

URANERZ ENERGY CORP.  
Form 424B3  
August 23, 2007

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Filed pursuant to Rule 424(b)(3)  
File No. 333-139537

**Prospectus Supplement No. 1**  
**(To Prospectus dated June 29, 2007)**

## **URANERZ ENERGY CORPORATION**

**28,506,153 shares of common stock**

This prospectus supplement supplements the Prospectus dated June 29, 2007 relating to the sale of up to 28,506,153 shares of our common stock. This prospectus supplement should be read in conjunction with the Prospectus.

### **Quarterly Report on Form 10-QSB**

On August 14, 2007, we filed with the Securities and Exchange Commission the attached Quarterly Report on Form 10-QSB for the quarter ended June 30, 2007. The text of the 10-QSB is attached hereto.

**Investing in our common stock involves a high degree of risk.**  
**See Risk Factors beginning on page 4 of the Prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.**

The date of this prospectus supplement is August 23, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-QSB**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended **June 30, 2007**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-50180**

**URANERZ ENERGY CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**NEVADA**

(State of other jurisdiction of incorporation or  
organization)

**98-0365605**

(I.R.S. Employer Identification No.)

**Suite 1410- 800 West Pender Street**

**Vancouver, British Columbia, Canada**

(Address of Principal Executive Offices)

**V6C 2V6**

(Zip Code)

**(604) 689-1659**

(Registrant's Telephone Number, including Area Code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

Number of shares of issuer's common stock outstanding at August 10, 2007: 39,159,087 Transitional Small Business format (check one):  Yes  No

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Uranerz Energy Corporation  
(An Exploration Stage Company)

June 30, 2007

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Uranerz Energy Corporation  
(An Exploration Stage Company)  
Consolidated Balance Sheets  
(Expressed in US dollars)

|  | June 30,<br>2007<br>\$<br>(unaudited) | December 31,<br>2006<br>\$ |
|--|---------------------------------------|----------------------------|
| <b>ASSETS</b>  |                                       |                            |
| <b>Current Assets</b>  |                                       |                            |
| Cash   | 15,157,932                            | 12,293,890                 |
| Amounts receivable   | 116,449                               |                            |
| Prepaid expenses and deposits (Note 6)   | 215,486                               | 74,870                     |
| <b>Total Current Assets</b>  | <b>15,489,867</b>                     | <b>12,368,760</b>          |
| Property and Equipment (Note 3)  | 292,298                               | 123,236                    |
| <b>Total Assets</b>  | <b>15,782,165</b>                     | <b>12,491,996</b>          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                                       |                            |
| <b>Current Liabilities</b>   |                                       |                            |
| Accounts payable   | 423,125                               | 169,688                    |
| Accrued liabilities  | 42,079                                | 9,074                      |
| Current portion of loan payable (Note 5)   | 30,226                                |                            |
| Due to related parties (Note 6)  | 50,217                                | 200,047                    |
| <b>Total Current Liabilities</b>   | <b>545,647</b>                        | <b>378,809</b>             |
| Loan Payable (Note 5)  | 68,188                                |                            |
| <b>Total Liabilities</b>   | <b>613,835</b>                        | <b>378,809</b>             |
| Commitments and Contingencies (Notes 1, 4 and 10)  |                                       |                            |
| <b>Stockholders Equity</b>   |                                       |                            |
| Preferred Stock, 10,000,000 shares authorized, \$0.001 par value;<br>No shares issued and outstanding                                    |                                       |                            |
| Common Stock, 100,000,000 shares authorized, \$0.001 par value;<br>39,159,087 and 34,560,338 shares issued and outstanding, respectively |                                       |                            |
|  | 39,159                                | 34,560                     |
| Additional Paid-in Capital   | 36,893,589                            | 23,777,517                 |
| Common Stock Subscribed (Note 7 (c))   | 15,000                                |                            |
| Accumulated Other Comprehensive Income   | 540                                   | 542                        |
| Deficit Accumulated During the Exploration Stage   | (21,779,958)                          | (11,699,432)               |
| <b>Total Stockholders Equity</b>   | <b>15,168,330</b>                     | <b>12,113,187</b>          |
| <b>Total Liabilities and Stockholders Equity</b>   | <b>15,782,165</b>                     | <b>12,491,996</b>          |

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

Uranerz Energy Corporation  
(An Exploration Stage Company)  
Consolidated Statements of Operations  
(Expressed in US dollars)  
(Unaudited)

|  | Accumulated<br>From<br>May 26, 1999<br>(Date of<br>Inception)<br>to June 30,<br>2007<br>\$ | Three Months<br>Ended<br>June 30,<br>2007      2006<br>\$              \$ |             | Six Months<br>Ended<br>June 30,<br>2007      2006<br>\$              \$ |             |
|--|--|---|-------------|---|-------------|
| Revenue                                      |  |   |             |   |             |
| Expenses                                     |  |   |             |   |             |
| Depreciation                                 | 33,760   | 10,664  | 3,022       | 18,155  | 3,545       |
| Foreign exchange                             | 10,378   | 4,382   | 2,777       | 5,217   | 4,859       |
| General and administrative (Note<br>6)       | 16,267,666   | 927,765   | 1,468,111   | 5,797,995   | 4,447,001   |
| Mineral property expenditures                | 6,309,666  | 826,812   | 176,318     | 4,633,413   | 531,914     |
| Total Operating Expenses                     | 22,621,470   | 1,769,623   | 1,650,228   | 10,454,780  | 4,987,319   |
| Operating Loss                               | (22,621,470)   | (1,769,623)   | (1,650,228) | (10,454,780)  | (4,987,319) |
| Other Income (Expense)                       |  |   |             |   |             |
| Gain on sale of investment<br>securities     | 79,129   |   |             |   |             |
| Interest income                              | 785,716  | 197,541   | 121,324     | 374,254   | 121,324     |
| Loss on settlement of debt                   | (132,000)  |   | (8,231)     |   | (108,906)   |
| Mineral property option payments<br>received | 108,667  |   | 67,500      |   | 72,500      |
| Total Other Income (Expense)                 | 841,512  | 197,541   | 180,593     | 374,254   | 84,918      |
| Net Loss                                     | (21,779,958)   | (1,572,082)   | (1,469,635) | (10,080,526)  | (4,902,401) |
| Other Comprehensive Income (Loss)            |  |   |             |   |             |
| Unrealized gain on investment<br>securities  |  |   | 19,500      |   | 19,500      |
| Foreign currency translation<br>adjustment   | (540)  | (44)  |             | 2   |             |
| Comprehensive Loss                           | (21,780,498)   | (1,572,126)   | (1,450,135) | (10,080,524)  | (4,882,901) |
| Net Loss Per Share    Basic and<br>Diluted   |  | (0.04)  | (0.05)      | (0.27)  | (0.18)      |
| Weighted Average Shares<br>Outstanding       |  | 39,082,000  | 30,115,000  | 37,682,000  | 27,278,000  |

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

Uranerz Energy Corporation  
(An Exploration Stage Company)  
Consolidated Statements of Cash Flows  
(Expressed in US dollars)  
(Unaudited)

|   | For the Six<br>Months<br>Ended June 30,<br>2007<br>\$ | For the Six<br>Months<br>Ended June 30,<br>2006<br>\$ |
|---|---|---|
| <b>Operating Activities</b>   |   |   |
| Net loss for the period   | (10,080,526)  | (4,902,401)   |
| Adjustments to reconcile net loss to cash used in operating activities: |   |   |
| Depreciation  | 18,155  | 3,545   |
| Impairment loss on mineral property costs                               |   | 374,092   |
| Investment securities received for option payments                      |   | (37,500)  |
| Debt settled with options   |   | 121,363   |
| Loss on settlement of debt  |   | 108,905   |
| Stock-based compensation  | 4,606,261   | 3,841,721   |
| Changes in operating assets and liabilities:                            |   |   |
| Amounts receivable  | (116,424)   |   |
| Prepaid expenses  | (96,809)  | (34,677)  |
| Accounts payable and accrued liabilities                                | 286,443   | (4,320)   |
| Advances payable  |   | 90,501  |
| Due to related parties  | (149,830)   | (104,184)   |
| <b>Net Cash Used in Operating Activities</b>                            | <b>(5,532,730)</b>                                    | <b>(542,955)</b>                                      |
| <b>Investing Activities</b>   |   |   |
| Acquisition of mineral properties                                       |   | (374,092)   |
| Acquisition of subsidiary, net cash paid                                |   | (48)  |
| Purchase of property and equipment                                      | (88,802)  | (73,789)  |
| <b>Net Cash Flows Used In Investing Activities</b>                      | <b>(88,802)</b>                                       | <b>(447,929)</b>                                      |
| <b>Financing Activities</b>   |   |   |
| Proceeds from issuance of common stock                                  |   | 10,754,585  |
| Proceeds from the exercise of options                                   | 153,900   |   |
| Proceeds from the exercise of common share purchase warrants            | 8,316,678   | 22,500  |
| Proceeds from common stock subscribed                                   | 15,000  |   |
| Advances to related parties   |   | (15,000)  |
| <b>Net Cash Flows Provided By Financing Activities</b>                  | <b>8,485,578</b>                                      | <b>10,762,085</b>                                     |

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|   |            |            |
|---|------------|------------|
| Effects of Exchange Rate Changes on Cash    | (4)        |            |
| Increase In Cash                            | 2,864,042  | 9,771,201  |
| Cash - Beginning of Period                  | 12,293,890 | 1,925,021  |
| Cash - End of Period                        | 15,157,932 | 11,696,222 |
| Non-cash Investing and Financing Activities |            |            |
| Purchase of equipment with loan payable     | 98,414     |            |
| Stock options granted to settle debt        |            | 121,363    |

Supplemental Disclosures

Interest paid

Income taxes paid

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

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Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the Consolidated Financial Statements  
June 30, 2007  
(Expressed in US dollars)  
(Unaudited)

1. Nature of Operations

Uranerz Energy Corporation (the Company) was incorporated in the State of Nevada, U.S.A. on May 26, 1999. The Company has acquired mineral property interests in Canada, Mongolia and United States.

The Company is an Exploration Stage Company, as defined by Statement of Financial Accounting Standard (SFAS) No.7 *Accounting and Reporting by Development Stage Enterprises*. The Company's principal business is the acquisition and exploration of uranium and mineral resources. The Company has not presently determined whether its properties contain mineral reserves that are economically recoverable.

The Company has not generated any revenue since inception and has never paid any dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. As at June 30, 2007, the Company has working capital of \$14,944,220. Although existing cash resources are currently expected to provide sufficient funds through the upcoming fiscal year, the capital expenditures required to achieve planned principal operations may be substantial. The continuation of the Company as a going concern for a period longer than the upcoming fiscal year is dependent upon the ability of the Company to obtain necessary equity financing to continue operations and to determine the existence, discovery and successful exploitation of economically recoverable reserves in its resource properties, confirmation of the Company's interests in the underlying properties, and the attainment of profitable operations.

2. Summary of Significant Accounting Policies

a) Basis of Presentation and Principles of Consolidation

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. These financial statements include the accounts of the Company and its wholly-owned subsidiary Rolling Hills Resources LLC, a Mongolian company. All inter-company transactions and balances have been eliminated. The Company's fiscal year-end is December 31.

b) Interim Financial Statements

The interim unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Securities and Exchange Commission (SEC) Form 10-QSB. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2006, included in the Company's Annual Report on Form 10-KSB filed on April 2, 2007 with the SEC.

The consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company's consolidated financial position at June 30, 2007, and the consolidated results of its operations and consolidated cash flows for the three and six months ended June 30, 2007 and 2006. The results of

operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for future quarters or the full year.

c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company regularly evaluates estimates and assumptions related to useful life and recoverability of long-lived assets, stock-based compensation and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the Consolidated Financial Statements  
June 30, 2007  
(Expressed in US dollars)  
(Unaudited)

2. Summary of Significant Accounting Policies (continued)

e) Property and Equipment

Property and equipment consists of computer hardware, office equipment and field equipment, is recorded at cost and is depreciated on a straight line basis over five years.

f) Mineral Property Costs

The Company is primarily engaged in the acquisition, exploration and development of mineral properties. Mineral property acquisition costs are capitalized in accordance with EITF 04-2 *Whether Mineral Rights Are Tangible or Intangible Assets* when management has determined that probable future benefits consisting of a contribution to future cash inflows have been identified and adequate financial resources are available or are expected to be available as required to meet the terms of property acquisition and budgeted exploration and development expenditures. Mineral property acquisition costs are expensed as incurred if the criteria for capitalization are not met. In the event that a mineral property is acquired through the issuance of the Company's shares, the mineral property will be recorded at the fair value of the respective property or the fair value of common shares, whichever is more readily determinable.

When mineral properties are acquired under option agreements with future acquisition payments to be made at the sole discretion of the Company, those future payments, whether in cash or shares, are recorded only when the Company has made or is obliged to make the payment or issue the shares. As option payments do not meet the definition of tangible property under EITF 04-2, all option payments are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves and pre feasibility, the costs incurred to develop such property are capitalized.

Estimated future removal and site restoration costs, when determinable are provided over the life of proven reserves on a units-of-production basis. Costs, which include production equipment removal and environmental remediation, are estimated each period by management based on current regulations, actual expenses incurred, and technology and industry standards. Any charge is included in exploration expense or the provision for depletion and depreciation during the period and the actual restoration expenditures are charged to the accumulated provision amounts as incurred.

At June 30, 2007, the Company has incurred only acquisition and exploration costs which have been expensed. During the six months ended June 30, 2007, mineral property acquisition costs totalling \$3,216,904 and exploration costs of \$1,416,509 were expensed. During the prior year, the Company initially capitalized mineral property acquisition costs and performed an impairment analysis at each fiscal quarter end.

g) Financial Instruments

The fair values of cash, amounts receivable, accounts payable, accrued liabilities, amounts due to related parties and loan payable approximate their carrying values due to the immediate or short-term maturity of

these financial instruments. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash in excess of federally insured amounts. To date, the Company has not incurred a loss relating to this concentration of credit risk.

h) Long-lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life.

Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the Consolidated Financial Statements  
June 30, 2007  
(Expressed in US dollars)  
(Unaudited)

2. Summary of Significant Accounting Policies (continued)

i) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 *Accounting for Income Taxes* as of its inception. Pursuant to SFAS No. 109 the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

j) Foreign Currency Translation

The Company's functional currency is the United States dollar and management has adopted SFAS No. 52, *Foreign Currency Translation*. The functional currency of the Company's wholly owned subsidiary is the Mongolian Togrog. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction. Foreign currency transactions are primarily undertaken in Canadian dollars and Mongolian Togrogs. The Company has not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

k) Stock-based Compensation

The Company records stock based compensation in accordance with SFAS 123(R), *Share-Based Payments*, which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options. In March 2005, the Securities and Exchange Commission issued SAB 107 relating to SFAS 123(R). The Company applied the provisions of SAB 107 in its adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model as its method of determining fair value. This model is affected by the Company's stock price as well as assumptions regarding a number of subjective variables. These subjective variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The value of the portion of the award that is ultimately expected to vest is recognized as an expense in the consolidated statement of operations over the requisite service period.

No tax benefits were attributed to stock-based compensation expense because a full valuation allowance was maintained for all net deferred tax assets.

l) Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. For the six month periods ended June 30, 2007 and 2006, the Company's only components of comprehensive income consisted of foreign currency translation adjustments and an unrealized gain on investment securities.

m) Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, *Earnings per Share*. SFAS No. 128 requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS and the weighted average number of common shares exclude all dilutive potential shares since their effect is anti dilutive.

n) Reclassifications

Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation.

Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the Consolidated Financial Statements  
June 30, 2007  
(Expressed in US dollars)  
(Unaudited)

2. Summary of Significant Accounting Policies (continued)

o) Recently Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* . This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities* applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, *Fair Value Measurements* . The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* . The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

p) Recently Adopted Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin ( SAB ) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 in fiscal 2006 did not have a material effect on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R) . This statement requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit

organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS No. 158 are effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. The adoption of this statement did not have a material effect on the Company's future reported financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statements No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a two-step method of first evaluating whether a tax position has met a more likely than not recognition threshold and second, measuring that tax position to determine the amount of benefit to be recognized in the financial statements. FIN 48 provides guidance on the presentation of such positions within a classified statement of financial position as well as on derecognition, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this statement in fiscal 2007, did not have a material effect on the Company's financial statements.

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Uranerz Energy Corporation  
 (An Exploration Stage Company)  
 Notes to the Consolidated Financial Statements  
 June 30, 2007  
 (Expressed in US dollars)  
 (Unaudited)

2. Summary of Significant Accounting Policies (continued)

p) Recently Adopted Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This statement requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement No. 140. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. SFAS No. 156 is effective for an entity's first fiscal year beginning after September 15, 2006. The adoption of this statement in fiscal 2007 did not have a material effect on the Company's financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140", to simplify and make more consistent the accounting for certain financial instruments. SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"; to permit fair value re-measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, "Accounting for the Impairment or Disposal of Long-Lived Assets", to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. The adoption of this statement in fiscal 2007 did not have a material effect on the Company's financial statements.

|                                | Cost    | Accumulated<br>Depreciation | June 30,<br>2007<br>Net Carrying<br>Value | December 31,<br>2006<br>Net Carrying<br>Value |
|--------------------------------|---------|-----------------------------|---|---|
|                                | \$      | \$                          | \$  | \$  |
| Computers and office equipment | 99,383  | 16,414                      | 82,969                                    | 47,411  |
| Field equipment                | 226,676 | 17,347                      | 209,329                                   | 75,825  |
|                                | 326,059 | 33,761                      | 292,298                                   | 123,236                                       |

4. Mineral Properties

a)

On October 30, 2006, the Company entered into an agreement with an officer, who is also a director of the Company ( Related Party ), to use certain geological reports held by the Related Party for the purposes of staking and acquiring potential areas of interest. Under the terms of the agreement, the Company agreed to pay the Related Party the sum of \$0.40 for each measured and indicated pound of uranium staked by the Company or a fee of \$750 for each claim registered with the Bureau of Land Management, based on the use of the geological reports. This fee is payable to the Related Party in shares of common stock of the Company based on a share price of \$2.50 per share. In connection with the issuance of the shares, the Company agreed to grant the Related Party registration rights for the resale of such shares. If the shares are not registered and eligible for resale six months after issuance, the Company shall pay a penalty of an additional 10% of the number of shares issued. As at June 30, 2007 the staking and filings are being assessed and the payment has not been determined.

- b) On April 26, 2005, the Company entered into an agreement to acquire a 100% interest in two mineral prospecting permits located in the Athabasca Basin area of Saskatchewan, Canada in consideration of Cdn\$40,757 and a 2% royalty. This agreement was with a company controlled by a director of the Company. On October 20, 2005, the agreement was amended so that the Company has a one time right exercisable for ninety days following the completion of a bankable feasibility study to buy one half of the vendor s royalty interest for Cdn\$1,000,000.

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Uranerz Energy Corporation  
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4. Mineral Properties (continued)

On November 4, 2005, the Company entered into an option and joint venture agreement with a company (the Optionee) on the Company's two mineral prospecting permits. The Optionee can earn a 60% interest in the property by paying the Company Cdn\$75,000 in three annual installments of Cdn\$25,000 each (Cdn\$50,000 received) and incurring Cdn\$1,500,000 in exploration expenditures in various stages by May 1, 2008. The Optionee can elect to earn an additional 10% interest by incurring an additional Cdn\$1,500,000 by November 1, 2009.

- c) The Company entered into an agreement dated November 18, 2005 to acquire a 100% interest in 10 mining claims located in the Powder River Basin area, Wyoming, in consideration of \$250,000 payable in stages to January, 2007 (paid).
- d) The Company entered into an option agreement dated December 9, 2005 to acquire a 100% interest in 44 mining claims within six mineral properties located in the Powder River Basin area, Wyoming. The Company can earn a 100% interest in the properties by incurring \$750,000 in exploration costs within a three-year period and paying an advance royalty of \$250,000 (paid). The Company must pay a royalty fee of between 6% - 8%.
- e) On February 17, 2006, as amended on March 16, 2006 and September 8, 2006, the Company entered into a letter agreement to option and joint venture its eight Mongolian projects to another company (the Optionee). The Optionee has the right to acquire a 70% interest in the projects in consideration for the following payments:
  - (i) \$5,000 upon execution of the letter agreement (received);
  - (ii) \$30,000 (received) and 150,000 common shares of the Optionee (received);
  - (iii) \$15,000 by October 18, 2006 (received);
  - (iv) \$20,000 by October 18, 2007;
  - (v) \$25,000 by October 18, 2008; and
  - (vi) \$25,000 by October 18, 2009.

In addition, the Optionee must make the following expenditures:

- (i) \$200,000 in year 2006;
- (ii) \$250,000 in year 2007;
- (iii) \$450,000 in year 2008; and
- (iv) \$600,000 in year 2009.

Once the Optionee has exercised their option to acquire a 70% interest in the properties, the Company will have the right and option to acquire back a 21% interest exercisable by giving notice 120 days following receipt by the parties of a feasibility study on the properties, by paying the Optionee an amount calculated in relation to the quantity of U3O8 and gold determined under the said feasibility study, giving the Company a 51% interest and control of any further development.

- (f) On June 7, 2006, the Company entered into an Agreement with another company (the Optionee ) on two of the Company s exploration projects (the Projects ) located within the Red Desert area of southwest Wyoming.

The Company and Otioneer will form a joint venture to conduct further exploration and to develop the properties. The Optionee shall have the right to earn a 50% equity interest in the joint venture during the first phase of the exploration program by managing the property, spending at least \$100,000 per year on exploration on the projects and spending the first \$750,000 on exploration within three years of inception of the agreement.

On completion of the first phase of the exploration program, should the Company or the Optionee elect not to contribute to the costs of the second phase of expenditures on a pro-rata basis, then the contributing party shall have the right to earn a further 1% interest in the joint venture for every \$25,000 spent on the projects to a maximum interest in the joint venture of 70% (by spending \$500,000).

On completion of the second phase of expenditures, should the Company or the Optionee elect not to contribute to all further expenditures on a pro-rata basis they would be awarded a 6% royalty for their contribution up to that point and the contributing party shall have the right to earn a further 1% interest in the joint venture for every \$25,000 spent on the projects to a maximum interest in the joint venture of 100% (by spending \$750,000).

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4. Mineral Properties (continued)

- (g) On January 23, 2007, the Company entered into a purchase agreement to acquire three mineral properties consisting of 138 unpatented lode mining claims located in Campbell County, Wyoming at a purchase price of \$3,120,000. On February 1, 2007, the Company paid \$3,120,000 to the vendor and acquired the mineral properties.
- (h) In May, 2007, the Company entered into purchase agreements to acquire several mining leases in Texas for a total purchase price of \$46,904.

|   | June 30,<br>2007 | December 31,<br>2006 |
|---|------------------|----------------------|
| Loan payable in 36 monthly installments of \$3,084, including interest, to June 2010. Secured by equipment. | \$ 98,414        | \$                   |
| Less current portion:   | (30,226)         |                      |
|   | \$ 68,188        | \$                   |

Principal repayments for the next four fiscal years are as follows:

|      |           |
|------|-----------|
| 2007 | \$ 14,812 |
| 2008 | 31,456    |
| 2009 | 34,067    |
| 2010 | 18,079    |
|      | \$ 98,414 |

6. Related Party Transactions

- a) During the six month period ended June 30, 2007, the Company incurred \$154,401 (2006 - \$120,335) for consulting services and office expenses (included in general and administrative expenses) to companies controlled by a director of the Company. Other general and administrative expenses were reimbursed in the normal course of business. As at June 30, 2007, \$26,223 (December 31, 2006 \$58,194) is owing to the director and these companies, which is unsecured, non-interest bearing, and due on demand.
- b) During the six month period ended June 30, 2007, the Company incurred \$90,000 (2006 - \$83,000) for consulting services (included in general and administrative expenses) to a director who is also an officer. Other general and administrative expenses were reimbursed in the normal course of business. As at June 30, 2007, \$nil (December 31, 2006 \$93,853) is owed to this director, which is unsecured, non-interest bearing, and due on demand. As at June 30, 2007, the Company had \$18,000 (December 31, 2006 - \$nil) in prepaid consulting fees and expenses to this director.
- c) During the six month period ended June 30, 2007, the Company incurred \$60,000 (2006 - \$48,000) for consulting services (included in general and administrative expenses) to a company controlled by the President of the Company. Other general and administrative expenses were reimbursed to the President in

the normal course of business. As at June 30, 2007, \$6,741 (December 31, 2006 \$48,000) is owed to the President, which is unsecured, non-interest bearing, and due on demand.

- d) During the six month period ended June 30, 2007, the Company incurred consulting fees of \$36,637 (2006 - \$4,536) to an entity controlled by an officer of the Company. Other general and administrative expenses were reimbursed to the officer in the normal course of business. As at June 30, 2007, \$10,713 (December 31, 2006 - \$nil) is owed to this officer, which is unsecured, non-interest bearing, and due on demand.
- e) During the six month period ended June 30, 2007, general and administrative expenses were reimbursed to other directors in the normal course of business. As at June 30, 2007, \$6,540 (December 31, 2006 \$nil) is owed to these directors, which is unsecured, non-interest bearing, and due on demand.

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7. Common Stock

- a) During the six month period ended June 30, 2007, the Company issued 4,481,749 shares of common stock pursuant to the exercise of common share purchase warrants for proceeds of \$8,316,678.
- b) During the six month period ended June 30, 2007, the Company issued 117,000 shares of common stock pursuant to the exercise of stock options for proceeds of \$153,900.
- c) At June 30, 2007 the Company had received \$15,000 of subscriptions for the issuance of 20,000 shares of common stock issued pursuant to stock options exercised..

|                                 | Six Months Ended |                  |
|---------------------------------|------------------|------------------|
|                                 | June 30,<br>2007 | June 30,<br>2006 |
| Expected dividend yield         | 0%               | 0%               |
| Risk-free interest rate         | 4.83%            | 4.4%             |
| Expected volatility             | 177%             | 239%             |
| Expected option life (in years) | 2.99             | 2.5              |

The total intrinsic value of stock options exercised during the periods ended June 30, 2007 and 2006 were \$459,780 and \$22,400 respectively.

The following table summarizes the continuity of the Company's stock options:

|                                | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|-------------------------|--|--|---------------------------------|
| Outstanding, December 31, 2006 | 2,545,000               | \$ 1.01                                  |  |                                 |
| Granted                        | 1,770,000               | \$ 3.25                                  |  |                                 |
| Exercised                      | (117,000)               | \$ 1.32                                  |  |                                 |
| Outstanding, June 30, 2007     | 4,198,000               | \$ 1.95                                  | 4.05   | \$<br>13,280,430                |
| Exercisable, June 30, 2007     | 3,910,500               | \$ 1.83                                  | 3.97   | \$<br>12,812,180                |

On February 1, 2007, the Company issued 50,000 share purchase warrants to a consultant, exercisable at \$3.69 per share on or before February 1, 2008. The fair value of warrants issued was estimated at the date of grant to be \$116,700 using the Black-Scholes option-pricing model assuming an expected life of 1 year, a risk-free rate of 4.86%,

an expected volatility of 103% and no expected dividends. The fair value of these share purchase warrants was approximately \$1.50 per share. During the six month period ended June 30, 2007, the Company recognized stock-based compensation of \$75,140, of which \$31,308 was charged to operations as general and administrative expense, and the balance of \$43,832 was recorded as prepaid expense, to be amortized over the remaining term of the agreement.

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8. Stock-based Compensation (continued)

A summary of the status of the Company's nonvested shares as of June 30, 2007, and changes during the six month period ended June 30, 2007, is presented below:

| Nonvested shares             | Number of Shares | Weighted Average Grant Date Fair Value |
|------------------------------|------------------|--|
| Nonvested at January 1, 2007 |                  |  |
| Granted                      | 1,770,000        | \$ 2.98                                |
| Vested                       | (1,482,500)      | \$ 2.98                                |
| Nonvested at June 30, 2007   | 287,500          | \$ 2.99                                |

As at June 30, 2007, there was \$704,047 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 1.50 years.

9. Share Purchase Warrants

A summary of the changes in the Company's common share purchase warrants is presented below:

|                            | Number      | Weighted Average Exercise Price |
|----------------------------|-------------|---------------------------------|
| Balance, December 31, 2006 | 4,697,849   | \$ 1.86                         |
| Issued                     | 50,000      | \$ 3.69                         |
| Expired                    | (100,000)   | \$ 2.25                         |
| Exercised                  | (4,481,749) | \$ 1.86                         |
| Balance June 30, 2007      | 166,100     | \$ 2.86                         |

As at the June 30, 2007, the following common share purchase warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date      |
|--------------------|----------------|------------------|
| 50,000             | \$ 3.69        | February 1, 2008 |
| 116,100            | \$ 2.50        | March 3, 2008    |

166,100

As at June 30, 2007, there was \$43,832 of prepaid consulting cost related to warrants. That cost is expected to be recognized over the seven months ended January 31, 2008.

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10. Commitments

- a) Effective January 1, 2007 the Company amended its September 1, 2005 office and administration services agreement with a company controlled by a director, for a revised amount of \$13,800 (Cdn\$15,500) per month, for a three-year term expiring on August 31, 2008. Future payments for the next two fiscal years are as follows:

|      |    |         |
|------|----|---------|
| 2007 | \$ | 82,800  |
| 2008 |    | 110,400 |
|      | \$ | 193,200 |

- b) Effective January 1, 2007 the Company amended its July 1, 2005 agreement with a company controlled by a director of the Company for consulting services to be provided to the Company at a revised amount of \$11,200 (Cdn\$12,500) per month.
- c) Effective January 1, 2007 the Company amended its March 1, 2005 agreement with a company controlled by the President of the Company for consulting services to be provided to the Company at a revised amount of \$10,000 per month.

## **Item 2. Management's Discussion and Analysis or Plan of Operation**

### **Forward-Looking Statements**

The information in this Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business plans and expectations. Such forward-looking statements involve risks and uncertainties regarding the market price of metals, commodities and precious metals, availability of funds, government regulations, common share prices, operating costs, capital costs, outcomes of ore reserve exploration and other factors. Forward-looking statements are made, without limitation, in relation to operating plans, property exploration, availability of funds, environmental reclamation, operating costs and permit acquisition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, intend, believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. Events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below, and, from time to time, in other reports we file with the SEC. These factors may cause our actual results to differ materially from any forward-looking statement. We disclaim any obligation to publicly update these statements, or disclose any difference between our actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

### **Corporate Background**

Uranerz Energy Corporation was incorporated under the laws of the State of Nevada On May 26, 1999. On July 5, 2005, we changed our name from Carleton Ventures Corp. to Uranerz Energy Corporation. Our executive offices are located at Suite 1410 - 800 West Pender Street, Vancouver, British Columbia Canada V6C 2V6. The telephone number for our executive offices is (604) 689-1659. Our operations office is located at 1701 East "E" Street, P.O. Box 50850, Casper, Wyoming 82605-0850. The telephone number for the operations office is (307) 265-8900.

Our common stock is traded on the American Stock Exchange under the symbol URZ .

### **History**

Uranerz was relatively inactive from 1999 until 2005 when it acquired mineral prospecting permits in Saskatchewan, mineral licenses in Mongolia and mining claims in Wyoming. Exploration commenced in 2005 and continued through 2006 while additional mineral properties were acquired and development drilling was initiated in Wyoming. We have increased our personnel and operational consultants to move some of our Wyoming properties into the mine planning and permitting stage; activities which continue.

### **Plan of Operation**

#### **Our Business**

We are an exploration stage company engaged in the acquisition, exploration and, if warranted, development of uranium properties. We own interests in properties in Wyoming and Texas, USA; Saskatchewan, Canada; and Mongolia. We are principally focused on the exploration of our projects in the Powder River Basin area of Wyoming. We have entered into joint venture agreements for each of our Saskatchewan and Mongolia properties whereby the joint venture partner for each property can earn an ownership interest in the property in exchange for exploration and development expenditure commitments and/or cash and equity consideration. We have also joint ventured our

uranium projects in the Great Divide Basin area of Wyoming. We anticipate that our joint venture partners will conduct exploration of our Wyoming Great Divide Basin, Saskatchewan and Mongolian mineral properties. We plan to maintain, explore and, if warranted, develop our projects in the Powder River Basin area of Wyoming.

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Because of the long lead times for environmental permitting of mining operations in North America, we have started collecting environmental baseline data on two of our properties in the Powder River Basin area of Wyoming that we feel may have the potential, based on data in our possession, of being developed into commercial in-situ recovery uranium mines.

We hold interests in the following mineral properties:

| <b>Name of Property</b>   | <b>Location</b>                  |
|---|----------------------------------|
| State Mineral Leases, Federal Mining Claims and Private (Fee) Mineral                         | Powder River Basin, Wyoming, USA |
| State Mineral Leases, and Federal Mining Claims (option and joint venture agreement in place) | Great Divide Basin, Wyoming, USA |
| Mineral Prospecting Permits (option and joint venture agreement in place)                     | Saskatchewan, Canada             |
| Eight Exploration Licenses (option and joint venture agreement in place)                      | Mongolia                         |
| Private (Fee) Mineral Leases  | Texas                            |

Our plan of operations is to carry out exploration of our Wyoming Powder River Basin properties while our joint venture partners will be responsible for carrying out exploration of our Wyoming Great Divide Basin, Saskatchewan, and Mongolia properties. The information regarding the location and access for our Saskatchewan, Mongolian and Wyoming properties, together with the history of operations, present condition and geology of each of our properties, is presented in Item 2 of our Annual Report on Form 10-KSB for the year ended December 31, 2006 under the heading *Description of Properties*, previously filed with the Securities and Exchange Commission ( SEC ) April 2, 2007.

All of our projects are at the exploration stage and there can be no assurance that a commercially viable mineral deposit, or reserve, exists on any of our properties until appropriate exploratory work is done and a comprehensive evaluation based on such work concludes legal and economic feasibility. Further exploration will be required before a final evaluation as to the economic and legal feasibility of mining of any of our properties is determined. There is no assurance that further exploration will result in a final evaluation that a commercially viable mineral deposit exists on any of our mineral properties. We anticipate that we will require additional financing in order to pursue full exploration of these claims. We do not have sufficient financing to undertake full exploration and, if warranted, development of our mineral claims at present and there is no assurance that we will be able to obtain the necessary financing. Because of the long lead times for environmental permitting of mining operations in North America, we have started collecting environmental baseline data and commenced the development permitting process on two of our properties in Powder River Basin area of Wyoming that we feel may have the potential, based on data in our possession, of being developed into commercial in-situ recovery uranium mines. However, we have not at this stage completed any comprehensive feasibility studies on these properties demonstrating that development of the properties is commercially warranted. Proceeding with these advanced activities prior to completing detailed feasibility analysis adds risk to our plan of operations and we may incur costs which might not otherwise have been incurred.

### **Wyoming**

We have several projects in the Great Divide and Powder River Basin areas of Wyoming. We plan to maintain, explore and, if warranted, develop our projects in the Powder River Basin area of Wyoming. We have joint ventured our uranium projects in the Great Divide Basin area of Wyoming. Each of these projects comprises several federal mineral claims, state mineral leases, or private fee mineral properties. In some cases the projects will comprise a combination of state leases and private or federal mineral claims. Our projects located in the Powder River Basin area

of Wyoming include the Nichols Ranch, East Nichols, North Nichols, Hank, Doughstick, West North Butte, Collins Draw, Verna Ann, Niles Ranch, Willow Creek, C-Line, North Rolling Pin, Reno Creek North, and Reno Creek South. Within a seven mile radius of the Nichols Ranch project we hold mineral rights which are planned for development as part of the Nichols Ranch Project. This project area is referred to as the Powder River ISR Complex , and includes the

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Nichols Ranch, East Nichols, North Nichols, Hank, Doughstick, West North Butte, Collins Draw, Willow Creek, C-Line, and North Rolling Pin.

*Exploration History - Nichols Ranch Uranium Project*

The Nichols Ranch property was originally part of a large exploration area encompassing Townships 33 through 50 North of Ranges 69 through 79 West, on the 6<sup>th</sup> principle meridian. In 1966, Mountain West Mines Inc. (MWM - now Excalibur Industries) began a successful drilling exploration program in this area. In 1967, MWM entered into an agreement with Cleveland-Cliffs Iron Company (CCI) for further exploration and option if the suitable resources were found. CCI exercised its option in 1976 with plans to begin underground mining operations in the vicinity of North Butte, approximately 6 and one-half miles northeast of Nichols Ranch. Changing economic conditions and the development of in-situ mining technology ended much of CCI's interest in the area. By the late 1980's they began selling select properties or allowing them to revert back to the federal government.

Between 1968 and 1980 CCI drilled 117 holes and installed 3 water wells on the Nichols Ranch property. Texas Eastern Nuclear Inc. in 1985 completed limited drilling and exploration on the property and in early 1990's Rio Algom Co. also completed limited drilling in the area. In December 2005, we purchased the Nichols Ranch claims group as part of a 6 property agreement to option from Excalibur Industries. We then expanded the properties by staking additional claims in the immediate and surrounding areas. In 2007 we had a Technical Report prepared to independently address the geology and uranium mineralization within our mineral holdings known as the Nichols Ranch Uranium Project.

*Present Condition of Property - Nichols Ranch Uranium Project*

There are no pre-existing mineral processing facilities or related wastes on the property. In order to conduct exploratory drilling of the property, we were required to obtain permits (License to Explore) from the State of Wyoming Department of Environmental Quality, Land Quality Division, (WDEQ/LQD) and mine development would require a number of permits depending on the type and extent of development, the major permit being the actual mining permit issued by the WDEQ/LQD. Mineral processing for uranium would require a source materials license from the US Nuclear Regulatory Commission (USNRC).

Infrastructure at the site is dominantly related to local oil, gas, and coal bed methane development. The site is located only 10 miles north of Wyoming Highway 387, and 12 miles west of the junction of Wyoming Highway 50. The proximity of the site to paved roads will be beneficial with respect to transportation of equipment, supplies, personnel and products to and from the site. Cleveland Cliffs Iron Company established 3 water supply/monitoring wells on site to support its exploration activities in the 1970's and 1980's. Electrical power and natural gas transmission lines are located within or immediately adjacent to the site. Thus, the basic infrastructure necessary to support an ISR mining operation, power, water and transportation, is located within reasonable proximity of the site. Typical ISR mining operations also require a disposal well for limited quantities of fluids that cannot be returned to the production aquifers. Commonly oil and gas wells within aquifers that have been or can be condemned for public use are utilized for such purposes. Oil and gas wells, both abandoned and producing, are located in the immediate vicinity of the site and nearby ISL operations such as Areva's Christensen Ranch and Irigary Mines have disposal wells.

*Adjacent Properties*

Within a 7 miles radius of Nichols Ranch we hold mineral rights to over 11,500 acres which are planned for development as part of the development for the Nichols Ranch Project. These lands are within the historic Pumpkin Buttes Mining District and have the potential for mineralization in the Wasatch Formation. The following table summarizes our land holding in the vicinity of Nichols Ranch.

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| Property          | Township | Range   | No. Claims | ~ Acreage |
|-------------------|----------|---------|------------|-----------|
| Doughstick        | T43N     | R76W    | 45         | 900       |
| Collins Draw      | T42/43N  | R76W    | 58         | 1160      |
| State Lease       | T43N     | R76W    | NA         | 640       |
| North Rolling Pin | T43N     | R76W    | 40         | 800       |
| Hank              | T43N     | R75W    | 38         | 760       |
| C-Line            | T43N     | R75W    | 40         | 800       |
| Willow Creek      | T44N     | R76W    | 11         | 220       |
| West North Butte  | T44N     | R76/75W | 131        | 2620      |
| East Nichols      | T43N     | R76W    | 70         | 1400      |
| North Nichols     | T43/44N  | R76W    | 113        | 2260      |
| TOTAL             |          |         | 546        | 11,560    |

*Additional Properties(not included in above table)*

On May 18, 2007 we announced the staking of 222 additional federal mining claims, on June 12, 2007 we announced the acquisition of an additional 349 federal lode mining claims, and on July 19, 2007 we announced the staking of an additional 123 federal lode mining claims, all in the area of the Pumpkin Buttes mining district of Wyoming's Powder River basin. We selected prime areas we believe will contain oxidation-reduction geochemical (roll) fronts as well as uranium-mineralized areas not currently claimed by others. The staking is based on historic geological data, together with our exploration results from last year, as well as data obtained from recent drilling. Some of these claims may have already been included in the Technical Report. It is expected that any new claim areas acquired within this project area will become part of the Powder River ISR Complex.

#### *Environmental Permitting*

Because of the long lead times for environmental permitting of mining operations in North America, we have started collecting environmental baseline data on two of our properties in the Powder River Basin area of Wyoming that we feel have the potential, based on data in our possession, of being developed into commercial in-situ recovery uranium mines. . However, we have not at this stage completed any comprehensive feasibility studies on these properties demonstrating that development of the properties is commercially warranted. Proceeding with these advanced activities prior to completing detailed feasibility analysis adds risk to our plan of operations and we may incur costs which might not otherwise have been incurred.

In May of 2006, we made the decision to initiate preparation of the environmental permit applications for two of our properties, the Hank and the Nichols Ranch projects, in the central Powder River Basin of Wyoming. Historical exploration drill hole information was included with the acquisition of these projects. Approval of the environmental permit applications is expected to allow us to proceed with commercial development of the two properties leading to production of yellowcake using the in-situ recovery (ISR) method of uranium mining should it be determined that development is warranted. It is currently contemplated that the main production facility would be located at the Nichols Ranch property, and the Hank property would have a satellite facility providing uranium-loaded resin or enriched eluate to the main facility.

The primary regulatory approvals for an ISR uranium mine come from the Wyoming Department of Environmental Quality (DEQ) at the state level, and from the U.S. Nuclear Regulatory Agency (NRC) at the federal level. The DEQ

issues a Permit to Mine, and the NRC issues a Source Material License. Both the state and federal agencies look at all environmental aspects of a proposed ISR mine including reclamation of the land surface following mining operations, and restoration of impacted ground water. Work place safety and the safety of the public are also closely monitored by regulatory agencies. Posting of a reclamation bond by the mine operator with the regulatory agencies in an amount to cover the total estimated cost of reclamation by a third party is also a requirement of the law. The reclamation bond must be a "hard" bond which means it must be either cash, certificate of deposit, letter of credit or some other similar type of financial instrument.

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We have engaged TRC Mariah Associates based in Laramie, Wyoming as the prime contractor for performing the several environmental baseline studies. Hydro Engineering from Casper, Wyoming has been engaged to perform the necessary aquifer pump tests, and prepare the hydrology section of the environmental permit applications. Environmental surveys such as vegetation, soils, wildlife, cultural resources, radiation and water quality are either on-going or have been completed. For those surveys that have been completed, reports are being prepared in 2007 in a format acceptable to the DEQ and NRC.

We have completed installing hydrologic test wells at the Hank and Nichols Ranch properties. These test wells were installed in order to perform aquifer pump tests. Core samples of the deposit were also taken while installing the test wells in connection with the radiation environmental studies. The pump tests are used to demonstrate that the aquifers are confined, and to test the permeability of the mineralized sandstone unit for both feasibility and permitting purposes. The Wyoming DEQ has approved Uranerz Energy's plans for the hydrologic testing of the uranium-mineralized confined aquifers. The hydrologic test wells were installed in accordance with our approved plans. Uranerz Energy is collecting ground water samples at water wells in the region, and has reached an agreement with Cameco Corporation's wholly-owned US subsidiary, Power Resources Inc., to sample some of their monitor wells located on adjacent uranium properties.

Mine planning for both the Hank and Nichols Ranch properties is underway. Our target date for submitting the environmental permit applications to the state and federal agencies is the second half of 2007.

#### *Planned Exploration*

We estimate that we will spend approximately \$1.4 million on exploration and permitting work related to all our Wyoming properties during 2007. This estimate will expand proportionately as additional properties are acquired.

#### *Other Powder River Basin Projects*

Through a combination of claim staking, purchasing, and leasing we also have several projects within the Powder River Basin but outside of the Powder River ISR Complex. These include the Verna Ann, Niles Ranch, Reno Creek North, and Reno Creek South projects. In general, these projects are located in sandstone basins of Cretaceous or Tertiary age with known uranium mineralization. However, we have not yet completed exploration work on these projects.

#### *Great Divide/Red Desert Properties*

On June 7, 2006, we entered into an agreement with Black Range Minerals Limited ( Black Range ) on two of our exploration projects (the projects ) located within the Red Desert area of southwest Wyoming. This formal agreement followed a strategic alliance agreement entered into between us and Black Range on May 18, 2006.

Under the terms of the agreement, we and Black Range agreed to form a joint venture to conduct further exploration and to develop the properties under the following conditions:

#### Stage 1

Under the terms of the joint venture Black Range shall have the right to earn a 50% equity interest in the joint venture by managing and meeting the first \$750,000 in exploration expenditures on the projects, at no cost to us, including land holding costs such as maintenance fees, lease costs etc.

Black Range is obliged to spend at least \$100,000 per year on exploration on the projects and to spend the first \$750,000 on exploration within three (3) years of inception of the joint venture agreement. Once Black Range has spent \$750,000 on the projects, our equity interest in the joint venture shall reduce to 50% and Black Range's equity

interest shall increase to 50%.

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## Stage 2

On completion of the first phase of the exploration program, should we elect not to contribute to the costs of the second phase of expenditure on a pro-rata basis, then Black Range shall have the right to earn a further 1% interest in the joint venture for every \$25,000 spent on the projects to a maximum interest in the joint venture of 70% (by spending \$500,000). On completion of the first phase of the exploration program, should Black Range elect not to contribute to the cost of the second phase of expenditure on a pro-rata basis, then we shall have the right to earn a further 1% interest in the joint venture for every \$25,000 spent on the Projects, to a maximum interest in the joint venture of 70% (by spending \$500,000).

## Stage 3

On completion of the second phase of expenditure, should we elect not to contribute to all further expenditure on a pro-rata basis, then Black Range shall have the right to earn a further 1% interest in the joint venture for every \$25,000 spent on the Projects to a maximum interest in the joint venture of 100% (by spending \$750,000). We would be awarded a 6% royalty for their contribution up to that point.

On completion of the second phase of expenditure, should Black Range elect not to contribute to all further expenditure on a pro-rata basis, then we shall have the right to earn a further 1% interest in the joint venture for every \$25,000 spent on the projects to a maximum interest in the joint venture of 100% (by spending \$750,000). Black Range would be awarded a 6% royalty for their contribution up to that point.

Our Wyoming mineral properties are undeveloped and do not contain any open-pit or underground mines. There is no plant or equipment located on our Wyoming mineral properties.

### ***Saskatchewan Cochrane River Property***

On November 4, 2005, we signed an agreement to joint venture our Cochrane River property located in northern Saskatchewan, Canada, with Triex Minerals Corporation ( Triex ). Triex can earn a 60% interest in the Cochrane River property by making payments to us of Cdn\$75,000 and spending Cdn\$1,500,000 on the property by May 1, 2008. After completing the 60% earn-in phase, Triex can elect to earn an additional 10% interest in the project by spending an additional Cdn\$1,500,000 by November 1, 2009.

Our Saskatchewan mineral properties are undeveloped and do not contain any open-pit or underground mines. There is no plant or equipment located on our Saskatchewan mineral properties.

Since we have signed an agreement to joint venture our Cochrane River property with Triex, Triex will be the operator of the exploration programs for this joint venture. Any exploration undertaken by Triex will be at its expense under the terms of the joint venture agreement. There is no assurance that Triex will make the cash payments or undertake the full amount of the exploration expenditures necessary for it to earn an interest in our Saskatchewan properties.

By January 2006 Triex had completed a detailed airborne geophysics survey on the Cochrane River properties. Fugro Airborne Surveys completed helicopter-borne geophysical surveys over four grids on the Cochrane River property for a total of 1,949 line kilometers. All the grids were flown at 100 meter line spacing to produce high resolution data. The grid areas covered major boundary zones on regional airborne magnetic maps, and on the location of known mineral occurrences, geochemical anomalies and previously defined conductors.

A follow-up ground exploration program commenced in August, 2006, to focus on grid-based and lakeshore prospecting and geological mapping, as well completing an extensive lake sediment survey facilitated by a Bell 206 helicopter equipped with floats. Recent advances in the understanding and modeling of the structural geometries of

basement-hosted uranium deposits in the Athabasca Basin, such as Millennium, Sue C and Eagle Point, were applied to advance targets. Additional geophysical and remotely sensed data sets have been acquired from the public and private domain and integrated into the existing project GIS database in order to facilitate a detailed lineament analysis and integrated structural study which is focused on the potential for structurally controlled uranium deposits.

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Ground-based resistively surveys were completed which follows up on key targets identified from helicopter-borne DIGHEM V geophysical surveys (EM and magnetic) flown in January 2006.

During September, 2006, a program consisted of a lake sediment sample program covering both permits MPP 1237 and 1238 as well as some prospecting and mapping designed primarily as a ground truth of the 2006 DIGHEM V airborne magnetic/EM survey. A total of 390 lake sediment samples were taken. The approximate density of sampling was 1 per 1.5 sq. km.

This current winter, from mid-November, 2006 until mid-February, 2007 a pole-dipole array D.C. resistively survey was conducted on the Cochrane River project. Work on Cochrane River focused on MPP 1238, in an area that overlapped with a portion of the 2006 DIGHEM V survey. 14.8 line-km of grid was established but only 5.9 line-km of geophysics survey was covered on the grid on MPP 1238. The survey was cut short because the harsh winter conditions and extreme frozen ground affected the production rate of the survey.

The target on the Cochrane River property is structurally controlled, basement-hosted deposits at or near surface. It is planned that the structural models prepared for Eagle Point and other deposits in the eastern Athabasca Basin over the past 5 years will be incorporated into the program. Conductors were the focus of exploration in the 1970s. Triex plans to build on that work, not repeat it, by prioritizing targets related to conductors based on their structural setting.

In late January and early February, 2007, a total of seven claims were staked within the boundaries of the mineral prospecting permits MPP 1237 and 1238, for a total of 28,012 hectares. The new claims have been recorded with the Saskatchewan mine recorder office in la Ronge, and they now show up on the government website. Granting of the title to these claims is dependant on sufficient assessment work performed and filed on the permits to hold them in good standing up to January 31, 2007. The assessment report has been written and submitted (by Triex). The area staked covered the most interesting area of interest as interpreted from the DIGHEM V survey, as well as areas of anomalous lake sediment chemistry. A claim holder may subsequently convert his claim into a mineral lease which allows for commercial extraction of minerals.

### ***Mongolia***

We signed a letter agreement to option and joint venture our eight Mongolian exploration licenses to Bluerock Resources Ltd. ( Bluerock ). Under the terms of the agreement, we have granted to Bluerock the option to acquire an undivided 70% interest in the properties for payments totaling 150,000 common shares of Bluerock, \$120,000 in cash and by incurring exploration expenditures in the amount of \$1,500,000 on the properties by October 18, 2009.

We have retained the right to acquire back a 21% interest in the joint venture, by paying to Bluerock an amount calculated in relation to the quantity of U3O8 within the Mongolian properties, as determined by a feasibility study. For measured mineral resources, we would pay a price of \$0.42 per pound of U3O8; for indicated mineral resources, we would pay a price of \$0.26 per pound of U3O8.

The defined terms, measured mineral resources, indicated mineral resources, and inferred mineral resources used in this quarterly report have the meanings set forth in National Instrument 43-101, Standards of Disclosure for Mineral Projects ( NI 43-101 ), which provides guidelines for use of the terms mineral resource and mineral reserve which are Canadian mining terms defined in accordance with the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the CIM ) Standards on Mineral Resources and Mineral Reserves Definitions and guidelines adopted by the CIM. The definitions of proven and probable reserves used in NI 43-101 differ from the definitions in the United States Securities and Exchange Commission s Industry Guide 7. In the United States, a mineral reserve is defined as a part of a mineral deposit, which could be economically and legally extracted or produced at the time the reserve determination is made. Accordingly, descriptions of mineral deposits in accordance with NI 43-101 may not be comparable to similar information made public by other U.S. companies under the United States federal securities laws and the rules and regulations hereunder.





Similar terms allow for us to acquire back a 21% interest in the joint venture if a gold deposit is discovered, based on a back-in price of \$5.25 per ounce of measured gold resources and \$3.15 per ounce of indicated gold resources.

Our Mongolian mineral properties are undeveloped and do not contain any open-pit or underground mines. There is no plant or equipment located on our Mongolian mineral properties.

All of our license areas have prospective characteristics that indicate favorability for hosting sediment-hosted, near-surface uranium deposits including a proximity to known sandstone-hosted uranium occurrences as identified by Russian-Mongolian survey work, radiometric anomalies and/or favorable geology. The licenses fall within areas surface mapped as or inferred to contain Upper Jurassic to Lower Cretaceous sedimentary sequences, and generally occur within basins framed by uplands comprised of crystalline rocks likely to provide a source for secondary transport of uranium into the basin by groundwater flow. These geologic setting in Mongolia have demonstrated uranium deposit potential by comparison to known deposit occurrences. Similar geologic settings in China, the Commonwealth of Independent States including Russia, countries surrounding Mongolia, have demonstrated economic uranium production as well.

Since July 2006, Bluerock employees and contractors have prospected five of the eight license areas and conducted additional research relating to the Khavtsal permit 8560X (in Ulaanbaatar and Irkutsk). Bluerock has provided a brief description of exploration results for each license area.

Bluerock's staff in Mongolia reviewed the results of its 2006 exploration efforts and has developed a program for 2007 that includes some follow-up geophysical work, but is focused primarily on drill testing to expand the knowledge related to historical uranium information and to delineate uranium anomalies discovered last year. Additional information on the planned 2007 drilling program is discussed in the following sections.

In 2007 Bluerock started drilling on our Ulaan Nuur uranium projects in Mongolia. The drilling program is focused on three separate licenses located south of Ulaanbaatar in the Ulaan Nuur Depression. Based on Phase I geological data and discussions with on site geologists, Bluerock has increased the planned metres of drilling from 3,000 metres to 4,000 metres.

#### Khavtsal:

Drilling on the Khavtsal License is to focus on expanding the known uranium mineralization to the north and south of the historic Khavtsal mineralization. Geophysical surveys, completed in the first phase of the 2007 program, defined deeper basinal targets and interpreted fault structures that present newly defined targets for this expansion drilling.

#### Tolgod:

Drilling on the Tolgod License will focus on untested basinal targets associated with radiometric anomalies in both geophysical surveys and ground water studies.

#### Khudgiin Us:

Drilling on the Khudgiin Us License is designed to locate the northern extension of known uranium mineralization in the Ulaan Nuur historic uranium anomaly. Results of 2007 geophysical surveys completed by Bluerock have been incorporated into the drill planning for the project to ensure full coverage of the basinal targets.

Following the completion of the Khudgiin Us program the drill rigs and camp will be moved to our Central Gobi uranium projects and the continuation of Bluerock's 2007 Mongolian JV uranium exploration program.

Samples from the 2007 Mongolian drilling programs will be prepared and analyzed by Activation Laboratories, (Actlabs) of Ancaster Ontario, at their lab in Ulaanbaatar, Mongolia. Rock preparation will consist of crushing and pulverising to 85% passing 75 micron mesh. Uranium results will be analyzed by XRF. All samples of interest, plus 10% of the remainder are planned to be shipped to Canada by Actlabs, for ICP-MS verification at their Ancaster facility.

### ***Texas***

On July 16, 2007 we announced the completion of an initial leasing program of approximately 8000 acres in the State of Texas. Based on geologic reports and more than 90 drill holes, these 8000 acres are believed to cover a northeast-southwest uranium mineralization trend.

We made the decision to widen our operations into the State of Texas given the possibility of in-situ recovery mining as evidenced by the existence of at least two successful uranium mines currently operating in that State.

Plans are being made to begin drilling this property next winter after the Wyoming drilling season is completed. Initial drilling programs will be designed to evaluate the presence of the uranium mineralization and to obtain core samples for extraction testing procedures to determine the potential for in-situ recovery mining.

The Texas project is presently not considered a material property and will not be considered a material property until more data and information on the project can be obtained.

### ***Summary of Cash Requirements***

We plan to carry out exploration, environmental and design expenditures described above, over the next twelve months. Equipment additions will cost approximately \$500,000. In addition, we anticipate spending approximately \$350,000 for ongoing general and administrative expenses per month for the next twelve months. The general and administrative expenses for the year will consist primarily of salaries for our senior officers, staff salaries, consulting fees, and professional fees for the audit and legal work relating to our regulatory filings throughout the year, as well as investor relations and general office expenses. We do not anticipate any significant changes in our number of employees.

Mineral property acquisitions, if any, will be additional expenditures and dependent upon opportunities that may arise. Mineral property acquisition costs totaled \$3,217,000 in the six months ended June 30, 2007.

We had cash in the amount of \$15,157,932 and working capital of \$14,944,220 as of June 30, 2007. Accordingly, we have sufficient funds with which to pursue our plan of operations over the next twelve months. We intend to focus most of our exploration efforts in Wyoming, as discussed above.

During the twelve month period following the date of this quarterly report, we anticipate that we will not generate any revenue. We anticipate that any additional funding will be in the form of equity financing from the sale of our common stock and share purchase warrants. Our exploration plans will be continually evaluated and modified as exploration and environmental results become available. Modifications to our plans will be based on many factors including results of exploration, assessment of data, weather conditions, exploration costs, the price of uranium and available capital. Further, the extent of exploration programs that we undertake will be dependent upon the amount of financing available to us.

### **Results of Operations**

**Three-month period ended June 30, 2007 compared to three-month period ended June 30, 2006**

Revenue and Operating Expenses

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We have not earned any revenues to date and we anticipate that we will not generate any revenues during the twelve month period following the date of this quarterly report.

We incurred total operating expenses of \$1,769,623 for the three-month period ended June 30, 2007, as compared to \$1,650,228 for the corresponding period in 2006. The increase of operating expenses in the amount of \$119,395 (or 7%) was primarily contributed by a reduction in stock based compensation included in general and administrative and a \$650,494 increase in mineral property expenditures.

We had no financing expense for the three-month period ended June 30, 2007. We earned \$197,541 of interest income for the three-month period ended June 30, 2007 as compared to \$121,324 for the corresponding period in 2006. This income resulted from short term investments.

Net loss for the three-month period ended June 30, 2007 was \$1,572,082, as compared to \$1,469,635 for the corresponding period in 2006, an increase of \$102,447.

### **Six-month period ended June 30, 2007 compared to six-month period ended June 30, 2006**

#### Revenue and Operating Expenses

We have not earned any revenues to date and we anticipate that we will not generate any revenues during the twelve month period following the date of this quarterly report.

We incurred total operating expenses of \$10,454,780 for the six-month period ended June 30, 2007, as compared to \$4,987,319 for the corresponding period in 2006. The increase of operating expenses reflects our incurring general and administrative expenses and mineral property expenditures during our organizational development and expansion of operations. The \$1,350,994 increase in general and administrative expenses includes a \$764,540 increase in stock-based compensation and the \$4,101,499 increase in mineral property expenditures includes property acquisition costs of \$3,216,904.

We had no financing expense for the six-month period ended June 30, 2007. We earned \$374,254 of interest income for the six-month period ended June 30, 2007 as compared to \$ 121,324 for the corresponding period in 2006. This income resulted from short term investments.

Net loss for the six-month period ended June 30, 2007 was \$10,080,526, as compared to \$4,902,401 for the corresponding period in 2006. This increase of \$5,178,125 mainly resulted from the \$764,540 increase of stock based compensation included in general and administrative expenses and \$4,101,499 increase in mineral property expenditures during the reporting period.

#### Liquidity and Capital Reserve

At June 30, 2007, we had cash of \$15,157,932, as compared to the ending cash balance of \$12,293,890 as at December 31, 2006.

Net cash used in operating activities was \$5,532,730 for the six-month period ended June 30, 2007, compared to \$542,955 for the corresponding period in 2006. The increase in net cash used in operations reflects the \$4,101,499 increase in mineral property expenditures which includes property acquisition costs of \$3,216,904.

Net cash provided by financing activities amounted to \$8,485,578 for the six-month period ended June 30, 2007, primarily from the exercise of common share purchase warrants, compared to \$10,762,085 for the corresponding period in 2006 when we completed two significant private placements of common stock.

As of June 30, 2007, total current assets exceeded total current liabilities by \$14,944,220 compared to \$11,989,951 at December 31, 2006.

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We have sufficient cash to continue our exploration and planning and to meet on-going operating expenses for the next twelve months. To date, our primary source of funds has been equity investments, and this trend is expected to continue over the next year.

We may also raise additional funds in a public or private offering or from the exercise of currently outstanding options and warrants. To the extent that additional capital is raised through the sale of equity or equity-related securities or the exercise of currently outstanding options and warrants, the issuance of such securities could result in dilution of our stockholders. The Company's common shares trade on the American Stock Exchange under the symbol URZ.

### ***Off-Balance Sheet Arrangements***

We have no significant off-balance 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 is material to stockholders.

### **Critical Accounting Policies**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions related to the useful life and recoverability of long-lived assets, stock-based compensation and deferred income tax asset valuation allowances. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements.

#### ***Mineral Property Costs***

The Company is primarily engaged in the acquisition, exploration and development of mineral properties. Mineral property acquisition costs are capitalized in accordance with EITF 04-2 *Whether Mineral Rights Are Tangible or Intangible Assets* when management has determined that probable future benefits consisting of a contribution to future cash inflows have been identified and adequate financial resources are available or are expected to be available as required to meet the terms of property acquisition and budgeted exploration and development expenditures. Mineral property acquisition costs are expensed as incurred if the criteria for capitalization are not met. In the event that a mineral property is acquired through the issuance of the Company's shares, the mineral property will be recorded at the fair value of the respective property or the fair value of common shares, whichever is more readily determinable.

When mineral properties are acquired under option agreements with future acquisition payments to be made at the sole discretion of the Company, those future payments, whether in cash or shares, are recorded only when the Company has made or is obliged to make the payment or issue the shares. As option payments do not meet the definition of tangible property under EITF 04-2, all option payments are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves and pre feasibility, the costs incurred to develop such property are capitalized.

Estimated future removal and site restoration costs, when determinable are provided over the life of proven reserves on a units-of-production basis. Costs, which include production equipment removal and environmental remediation,

are estimated each period by management based on current regulations, actual expenses incurred, and technology and industry standards. Any charge is included in exploration expense or the provision for depletion and depreciation during the period and the actual restoration expenditures are charged to the accumulated provision amounts as incurred. At June 30, 2007, the Company has incurred only acquisition and exploration costs which have been expensed. During the six months ended June 30, 2007, mineral property acquisition costs totalling \$3,216,904 and exploration costs of \$1,416,509 were expensed. During the prior year, the Company initially capitalized mineral property acquisition costs and performed an impairment analysis at each fiscal quarter end.

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### *Stock-based Compensation*

The Company records stock based compensation in accordance with SFAS 123(R), *Share-Based Payments*, which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options. In March 2005, the Securities and Exchange Commission issued SAB 107 relating to SFAS 123(R). The Company applied the provisions of SAB 107 in its adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model as its method of determining fair value. This model is affected by the Company's stock price as well as assumptions regarding a number of subjective variables. These subjective variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The value of the portion of the award that is ultimately expected to vest is recognized as an expense in the consolidated statement of operations over the requisite service period.

No tax benefits were attributed to stock-based compensation expense because a full valuation allowance was maintained for all net deferred tax assets.

### **Contractual Obligations**

The Company has had no material changes to its contractual obligations as disclosed in the Company's 2006 Annual Report on Form 10-KSB and the Financial Statements at June 30, 2007 provided herein.

### **Item 3. Controls and Procedures**

#### **Disclosure Control and Procedures**

At the end of the period covered by this report, an evaluation was carried out under the supervision of and with the participation of the Company's management, including its Chief Executive Officer ( CEO ), Glenn Catchpole, and Chief Financial Officer ( CFO ), Benjamin Leboe, of the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). Based on that evaluation the CEO and the CFO have concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were adequately designed and effective in ensuring that: (i) information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Controls over Financial Reporting**



During our most recently completed fiscal quarter ended June 30, 2007, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial

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statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- (b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- (c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

## **PART II- OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

We currently are not a party to any material legal proceedings and, to our knowledge, no such proceedings are threatened or contemplated.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On February 1, 2007, the Company issued 50,000 share purchase warrants to a consultant, exercisable at \$3.69 per share on or before February 1, 2008. The warrants were issued in a private transaction not involving a public offering pursuant to Section 4(2) of the Securities Act of 1933, as amended (the Securities Act ).

During the six month period ended June 30, 2007, the Company issued 4,481,749 shares of common stock pursuant to the exercise of common share purchase warrants for proceeds of \$8,316,678. These warrants were exercised by, and the underlying common shares issued to, or for the account or benefit of, Non- U.S. Persons (as that term is defined in Rule 902 of Regulation S under the Securities Act) outside the United States in off-shore transactions (as that term is defined in Rule 902 of Regulation S under the Securities Act) that are exempt from the registration requirements of the Securities Act pursuant to Rule 903 of Regulation S under the Securities Act.

### **Item 3. Defaults upon Senior Securities**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders**

The Company held an Annual General Meeting of Stockholders on June 19, 2007. The following matters were presented and approved:

1. The election of the Nominees to the Company's Board of Directors.
2. The Company's Amended and restated By-laws.
3. The Company's 2005 Nonqualified Stock Option Plan.
4. The Company's 2006 audited financial statements.
5. The appointment of the Company's independent public accounting firm.

Information relating the results of the Annual General Meeting of Stockholders can be found under Item 8.01 in the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 25, 2007 and available at [www.sec.gov](http://www.sec.gov).

**Item 5. Other Information**

None

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**Item 6. Exhibits**

The following exhibits are attached to this Quarterly Report on Form 10-QSB:

**Exhibit****Number Description**

|       |   |
|-------|---|
| 3.1   | Articles of Incorporation <sup>(1)</sup>  |
| 3.2   | Bylaws, as amended <sup>(1)</sup>   |
| 3.3   | Articles of Amendment <sup>(3)</sup>  |
| 4.1   | Share Certificate <sup>(1)</sup>  |
| 10.1  | Office and Administration Services Agreement between the Company and Senate Capital Group Inc. dated September 1, 2005 <sup>(2)</sup>   |
| 10.2  | Agreement for Services between the Company and Highlands Capital, Inc. dated November 1, 2005 <sup>(2)</sup>  |
| 10.3  | Financial Public Relations Agreement between the Company and Accent Marketing Ltd. dated November 1, 2005 <sup>(2)</sup>  |
| 10.4  | Mineral Property Purchase Agreement between the Company and Ubex Capital Inc. dated April 26, 2005 <sup>(2)</sup>   |
| 10.5  | Joint Venture Agreement between the Company and Triex Minerals Corporation dated November 4, 2005 <sup>(2)</sup>  |
| 10.6  | Consulting Agreement between the Company and Ubex Capital Inc. for management and consulting services <sup>(2)</sup>  |
| 10.7  | Consulting Agreement between Catchpole Enterprises and the Company <sup>(3)</sup>   |
| 10.8  | Joint Venture Agreement between the Company and Bluerock Resources Ltd. <sup>(3)</sup>  |
| 10.9  | Option and Purchase Agreement for federal mining claims in Wyoming <sup>(3)</sup>   |
| 10.10 | Agreement to Purchase ten mining claims in Wyoming <sup>(3)</sup>   |
| 10.11 | 2005 Stock Option Plan <sup>(4)</sup>   |
| 10.12 | Mr. George Hartman letter agreement. <sup>(3)</sup>   |
| 10.13 | Black Range Minerals Agreement dated June 7, 2006 <sup>(5)</sup>  |
| 10.14 | Amendment to Joint Venture Agreement dated September 12, 2006 between the Company and Bluerock Resources Ltd. <sup>(6)</sup>  |
| 10.15 | Agreement dated February 1, 2007 between the Company and Robert C. Shook to acquire three projects separate uranium projects located in northeast Wyoming, in central Power River Basin <sup>(7)</sup> <sup>(8)</sup> |

10.17 Christensen Ranch Agreement dated October 30, 2006 between the Company and George Hartman <sup>(9)</sup> <sup>(10)</sup>

10.18 Amendment Agreement dated January 1, 2007 between the Company and Ubex Capital Inc. <sup>(10)</sup>

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**Exhibit**

**Number Description**

10.19 Amendment Agreement dated January 1, 2007 between the Company and Catchpole Enterprises Inc. (10)

10.20 Amendment Agreement dated January 1, 2007 between the Company and Senate Capital Group Inc. (10)

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act (10)

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act (10)

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (10)

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (10)

- (1) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Form SB-2 filed March 15, 2002
- (2) Previously filed as an exhibit to the Quarterly Report on Form 10-QSB filed November 21, 2005
- (3) Previously filed as an exhibit to the Annual Report on Form 10-KSB filed April 14, 2006
- (4) Filed as an exhibit to our Registration Statement on Form S-8 filed with the SEC on November 21, 2005.
- (5) Previously filed as an exhibit to the Quarterly Report on Form 10-QSB filed August 15, 2006
- (6) Filed as an exhibit to our Quarterly Report on Form 10-QSB filed November 13, 2006.
- (7) As reported in two separate Current Reports on Form 8-K filed on February 8, 2007.
- (8) Filed as an exhibit to our Annual Report on Form 10-KSB filed on April 2, 2007
- (9) As reported in Current Report on Form 8-K filed on November 2, 2006.
- (10) Filed as an exhibit to this Quarterly Report on Form 10-QSB.

**SIGNATURES**

In accordance with the Securities Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**URANERZ ENERGY CORPORATION**

By: /s/ Benjamin Leboe

Benjamin Leboe, Chief Financial Officer and  
Corporate Secretary

Date: August 13, 2007

By: /s/ Glenn Catchpole

Glenn Catchpole, President and Principal Executive  
Officer, Director

Date: August 13, 2007

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