31, 2004 and 2003:

|   | NUMBER OF<br>SHARES | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | WEIGHTED<br>AVERAGE<br>REMAINING<br>CONTRACT<br>LIFE (Y) |
|---|---------------------|--|--|
|   | -----               | -----                                    | -----  |
| Options outstanding April 1, 2002.....  | -                   | -  |  |
| Granted                                 | 1,110,000           | \$1.10                                   |  |
|   | -----               | -----                                    |  |
| Options outstanding March 31, 2002      | 1,110,000           | \$1.10                                   |  |
| Granted.....                            | 2,142,500           | \$1.70                                   |  |
| Cancelled.....                          | (807,480)           | \$1.90                                   |  |
|   | -----               | -----                                    |  |
| Options outstanding March 31, 2003..... | 2,445,020           | \$1.38                                   | 9.1  |
|   |                     |  | ===  |
| Granted.....                            | 475,000             | \$1.10                                   |  |
| Cancelled                               | (715,020)           | \$1.28                                   |  |
|   | -----               | -----                                    |  |
| Options outstanding March 31, 2004..... | 2,205,000           | \$1.32                                   | 8.3  |
|   | =====               | =====                                    | =====  |

As of March 31, 2004, there were 1,881,459 options exercisable with weighted average exercise price of \$1.28 per share. Options outstanding at March 31, 2004 have an exercise price ranging between \$0.70 to \$2.00.

11. SEGMENT REPORTING

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the way that public companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures

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regarding products and services, geographic areas and major customers. SFAS No. 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance.

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The Company's total revenues, income from operations and identifiable assets by segment for the year ended March 31, 2004, are as follows:

|  | Graphic<br>Arts | Specialty<br>Chemicals | Corporate      |
|--|-----------------|------------------------|----------------|
|  | -----           | -----                  | -----          |
| Revenues                                     | \$486,075       | \$ 485,976             | \$--           |
|  | =====           | =====                  | =====          |
| Gross profit                                 | \$ 244,328      | \$239,338              | \$--           |
| Sales, general and administrative expenses   | 146,351         | 1,270,148              | 1,258,469      |
| Oil well operating and maintenance costs-net | --              | 102,662                | --             |
| Depreciation, amortization and depletion     | --              | 137,889                | 17,550         |
| Impairment loss                              | --              | 121,777                | --             |
| Interest expense (income)                    | 6,683           | --                     | (8,765)        |
|  | -----           | -----                  | -----          |
| Income (loss) from continuing operations     | \$ 91,294       | \$( 1,393,138)         | \$( 1,267,254) |
|  | =====           | =====                  | =====          |
| Cash and cash equivalents                    | \$ --           | \$--                   | \$1,518,025    |
| Accounts receivable                          | 229,997         | 163,944                | --             |
| Inventory                                    | 42,452          | 134,035                | --             |
| Note receivable                              | 63,650          | --                     | --             |
| Loan receivable                              | --              | --                     | 1,538          |
| Prepaid expenses                             | --              | --                     | 80,296         |
| Fixed assets                                 | --              | 211,492                | 31,821         |
| Goodwill                                     | --              | 17,509                 | --             |
| Patent                                       | --              | 309,424                | --             |
| Deferred note costs                          | --              | --                     | 310,893        |
| Deposits                                     | --              | 75,000                 | 1,385          |
|  | -----           | -----                  | -----          |
| Total assets                                 | \$ 336,099      | \$911,404              | \$1,943,958    |
|  | =====           | =====                  | =====          |
| Capital expenditures                         | \$--            | \$175,953              | \$1,890        |
|  | =====           | =====                  | =====          |

The Company's total revenues, income from operations and identifiable assets by segment for the year ended March 31, 2003, are as follows:

|              | Graphic<br>Arts | Specialty<br>Chemicals | Corporate |
|--------------|-----------------|------------------------|-----------|
|              | -----           | -----                  | -----     |
| Revenues     | \$1,700,738     | \$ 531,888             | \$--      |
|              | =====           | =====                  | =====     |
| Gross profit | \$ 604,503      | \$295,332              | \$--      |

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|  |            |                 |                 |
|--|------------|-----------------|-----------------|
| Sales, general and administrative expenses | 203,921    | 1,902,206       | 1,521,856       |
| Depreciation, amortization and depletion   | --         | 72,490          | 10,991          |
| Interest expense (income)                  | 1,748      | --              | (59,377)        |
| Legal settlement                           | --         | --              | 75,000          |
|  | -----      | -----           | -----           |
| Income (loss) from continuing operations   | \$ 398,834 | \$ ( 1,679,364) | \$ ( 1,548,470) |
|  | =====      | =====           | =====           |
| Cash and cash equivalents                  | \$ --      | \$--            | \$2,120,942     |
| Accounts receivable                        | 449,046    | 47,669          | --              |
| Inventory                                  | 62,669     | 148,675         | --              |
| Note receivable                            | 149,034    | --              | --              |
| Loan receivable                            | --         | --              | 2,076           |
| Prepaid expenses                           | --         | --              | 104,527         |
| Fixed assets                               | --         | 221,116         | 47,481          |
| Goodwill                                   | --         | 68,819          | --              |
| Patent                                     | --         | 229,508         | --              |
| Deposits                                   | --         | 30,000          | 1,385           |
|  | -----      | -----           | -----           |
| Total assets                               | \$660,749  | \$745,787       | \$2,276,411     |
|  | =====      | =====           | =====           |
| Capital expenditures                       | \$--       | \$263,693       | \$57,397        |
|  | =====      | =====           | =====           |

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The Company's total revenues and loss from operations by segment for the year ended March 31, 2002, are as follows:

|  | Graphic<br>Arts | Specialty<br>Chemicals | Corporate      |
|--|-----------------|------------------------|----------------|
|  | -----           | -----                  | -----          |
| Revenues.                                    | \$1,061,317     | \$326,534              | \$--           |
|  | =====           | =====                  | =====          |
| Gross profit                                 | \$496,385       | \$135,075              | \$--           |
| Sales, general and administrative expenses   | 241,097         | 274,802                | 1,247,547      |
| Depreciation and amortization                | --              | 19,053                 | 978            |
| Interest expense (income)                    | 6,200           | --                     | (1,792)        |
| Legal settlement                             | --              | 20,651                 | --             |
| Executive services contributed by management | --              | --                     | 187,500        |
|  | -----           | -----                  | -----          |
| Income (loss) from continuing operations     | \$249,088       | \$ ( 179,431)          | \$ (1,434,233) |
|  | =====           | =====                  | =====          |

Geographic Information

|          | Revenues |           |           |
|----------|----------|-----------|-----------|
|          | 2004     | 2003      | 2002      |
| U.S.     | 850,021  | 2,193,101 | 1,387,851 |
| Non-U.S. | 122,030  | 39,525    | --        |
|          | -----    | -----     | -----     |
| Totals   | 972,051  | 2,232,626 | 1,387,851 |
|          | =====    | =====     | =====     |

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12. SUBSEQUENT EVENT FOOTNOTE

In April 2004, the Company sold the oil well leases located in Laramie County, Wyoming for \$15,000, and a 4.5% royalty on all future oil sales from these wells. The Company is also in the process of receiving the refund of the \$75,000 deposit from the State of Wyoming.

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SCHEDULE II

UNITED ENERGY CORP.  
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

|   | Balance at<br>Beginning<br>Of Year<br>----- | Charged<br>To Costs and<br>Expenses<br>----- | Deductions<br>----- | Balance<br>End of<br>----- |
|---|---|--|---------------------|----------------------------|
| For the fiscal year ended March 31, 2004: |   |  |                     |                            |
| Allowance for doubtful accounts           | \$48,113                                    | \$ --  | \$ 2,377            | \$4                        |
| Reserve for Note Receivable               | \$30,000                                    | \$ 1,350                                     | \$ --               | \$3                        |
| For the fiscal year ended March 31, 2003: |   |  |                     |                            |
| Allowance for doubtful accounts           | \$ 4,795                                    | \$ 48,113                                    | \$ 4,795            | \$4                        |
| Reserve for note receivable               | --  | \$ 30,000                                    | \$ --               | \$3                        |
| For the fiscal year ended March 31, 2002: |   |  |                     |                            |
| Allowance for doubtful accounts           | \$71,656                                    | \$ 4,795                                     | \$71,656            | \$                         |
| For the fiscal year ended March 31, 2004: |   |  |                     |                            |
| Reserve for inventory obsolescence        | \$16,290                                    | \$ --  | \$ --               | \$1                        |
| For the fiscal year ended March 31, 2003: |   |  |                     |                            |
| Reserve for inventory obsolescence        | \$16,290                                    | \$ --  | \$ --               | \$1                        |
| For the fiscal year ended March 31, 2002: |   |  |                     |                            |
| Reserve for inventory obsolescence        | \$ --                                       | \$ 16,290                                    | \$ --               | \$1                        |

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Our articles of incorporation eliminate the personal liability of our directors and officers to United Energy and its stockholders for damages for

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breach of any duty owed to United Energy or its stockholders to the fullest extent permitted by law.

Under Nevada law, a corporation may indemnify a director or officer if (i) he or she is not liable pursuant to Section 78.138 of the NGCL for breaching fiduciary duties as an officer or director or where breach of duties involved intentional misconduct, fraud or a knowing violation of law, or (ii) acted in good faith and in a manner which he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

We have been advised that, in the opinion of the SEC, any indemnification for liabilities arising under the Securities Act of 1933 is against public policy, as expressed in the Securities Act, and is, therefore, unenforceable.

### ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

|                                      |    |             |
|--------------------------------------|----|-------------|
| Registration fees.....               | \$ | 280.00      |
| Federal taxes.....                   |    | -           |
| State taxes.....                     |    | -           |
| Legal fees and expenses.....         |    | 30,000.00   |
| Printing and engraving expenses..... |    | 5,000.00    |
| Blue sky fees.....                   |    | 10,000.00   |
| Accounting fees and expenses.....    |    | 10,000.00   |
| Miscellaneous.....                   |    | 9,720.00    |
| Total.....                           |    | \$65,000.00 |

### ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

On July 1, 2004, we agreed to issue 75,000 shares of our unregistered common stock to the firm of C.C.R.I. Corporation, as consultant, pursuant to a consulting agreement, dated as of May 17, 2004, in consideration for providing us with certain investor relations and development services. The closing price on that date was \$.95 per share, for an aggregate value of \$71,250. In connection with that issuance, we also agreed to grant to the consultant warrants to purchase 100,000 shares of common stock at a price of \$2.00 per share. The warrants also include certain "piggy-back" registration rights on the first available registration. This transaction will be exempted from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) of that Act.

On March 24, 2004, we sold a secured convertible term note in the principal amount of \$1,750,000 pursuant to a securities purchase agreement dated as of the same date. The convertible term note has a term of three years and accrues interest at the greater of (1) the prime rate of interest (as published in the Wall Street Journal) or (2) 4% per year. The convertible note may be converted into shares of our common stock at a fixed conversion price of \$1.00 per share. We also agreed to register the shares of common stock into which the convertible note is convertible.

As part of the sale of the convertible note and the consideration paid in connection therewith, we issued and the purchaser received a common stock purchase warrant (maturing in 2011) to purchase up to 300,000 shares of our common stock at prices ranging from \$1.25 per share of common stock to \$175 per share of common stock. We also agreed to register for resale the shares of common stock into which the common stock purchase warrant is exercisable by the purchaser. In connection with the sale of the convertible note and the issuance of the common stock purchase warrant, we paid certain fees to the purchaser in the amount of \$61,250.

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The above-referenced convertible note, common stock purchase warrant and the shares of common stock into which they may be converted or exercised were not registered under the Securities Act of 1933 and, as a result,

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are "restricted securities" (or in the case of the common stock, will be "restricted securities" upon issuance) and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. Certificates and agreements representing the note, warrant and these shares, contain a legend stating the same. These securities were issued by us in reliance upon an exemption from registration set forth in Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated under that Act. The issuance of these securities was undertaken without general solicitation or advertising. The purchaser represented to us that, among other things, it was acquiring these securities for investment purposes only and not with a view toward public distribution and that it was an "accredited investor" within the meaning of Rule 501 of Regulation D. In addition, the purchaser acknowledged that the securities issued to it (or to be issued upon conversion of the note or exercise of the warrant) were "restricted securities."

On May 14, 2002, we issued in a private placement an aggregate of 6,000,000 unregistered shares of our common stock at an aggregate price of \$6,000,000. In connection with the common stock issuance, we issued warrants to purchase 3,000,000 shares of our common stock at an exercise price of \$2.00 per share exercisable for a five-year period. We incurred \$484,000 in issuance expenses in connection with the financing. In addition, we issued 750,000 additional warrants to purchase 750,000 shares of our common stock at an exercise price of \$.60 per share with a five-year term, but not exercisable during the first two years from the grant date for relinquishing rights of immediate exercise of 500,000 warrants issued in connection with the private placement.

On March 4, 2002, 100,000 shares of our unregistered common stock were issued to the firm of Seaman & Wehle as partial consideration for legal services rendered during the fiscal year ended March 31, 2002. The closing price on that date was \$1.11, for an aggregate value of \$111,000. The transactions on May 14, 2002 and March 4, 2002 were exempted from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) of that Act.

### ITEM 27. EXHIBITS.

#### Exhibit

| No.  | Description of Exhibit   |
|------|--|
| 3.1  | Articles of Incorporation of United Energy Corp.(1)  |
| 3.2  | Amendment to the Articles of Incorporation.(2)   |
| 3.3  | By-Laws of United Energy Corp.(1)  |
| 4.1  | Articles of Incorporation: Articles Fourth, Fifth and Seventh.(1)  |
| 4.2  | By-Laws: Article I: Sections: Six, Seven, Eight, Nine, Ten; Article II: Section Nine: Article IV: Section Two.(1)  |
| 4.3  | Form of Stock Certificate of United Energy Corp.(1)  |
| 4.4  | Secured Convertible Term Note dated March 24, 2004.(4)   |
| 5.1  | Opinion of Greenberg Traurig, LLP, as to the legality of the shares of common stock.(6)                            |
| 10.1 | Distribution Agreement and Option Agreement with International Research and Development, dated August 25, 1999.(1) |
| 10.2 | 2001 Equity Incentive Plan, as amended on May 29, 2002.(5)   |
| 10.3 | Securities Purchase Agreement, dated March 24, 2004, between United Energy Corp. and Laurus Master Fund, Ltd.(4)   |

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- 10.4 Secured Convertible Term Note, dated March 24, 2004.(4)
  - 10.5 Security Agreement, dated March 24, 2004, between United Energy Corp. and Laurus Master Fund, Ltd.(4)
  - 10.6 Registration Rights Agreement, dated March 24, 2004, between United Energy Corp. and Laurus Master Fund, Ltd.(4)
  - 10.7 Common Stock Purchase Warrant, dated March 24, 2004.(4)
  - 16.1 Letter re Change in Certifying Accountant.(3)
  - 21.1 List of Subsidiaries.(7)
  - 23.1 Consent of Greenberg Traurig, LLP (included in the opinion filed as Exhibit 5.1).(6)
  - 23.2 Consent of Imowitz, Koenig & Co., LLP.(6)
  - 23.3 Consent of Grant Thornton, LLP.(6)
  - 24.1 Power of Attorney (set forth on signature page of the Registration Statement).
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- (1) Incorporated by reference from the exhibits filed with the registrant's Form 10 on June 20, 2000.
- (2) Incorporated by reference from the exhibits filed with the registrant's Form 10-Q for the period ended September 30, 2001.
- (3) Incorporated by reference from the exhibits filed with the registrant's Form 8-K filed on June 3, 2002.
- (4) Incorporated by reference from the exhibits filed with the registrant's Form 8-K filed on March 30, 2004.
- (5) Incorporated by reference from the exhibits filed with the registrant's Schedule 14A for the year ended March 31, 2003.
- (6) Filed herewith.
- (7) Previously filed.

(b) Reports on Form 8-K

During the three months ended March 31, 2004, we filed the following Current Report on Form 8-K:

- o Form 8-K dated March 24, 2004 (filed on March 30, 2004), which described our private placement of a secured convertible term note and common stock purchase warrant to Laurus Master Fund, Ltd.

ITEM 28. UNDERTAKINGS.

(a) The undersigned small business issuer hereby undertakes:

(1) To file, during any period in which it offers and sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) Reflect in the prospectus any facts or events

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which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

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In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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FORM SB-2  
(AMENDMENT NO. 1)

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Amendment No. 1 to Registration Statement to be signed on its behalf by the undersigned, in the City of Secaucus, State of New Jersey, on July 15, 2004.

UNITED ENERGY CORP.



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By: /s/ Ronald Wilen

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Ronald Wilen  
Chairman and Chief Executive Officer  
(principal executive officer)

By: /s/ James McKeever

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James McKeever  
Interim Chief Financial Officer  
(principal financial and accounting officer)

In accordance with the requirements of the Securities Act of 1933, this Amendment No. 1 to Registration Statement has been signed by the following persons in the capacities and on the dates stated.

/s/ Ronald Wilen

Director, Chairman and Chief Executive Officer

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Ronald Wilen

/s/ James McKeever

Interim Chief Financial Officer

-----  
James McKeever

Director

-----  
Louis Bernstein

/s/ Andrea Pampanini\*

Director

-----  
Andrea Pampanini

/s/ Martin Rappaport\*

Director

-----  
Martin Rappaport

\*/s/ James McKeever

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James McKeever, as Attorney-in-Fact