

URANERZ ENERGY CORP.  
Form 10-Q  
November 10, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended **September 30, 2008**

**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: **001-32974**

**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.)

**1701 East E Street, PO Box 50850**

**Casper, Wyoming**

(Address of Principal Executive Offices)

**82605-0850**

(Zip Code)

**(307) 265-8900**

(Registrant's Telephone Number, including Area Code)

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(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

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filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 **October 31, 2008: 55,452,387**

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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Uranerz Energy Corporation  
(An Exploration Stage Company)

September 30, 2008

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

	September 30, 2008 \$ (Unaudited)	December 31, 2007 \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	755,567	11,343,737
Marketable securities (Note 2(e))	22,264,680	
Amounts receivable	57,326	92,444
Prepaid expenses and deposits	353,057	323,677
<b>Total Current Assets</b>	<b>23,430,630</b>	<b>11,759,858</b>
Investment in Joint Venture (Note 5)	460,353	
Mineral Property Reclamation Bonds (Note 6(l))	280,904	50,000
Property and Equipment (Note 4)	594,687	406,288
<b>Total Assets</b>	<b>24,766,574</b>	<b>12,216,146</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	125,595	138,188
Accrued liabilities	112,840	4,950
Due to related parties (Note 8)	38,921	471,115
Current portion of loan payable (Note 7)	33,394	31,456
<b>Total Current Liabilities</b>	<b>310,750</b>	<b>645,709</b>
Loan Payable (Note 7)	26,852	52,146
<b>Total Liabilities</b>	<b>337,602</b>	<b>697,855</b>
<b>Commitments and Contingencies (Notes 1, 6, and 12)</b>		
<b>Stockholders Equity</b>		
Preferred Stock, 10,000,000 shares authorized, \$0.001 par value; Nil shares issued and outstanding		
Common Stock, 100,000,000 shares authorized, \$0.001 par value;		

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55,452,387 and 39,224,087 shares issued and outstanding, respectively	55,452	39,224
Additional Paid-in Capital	82,404,138	37,375,384
Accumulated Other Comprehensive Income		481
Deficit Accumulated During the Exploration Stage	(58,030,618)	(25,896,798)
Total Stockholders Equity	24,428,972	11,518,291
Total Liabilities and Stockholders Equity	24,766,574	12,216,146

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

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

	Accumulated From May 26, 1999 (Date of Inception) to September 30, 2008 \$	Three Months Ended September 30, 2008      2007 \$              \$		Nine Months Ended September 30, 2008      2007 \$              \$	
Revenue					
Expenses					
Depreciation	160,953	35,542	16,861	88,680	35,016
Foreign exchange	27,365	(6,516)	4,657	(1,368)	9,874
General and administrative	23,649,101	936,580	1,256,928	5,316,664	7,054,923
Joint venture expenses	1,973,199	1,083,069		1,973,199	
Mineral property expenditures	34,761,172	673,389	1,062,833	26,076,523	5,696,246
Total Operating Expenses	60,571,790	2,722,064	2,341,279	33,453,698	12,796,059
Operating Loss	(60,571,790)	(2,722,064)	(2,341,279)	(33,453,698)	(12,796,059)
Other Income (Expense)					
Gain on sale of investment securities	79,129				
Gain on sale of investment in subsidiary (Note 3)	979,709	226,152		979,709	
Interest income	1,461,857	133,054	187,922	340,169	562,176
Loss on settlement of debt	(132,000)				
Mineral property option payments received	152,477				
Total Other Income (Expense)	2,541,172	359,206	187,922	1,319,878	562,176
Net Loss	(58,030,618)	(2,362,858)	(2,153,357)	(32,133,820)	(12,233,883)
Other Comprehensive Loss					
Foreign currency translation adjustment			(177)	(481)	(179)
Comprehensive Loss	(58,030,618)	(2,362,858)	(2,153,534)	(32,134,301)	(12,234,062)



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Net Loss Per Share	Basic and Diluted	(0.04)	(0.05)	(0.63)	(0.32)
Weighted Average Shares		55,444,000	39,160,000	51,192,000	38,180,000
Outstanding					

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

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

	Accumulated From May 26, 1999 (Date of Inception) to September 30, 2008 \$	Nine Months Ended September 30, 2008 \$	2007 \$
<b>Operating Activities</b>			
Net loss	(58,030,618)	(32,133,820)	(12,233,883)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation	160,953	88,680	35,016
Expenses incurred by joint venture	1,973,199	1,973,199	
Gain on sale of investment securities	(79,129)		
Gain on sale of subsidiary shares	(979,709)	(979,709)	
Equity loss on investment	74,617	74,617	
Impairment loss on mineral properties	790,147		
Loss on settlement of debt	132,000		
Mineral property option payment received	(37,500)		
Shares issued to acquire mineral properties	19,090,000	19,090,000	
Stock-based compensation	15,749,167	2,718,676	4,870,045
Changes in operating assets and liabilities:			
Prepaid expenses and deposits	(346,820)	(29,380)	(299,761)
Amounts receivable	(57,301)	35,118	(71,396)
Accounts payable and accrued liabilities	369,107	95,297	125,419
Due to related parties	509,679	(29,944)	(145,713)
Net Cash Used in Operating Activities	(20,682,208)	(9,097,266)	(7,720,273)
<b>Investing Activities</b>			
Acquisition of mineral properties	(790,147)		
Reclamation bonds	(280,904)	(230,904)	(40,000)
Acquisition of subsidiary, net cash paid	(48)		
Disposition of subsidiary	905,092	905,092	
Purchase of marketable securities	(22,264,680)	(22,264,680)	
Proceeds from sale of investment securities	116,629		
Advances to joint venture	(2,433,552)	(2,433,552)	
Purchase of property and equipment	(657,227)	(277,080)	(123,766)
Net Cash Used In Investing Activities	(25,404,837)	(24,301,124)	(163,766)

Financing Activities			
Repayment of loan payable	(38,167)	(23,355)	(7,332)
Advances to related party	10,700		
Proceeds from issuance of common stock	48,540,551	24,221,275	8,565,578
Share issuance costs	(1,670,472)	(1,387,219)	
Net Cash Provided By Financing Activities	46,842,612	22,810,701	8,558,246
Effect of Exchange Rate Changes on Cash		(481)	(179)
Increase (Decrease) In Cash	755,567	(10,588,170)	674,028
Cash - Beginning of Period		11,343,737	12,293,890
Cash - End of Period	755,567	755,567	12,967,918
Non-cash Investing and Financing Activities			
Sale of 60% of Rolling Hills investment for interest in mineral projects	774,216	774,216	
Investment securities received as a mineral property option payment	37,500		
Purchase of equipment with loan payable	98,414		98,414
Common stock issued to settle debt	744,080	402,250	
Common stock issued for mineral property costs	19,105,000	19,090,000	
Supplemental Disclosures			
Interest paid	8,092	4,400	
Income taxes paid			

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

Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the financial statements  
September 30, 2008  
(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. Effective July 5, 2005, the Company changed its name from Carleton Ventures Corp. to Uranerz Energy Corporation. The Company has acquired mineral property interests in Canada, Mongolia, and the 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 exploitation of uranium and mineral resources.

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 future. As at September 30, 2008, the Company has working capital of \$23,119,880. 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 through its production phase is dependent upon the ability of the Company to obtain necessary equity and/or debt 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 financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. On September 30, 2008, the Company holds an 81% interest in an unincorporated USA joint venture which is accounted for under the equity method. Rolling Hills Resources LLC (Rolling Hills), a Mongolian company previously wholly-owned, was consolidated on December 31, 2007. During the nine month period ended September 30, 2008, the Company disposed of Rolling Hills. The Company's fiscal year-end is December 31.

b) Interim Financial Statements

The interim unaudited 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-Q. 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, 2007, included in the Company's Annual Report on Form 10-K filed on March 17, 2008 with the SEC.

The 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 financial position at September 30, 2008, and the results of its operations and cash flows for the nine

months ended September 30, 2008 and 2007. The results of operations for the nine months ended September 30, 2008 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 financial statements  
September 30, 2008  
(Expressed in US dollars)  
(Unaudited)

2. Summary of Significant Accounting Policies (continued)

e) Marketable Securities

The Company defines marketable securities as income yielding securities that can be readily converted into cash. Examples of marketable securities include U.S. Treasury and agency obligations, commercial paper, corporate notes and bonds, time deposits, foreign notes and certificates of deposit. We account for our investment in debt and equity instruments under Statement of Financial Accounting Standards, or SFAS, No. 115, *Accounting for Certain Investments in Debt and Equity Securities and Financial Accounting Standards Board*, or FASB, Staff Position, or FSP, SFAS No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The Company follows the guidance provided by EITF No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense). Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. As at September 30, 2008, the Company's marketable securities consisted of term deposits of cash for periods longer than three months and are classified as held-to-maturity.

f) 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.

g) 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. 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.

During the nine months ended September 30, 2008, mineral property expenditures totaling \$28,049,722 (2007 - \$5,696,246) were expensed.

h) Financial Instruments/Concentrations

The fair values of cash, marketable securities, 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 held in Canada and the United States. At September 30, 2008, one Canadian institution holds 98% of the Company's cash and 100% of the Company's marketable securities. To date, the Company has not incurred a loss relating to this concentration of credit risk.

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Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the financial statements  
September 30, 2008  
(Expressed in US dollars)  
(Unaudited)

2. Summary of Significant Accounting Policies (continued)

j) 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.

k) 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.

l) Foreign Currency Translation

The Company's functional currency is the United States dollar and management has adopted SFAS No. 52, *Foreign Currency Translation*. 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.

m) 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.

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 statement of operations over the vesting period.

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

n) 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. As at September 30, 2008 and 2007, the Company's comprehensive income (loss) consisted of unrealized gains and losses on foreign currency translation adjustments.

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Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the financial statements  
September 30, 2008  
(Expressed in US dollars)  
(Unaudited)

2. Summary of Significant Accounting Policies (continued)

o) 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 statement of operations. 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 excludes all dilutive potential shares if their effect is anti-dilutive.

p) Reclassifications

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

q) Recently Issued Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts - An interpretation of FASB Statement No. 60*. SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise's risk-management activities. SFAS 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In March 2008, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133* . SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* . This statement replaces SFAS 141 and defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141R also requires the acquirer to recognize contingent consideration at the acquisition date, measured at its fair value at that date. This statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

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Uranerz Energy Corporation  
 (An Exploration Stage Company)  
 Notes to the financial statements  
 September 30, 2008  
 (Expressed in US dollars)  
 (Unaudited)

## 2. Summary of Significant Accounting Policies (continued)

### q) Recently Adopted Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements Liabilities – an Amendment of ARB No. 51*. This statement amends ARB 51 to establish accounting and reporting standards for the Non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In February 2007, the 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 did not 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 did not have a material effect on the Company's financial statements.

	Cost	Accumulated Depreciation	September 30, 2008 Net Carrying Value	December 31, 2007 Net Carrying Value
	\$	\$	\$	\$
Computers and office equipment	167,852	51,556	116,296	101,520
Field equipment	587,789	109,398	478,391	304,768
	755,641	160,954	594,687	406,288

## 5. Investment in and Advances to Joint Venture

At September 30, 2008, the Company owned an 81% investment in an unincorporated joint venture which is accounted for under the equity method of accounting.

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Uranerz Energy Corporation  
(An Exploration Stage Company)  
Notes to the financial statements  
September 30, 2008  
(Expressed in US dollars)  
(Unaudited)

6. Mineral Properties

- a) 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 for consideration of Cdn\$40,757 and a 2% royalty on the prospecting permits. 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. 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 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. On October 10 2007, the first option was extended five months from May 1, 2008 to October 1, 2008. On April 24, 2008 the Optionee forfeited its right to earn an interest in the property. As at September 30, 2008, the Company has received Cdn\$50,000 of instalment payments with respect to this agreement.
- b) In May 2005, the President of the Company acquired, on behalf of the Company, a 100% interest to a mineral license in Mongolia for \$105,945, which was then transferred to Rolling Hills, which was acquired on January 9, 2006. Rolling Hills was sold in 2008.
- c) A consultant to the Company acquired, on behalf of the Company, the right to one exploration license located in Mongolia for a nominal amount, which was then transferred to Rolling Hills, which was acquired on January 9, 2006. Rolling Hills was sold in 2008.
- d) An agent of the Company acquired, on behalf of the Company, the rights to six exploration licenses located in Mongolia for \$13,300. The amount was advanced to the agent by the President of the Company. The agent transferred title to the property to Rolling Hills, which was acquired on January 9, 2006. Rolling Hills was sold in 2008.
- e) On November 18, 2005, the Company entered into an agreement to acquire a 100% interest in 10 mining claims located in the Powder River Basin area, Wyoming, in consideration of \$250,000. The amounts were paid in installments and completed by January 2007.
- f) On December 9, 2005, the Company entered into an option agreement to acquire a 100% interest in 44 mining claims within six mineral properties located in the Powder River Basin area, Wyoming. As at December 31, 2007 all requirements of this option agreement were satisfied and a deed for the 44 claims was received. A royalty fee of between 6% - 8% is payable, depending upon the future selling price of uranium recovered from these properties.
- g) On February 17, 2006, as amended on March 16, 2006, September 8, 2006 and March 20, 2008, the Company entered into a letter agreement to option and joint venture its six Mongolian projects to another company (the Optionee). In June 2008 the Optionee earned an undivided 60% interest in the projects through assumption of 60% of the Company's wholly owned subsidiary, Rolling Hills. Rolling Hills was

sold in 2008.

- h) On June 7, 2006, the Company entered into an Agreement with another company (the Optionee ) on two of the Company's exploration projects located within the Red Desert area of southwest Wyoming. The Company and the Optionee 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, incurring a minimum \$100,000 per year of exploration costs on the projects, and incurring \$750,000 of exploration costs, 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% (maximum expenditures of \$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% (maximum expenditures of \$750,000). As at September 30, 2008 the Optionee has met the minimum expenditure requirements and is continuing phase one of the joint venture.

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Uranerz Energy Corporation  
 (An Exploration Stage Company)  
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 September 30, 2008  
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 (Unaudited)

6. Mineral Properties (continued)

- i) On October 30, 2006, the Company entered into an agreement with an officer and director of the Company (the Related Party), to use certain geological reports held by the Related Party for the purposes of staking and acquiring potential areas of interest. In December 2007, the staking and acquisition program was completed and a liability of \$402,250 was recorded as due to Related Party. During the nine months ended September 30, 2008, this debt was settled through the issuance of 160,900 common shares.
- j) 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 for \$3,120,000 which was paid on February 1, 2007.
- k) In 2007, the Company acquired several mining leases in Briscoe County, Texas for a total purchase price of \$60,817.
- l) Reclamation bonds totaling \$280,904 (December 2007 - \$50,000) are pledged to the State of Wyoming, Department of Environmental Quality, for proper reclamation.
- m) On January 15, 2008, the Company acquired an undivided eighty-one percent (81%) interest in approximately 82,000 acres (33,100 hectares) of mineral properties located in the central Powder River Basin of Wyoming, USA and entered into a joint venture agreement with the vendor pursuant to which the Company will explore the properties. In accordance with the terms of the September 19, 2007 Purchase Agreement, the Company paid \$5,757,043 cash and issued 5,750,000 shares of the Company's common stock at a fair value of \$19,090,000 to acquire the 81% interest. At January 15, 2008, the acquisition cost was allotted \$24,847,043 as follows:

	\$
Prepaid expenses	229,247
Mineral property expenditures	24,617,796
	24,847,043

- n) On August 24, 2008 the Company leased additional mineral within the Company's North Reno Creek project area in Wyoming (see Note 12 (d)).

7. Loan Payable

	September 30, 2008 \$	December 31, 2007 \$
Loan payable to vendor, interest imputed at 8% per annum, maturing June 2010, and secured by field equipment	60,246	83,602
Less current portion	(33,394)	(31,456)



26,852 52,146

Principal repayments remaining as at September 30, 2008 are as follows:

2008	8,101
2009	34,068
2010	18,078
	<hr/>
	\$ 60,246

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8. Related Party Transactions

- a) During the nine month period ended September 30, 2008, the Company incurred \$288,000 (2007 - \$232,977) 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 September 30, 2008, \$nil (December 31, 2007 - \$18,000) is owing to the director and these companies, which is unsecured, non-interest bearing, and due on demand.
- b) During the nine month period ended September 30, 2008, the Company incurred \$148,000 (2007 - \$150,000) for consulting services (included in general and administrative expenses) to a director. Other general and administrative expenses were reimbursed in the normal course of business. In 2007, the Company acquired property assets from this director, valued at \$402,250 (see Note 6(i)). At September 30, 2008, consulting services and expenditures incurred on behalf of the Company of \$19,937 (December 31, 2007 - \$50,865) is owed to this director, and the amounts are unsecured, non-interest bearing, and due on demand.
- c) During the nine month period ended September 30, 2008, the Company incurred consulting fees of \$135,000 (2007 - \$90,000) to an entity controlled by a director and officer of the Company. Other general and administrative expenses were reimbursed to the officer in the normal course of business. As at September 30, 2008, \$5,589 (December 31, 2007 - \$nil) is owed to this director, which is unsecured, non-interest bearing, and due on demand.
- d) During the nine month period ended September 30, 2008, the Company incurred consulting fees of \$96,500 (2007 - \$56,517) 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.
- e) During the nine month period ended September 30, 2008, the Company incurred consulting fees of \$92,262 (2007 - \$26,950) to an officer of the Company. Other general and administrative expenses were reimbursed to the officer in the normal course of business. As at September 30, 2008, \$13,395 (December 31, 2007 - \$nil) is owed to this officer, which is unsecured, non-interest bearing, and due on demand.
- f) During the nine month period ended September 30, 2008, the Company incurred consulting fees of \$99,000 (2007 - \$16,605) to a company controlled by an officer of the Company. Other general and administrative expenses were reimbursed to the officer in the normal course of business.
- g) During the nine month period ended September 30, 2008, the Company incurred and paid fees of \$58,000 (2007 - \$67,000) to five non-executive directors of the Company for their service as directors. Other general and administrative expenses were reimbursed to the officer in the normal course of business.

*During the nine month period ended September 30, 2008:*

- a)

The Company issued 50,000 shares of common stock pursuant to the exercise of common share purchase options for proceeds of \$37,500.

- b) On April 15, 2008 the Company completed a private placement of 9,865,000 units, comprised of 9,865,000 common shares and 4,932,498 common share purchase warrants, at \$2.40 per unit for gross proceeds of \$23,676,000. Each warrant entitles the holder to purchase one common share for \$3.50 for a two year period ending April 15, 2010. The Company paid cash commissions of \$1,100,640 and 120,000 warrants to purchase 120,000 common shares at \$2.60 per share exercisable for a one year period ending April 15, 2009. The Company incurred share issuance costs in connection with the private placement of \$1,347,098 including agents' warrants with a fair value of \$68,041.
- c) The Company issued 96,100 shares of common stock pursuant to the exercise of common share purchase warrants for proceeds of \$240,250.
- d) The Company issued 286,300 shares of common stock pursuant to the exercise of stock options for proceeds of \$214,725.
- e) The Company issued 160,900 shares of common stock with a fair value of \$402,250 to settle \$402,250 owed to a Director of the Company.
- f) The Company issued 5,750,000 shares of common stock with a fair value of \$19,090,000 for the acquisition of mineral properties. The Company incurred share issuance costs of \$75,654. Refer to Note 6(m).
- g) The Company issued 20,000 shares of common stock pursuant to the exercise of common share purchase options for proceeds of \$52,800.

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## 10. Stock-based Compensation

The Company adopted a Stock Option Plan dated November 7, 2005 under which the Company is authorized to grant stock options to acquire up to a total of 10,000,000 shares of common stock. No options shall be issued under the Stock Option Plan at a price per share less than the defined Market Price. On June 11, 2008, the Company modified the Stock Option Plan to define Market Price as the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange or American Stock Exchange, whichever has the greater trading volume for the five trading days before the date of grant. At September 30, 2008, the Company had 4,492,360 shares of common stock available to be issued under the Plan.

In August 2008, the Company granted stock options to an employee to acquire 15,000 common shares at an exercise price of \$2.13 per share exercisable for 5 years. In July 2008, the Company granted stock options to a non-employee consultant to acquire 15,000 common shares at an exercise price of \$3.22 per share exercisable for 5 years. In May 2008, the Company granted stock options to an employee to acquire 28,000 common shares at an exercise price of \$2.62 per share exercisable for 5 years. In January 2008, the Company granted stock options to directors, officers, employees and consultants to acquire 1,005,000 common shares at an exercise price of \$2.64 per share exercisable for 5 years. During the three and nine month periods ended September 30, 2008, the Company recorded stock-based compensation of \$170,451 and \$2,718,676, respectively, as general and administrative expense.

In February 2007, the Company granted stock options to employees and consultants to acquire 300,000 common shares at exercise prices of \$3.45 to \$3.69 per share exercisable for 5 years. In January, 2007 the Company granted stock options to directors, officers, employees and consultants to acquire 1,470,000 common shares at an exercise price of \$3.20 per share exercisable to January 6, 2011. In July, 2007 the Company granted stock options to a consultant to acquire 50,000 common shares at an exercise price of \$4.73 per share exercisable to July 9, 2012. In August, 2007 the Company granted stock options to a consultant to acquire 100,000 common shares at an exercise price of \$2.71 per share exercisable to August 20, 2012. During the three and nine month periods ended September 30, 2007, the Company recorded stock-based compensation of \$245,914 and \$4,819,952, respectively as general and administrative expense.

The fair value for stock options granted was estimated at the date of grant using the Black-Scholes option-pricing model and the weighted average fair value of stock options granted during the three and nine month periods ended September 30, 2008, were \$2.30 and \$2.20 per share, respectively (2007 - \$3.44 and \$3.02, respectively). The weighted average assumptions used are as follows:

	Nine Months Ended	
	September 30, 2008	September 30, 2007
Expected dividend yield	0%	0%
Risk-free interest rate	2.94%	4.83%
Expected volatility	134%	176%
Expected option life (in years)	4.14	3.1

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The total intrinsic value of stock options exercised during the three and nine month periods ended September 30, 2008, were \$Nil and \$641,954 respectively (2007 - \$89,950 and \$549,730, respectively).

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

	Number of Options	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding, December 31, 2007	4,283,000	\$ 2.00		
Granted	1,063,000	\$ 2.64		
Cancelled	(150,000)	\$ 3.36		
Exercised	(356,300)	\$ 0.86		
Outstanding, September 30, 2008	4,839,700	\$ 2.18	3.17	\$ 774,354
Exercisable, September 30, 2008	4,676,200	\$ 2.14	3.14	\$ 774,354

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#### 10. Stock-based Compensation (continued)

A summary of the status of the Company's nonvested shares as of September 30, 2008, and changes during the nine month period ended September 30, 2008, is presented below:

Nonvested shares	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2008	325,000	\$ 3.14
Granted	1,063,000	\$ 2.20
Vested	(1,224,500)	\$ 2.36
Nonvested at September 30, 2008	163,500	\$ 2.86

As at September 30, 2008, there was \$389,736 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 0.78 years.

#### 11. Share Purchase Warrants

- a) On April 15, 2008, as part of a private placement (see Note 9(b)), the Company issued 4,932,498 common share purchase warrants exercisable for \$3.50 per share during the twenty-four month period ending April 15, 2010.
- b) On April 15, 2008 the Company issued 120,000 Agents' common share purchase warrants (see Note 9(b)), exercisable for \$2.60 per share during the twelve month period ending April 15, 2009. The fair value of warrants issued was estimated at the date of grant to be \$68,041 using the Black-Scholes option-pricing model assuming an expected life of 1 year, a risk-free rate of 1.70%, an expected volatility of 83% and no expected dividends. The fair value of these share purchase warrants was approximately \$0.57 per share. During the nine month period ended September 30, 2008, the Company recorded stock issue costs of \$68,041.
- c) On March 3, 2008, 96,100 share purchase warrants were exercised and 96,100 common shares issued for cash proceeds of \$240,250.
- d) On March 3, 2008, 20,000 share purchase warrants expired.
- e) On February 2, 2008, 50,000 share purchase warrants expired.
- f) 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 \$75,140 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 nine month period ended September 30, 2008, the Company recorded stock-based compensation of \$6,262 (2007 - \$50,093) as general and administrative expense.

	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 December 31, 2007	166,100	2.86
Issued	5,052,498	3.48
Exercised	(96,100)	2.50
Expired	(70,000)	3.35
Balance September 30, 2008	5,052,498	3.48

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12. Commitments

- a) Effective January 1, 2008 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 \$14,096 (Cdn\$15,000) per month.
- b) Effective January 1, 2008 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 \$15,000 per month.
- c) Effective January 1, 2008 the Company amended its May 23, 2006 agreement with an entity owned by the Chief Financial Officer of the Company for consulting services to be provided to the Company at a revised rate of \$11,276 (Cdn\$12,000) per month.
- d) On August 24, 2008 the Company signed two mining lease agreements which require ten annual payments of \$75,000. The first payment was made on signing.
- e) Effective September 1, 2008 the Company signed an office and administration services agreement with a company controlled by a director, for an amount of \$15,975 (Cdn\$17,000) per month, for a three-year term expiring on August 31, 2010.
- f) As of September 30, 2008, the Company has provided a bond in the amount of \$622,500 to the State of Wyoming, Department of Environmental Quality or the Secretary of the Interior, United States Government. The bond is in lieu of depositing cash to guarantee reclamation of exploration drill holes in the Arkose Mining Venture and surety was provided by an insurance company. The bond applies to 250 drill holes on a revolving basis. The Company and the Arkose Mining Venture have a 100% record of completing reclamation without recourse to security provided.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation****Forward-Looking Statements**

The information in this Quarterly Report on Form 10-Q 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 Securities and Exchange Commission (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.

**General**

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; and Saskatchewan, Canada. We are principally focused on the exploration of our projects in the Powder River Basin area of Wyoming. In 2008 our Saskatchewan joint venture was terminated and our Mongolian interests were sold. We have joint ventured our uranium projects in the Great Divide Basin area of Wyoming and our 81% owned properties in the Powder River Basin area of Wyoming. We anticipate that our joint venture partner will conduct exploration of our Wyoming Great Divide Basin properties. We plan to maintain, explore and, if warranted, develop our projects in the Powder River Basin area of Wyoming.

We hold interests in the following mineral properties:

<b>Name of Property</b>	<b>Property Composition</b>	<b>Location</b>
100%-Owned Projects in the Powder River Basin, Wyoming	State Mineral Leases, Federal Mining Claims and Private (Fee) Mineral	Powder River Basin, Wyoming, USA
Arkose Mining Venture in the Powder River Basin, Wyoming	State Mineral Leases, Federal Mining Claims and Private (Fee) Mineral (joint venture agreement in place)	Powder River Basin, Wyoming, USA
Cyclone Rim and Eagle Projects in the Red Desert area of Wyoming	State Mineral Leases, and Federal Mining Claims (option and joint venture agreement in place)	Great Divide Basin, Wyoming, USA
Cochrane River	Seven Mining Claims	Saskatchewan, Canada
Texas Project	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 partner will be responsible for carrying out exploration of our Wyoming Great Divide Basin properties. Our Saskatchewan properties are under strategic review. The information regarding the location and access for our Saskatchewan 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-K for the year ended December 31, 2007 under the heading "Description of Properties", previously filed with the SEC on March 17, 2008.

*Powder River Basin Wyoming*

In January 2008, we acquired an undivided 81% interest in approximately 82,200 acres of federal mining claims, state mineral leases and fee surface and mineral leases in the Powder River Basin (the "Arkose Mining Venture" or "Arkose Property"). The vendors will participate pro rata with future costs and we will manage the exploration and development of these properties within the Arkose Mining Venture.

In February 2008 we received an independent National Instrument 43-101 technical report for the Arkose Property (the "NI 43-101 Technical Report") on the Arkose properties. The NI 43-101 Technical Report presents an estimate of the potential uranium exploration target on the Arkose Property pursuant to NI 43-101, Section 2.3(2), which states that, subject to the provisions thereof, an

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issuer may disclose the potential quantity and grade, expressed as ranges, of a potential mineral deposit that is to be the target of further exploration by the issuer. Based on a conceptual model developed by the Authors of the NI 43-101 Technical Report, the potential exploration target of uranium mineralized alteration-reduction fronts is approximately 105 miles and, in aggregate, has the potential to contain from 41 million to 79 million pounds of  $U_3O_8$  at a potential grade ranging from 0.059% to 0.114% . Alteration-reduction trends in the Powder River Basin of Wyoming are typically composed of multiple, stacked roll front deposits that often contain associated uranium mineralization amenable to in-situ recovery (ISR) mining techniques. Drilling commenced on these properties in March 2008.

From March 6, 2008 to June 30, 2008, the Company, as operator of the Arkose Property, drilled a total of 266 uranium trend exploration and delineation holes utilizing up to five drill rigs and two electric log probing units. This drilling, a total of approximately 186,925 feet with an average depth of 703 feet per hole, was conducted on four previously identified exploration targets in areas the Company has identified as East Buck, South Collins Draw, Sand Rock, and Little Butte. This initial phase of the 2008 Arkose drilling program was designed, based in part on available historical data, with a primary objective of identifying and delineating potentially significant trends of uranium roll front mineralization on the property, and to provide further data on these potential future development sites for purposes of reporting, and possible permitting and mining operations in favorably identified areas. To June 30, 2008, approximately 7.5 miles of uranium roll front trends were investigated, with approximately 2.5 miles of these trends showing potentially favorable uranium mineralization. Drilling and geological assessments continue.

From July 1, 2008 through to September 30, 2008 we drilled 405 uranium delineation holes utilizing five drill rigs and two electric log probing units. A total of 141 holes were drilled on Company properties at East-North Butte, Willow Creek, Hank, North rolling Pin and Doughstick. Our drilling on the Arkose Mining Venture properties totaled 264 holes, including two core holes in the Little Butte and South Doughstick target areas. The combined effort for all properties during this period amounted to approximately 281,000 feet of drilling with an average depth of 694 feet per hole. Approximately 7.0 miles of uranium roll front trends were investigated confirming approximately 3.0 miles of historic trends or showed new potentially favorable uranium mineralization.

The purpose of our 2008 exploration program is to find previously unknown or little known uranium mineralization trends and to delineate known trends thus providing data for permitting and eventual production in favorably identified areas.

Mine planning for two Powder River Basin properties, Hank and Nichols Ranch, is continuing. Because of the long lead times for environmental permitting of mining operations in North America, in 2007 we filed applications to the State of Wyoming and the US Nuclear Regulatory Commission (NRC) for permits to conduct ISR mining of uranium for the Nichols Ranch and Hank properties, located in the Pumpkin Buttes Mining District of the Powder River Basin in Johnson and Campbell counties of Wyoming. In April 2008 the NRC deemed our application acceptable to advance to the detailed technical and environmental stage of review. In August 2008, we received and filed an independent technical report providing a Preliminary Assessment of our Nichols Ranch Uranium In-Situ Recovery Project in the Powder River Basin, Wyoming, USA. The report concludes that the project is technically and financially feasible. The results indicate that the Project is at the stage to advance it into engineering design and development . This study supports our development and licensing strategy for our Nichols Ranch and Hank properties.

In August 2008 the Wyoming Department of Environmental Quality deemed our application to build and operate an in-situ recovery mine complete and ready to move to the next stage of review. The next stage includes a detailed technical and environmental review of the application and public discussion. Concurrently, the NRC review of our application for a Source Material License is proceeding in a normal manner. Approval of the permit applications is expected to allow us to proceed with commercial advancement of the two properties leading to production of yellowcake using the ISR method of uranium mining. 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. These plans will be integrated with the Arkose Mining

Venture properties as we go forward.

*Great Divide Basin, Wyoming, USA*

Our Joint Venture partner is continuing to study results from exploring these properties.

*Saskatchewan, Canada*

In April 2008, our Cochrane River Saskatchewan Joint Venture was terminated with the optionee forfeiting its right to earn an interest in the project. The properties are currently in good standing with two (2) claims due to expire on January 30, 2010 and the remaining five (5) claims expiring on January 30, 2011. We will continue to evaluate options for these properties, which include possible arrangements with other joint venture partners, further exploration by ourselves, or disposition.

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### *Mongolia*

In March 2008, we reviewed our Joint Venture in Mongolia and amended our Agreement to remove our back-in provision and give the Optionee the right to acquire an undivided 60% interest in the projects on completion of their exploration expenditure program. This arrangement provides clarity of ownership as strategic options are considered.

In June 2008, our Joint Venture Partner earned and exercised its right to acquire 60% of our Mongolian mineral interests, consisting of four licenses.

In August 2008, we sold all our remaining mineral interests in Mongolia.

### *Texas*

We have deferred our plan to conduct a modest exploration program on these properties until 2009.

## **Financial Position**

The Company's overall financial position is disclosed in the Company's 2007 Annual Report on Form 10-K filed with the SEC on March 17, 2008 and the unaudited Financial Statements at September 30, 2008 as provided herein under the section heading "Financial Statements" above.

## **Liquidity and Capital Resources**

We are carrying out an exploration, environmental and mine design program amounting to approximately \$11,500,000 in 2008 as presented in Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2007 under the heading "Description of Properties", previously filed with the SEC on March 17, 2008. Mineral property acquisitions will be additional expenditures and dependent upon opportunities that may arise. During the nine months ended September 30, 2008, mineral property expenditures, including acquisition expenditures of \$26,076,523 were incurred for cash of \$6,986,523 and shares with a fair value of \$19,090,000.

At September 30, 2008, we had cash of \$755,567 and working capital of \$23,119,880, as compared to the ending cash balance of \$11,343,737 and working capital of \$11,114,149 as at December 31, 2007. Our working capital at September 30, 2008 includes \$22,264,680 of short term marketable securities which are equivalent to cash for operational purposes.

Net cash used in operating activities was \$9,097,266 for the nine months ended September 30, 2008, compared to \$7,720,273 for the corresponding period in 2007. The increase in net cash used in operations of \$1,376,993 results primarily from an increase in mineral property cash expenditures of \$1,290,277, due to increased exploration activities on the Powder River Basin properties in 2008 as we move towards developing a mine plan for these properties and towards obtaining permitting, an increase of general and administrative cash expenses of \$413,110, a decrease in interest earned of \$222,007 plus changes in operating assets and liabilities.

Net cash used in investing activities was \$24,301,124 for the nine months ended September 30, 2008, compared to \$163,766 for the corresponding period in 2007. Cash invested in securities with a term exceeding three months represented \$22,264,680 in this period, \$2,433,552 was advanced to the Arkose Mining Venture and cash proceeds from the sale of Rolling Hills amounted to \$905,092.

Net cash provided by financing activities amounted to \$22,810,701 for the nine months ended September 30, 2008, primarily from a private placement of common shares, compared to \$8,558,246 for the corresponding period in 2007 when warrants were exercised from previous private placements.

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 the exercise of share purchase warrants. Our exploration plans will be continually evaluated and modified as exploration and environmental results become available. General and Administrative expenses, planning and environmental expenses are incurred throughout the year; most of our exploration expenditures are incurred during the nine-month period of March through November. 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. We have sufficient cash to continue our exploration and planning and to meet on-going operating expenses for the next twelve months, and beyond as we scale our operations to the resources we have available..

To date, our primary source of funds has been equity investments, and this trend is expected to continue together with production related financing when our mine development permitting is complete. Recently, the poor conditions in the U.S. housing market and

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the credit quality of mortgage backed securities have continued and worsened in 2008, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. These disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us. If, when additional funding is required, we are unable to obtain financing through equity investments on terms suitable to us, we will seek multiple solutions including, but not limited to, credit facilities or debenture issuances, or, if necessary, selling off property interests, either by selling production interests, royalty interests or properties.

Our current short term investments have not been effected by the current stock market disruptions as these investments are primarily in bearer deposit notes issued and guaranteed by Canadian Chartered banks. At the end of the investment period of these securities, we plan on reinvesting the securities in similar short term instruments. Management and the board of directors periodically meet to review the status of these investments and determine investment strategies, taking into account current market conditions and the short and long term capital needs of the Company.

## **Results of Operations**

### ***Three-month period ended September 30, 2008 compared to three-month period ended September 30, 2007***

#### *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 approximately \$2,722,064 for the three-month period ended September 30, 2008, as compared to \$2,341,279 for the corresponding period in 2007. The increase of operating expenses in the amount of \$380,785 (or 16%) was primarily contributed by a \$320,348 decrease in general and administrative expenses and an increase in joint venture and mineral property expenditures of approximately \$693,625.

We had no significant financing expense for the three-month periods ended September 30, 2008 and 2007. We earned \$133,054 of interest income for the three-month period ended September 30, 2008 as compared to \$187,922 for the corresponding period in 2007. This income resulted from short term investments. A gain on sale of approximately \$226,152 for our remaining 40% of former subsidiary, Rolling Hills LLP, was realized during the period.

Net loss for the three-month period ended September 30, 2008 was approximately \$2,362,858, as compared to approximately \$2,153,357 for the corresponding period in 2007, an increase of \$209,501.

### ***Nine-month period ended September 30, 2008 compared to nine-month period ended September 30, 2007***

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 approximately \$33,453,698 for the nine-month period ended September 30, 2008, as compared to \$12,796,059 for the corresponding period in 2007. The increase of operating expenses in the amount of \$20,657,639 (or 161%) was primarily contributed by a \$22,353,476 increase in joint venture and mineral property expenditures and a \$1,738,259 decrease in general and administrative expenses. Our \$24,617,796 acquisition of NAMMCO properties is included in the mineral property expenditures for nine -month period ended September 30,

2008.

We had no significant financing expense for the nine-month periods ended September 30, 2008 and 2007. We earned \$340,169 of interest income for the nine -month period ended September 30, 2008 as compared to \$562,176 for the corresponding period in 2007. This income resulted from short term investments. A gain on sale of approximately \$979,709 for our former subsidiary, Rolling Hills LLP, was realized during the period.

Net loss for the nine-month period ended September 30, 2008 was approximately \$32,133,820, as compared to approximately \$12,233,883 for the corresponding period in 2007, an increase of \$19,899,937. The net loss was abnormally affected by the acquisition of properties in the period and results of operations can be more expected to reflect historical growth for the remainder of 2008, unless other significant acquisitions are identified and concluded.

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## **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 except as disclosed in the unaudited Financial Statements at September 30, 2008. The Company has had no material changes to its off-balance sheet arrangements as disclosed in the Company's 2007 Annual Report on Form 10-K filed on Edgar on March 17, 2008 and the Financial Statements at September 30, 2008 provided herein.

## **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. 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.

During the nine months ended September 30, 2008, mineral property expenditures totaling \$28,049,722 (2007 - \$5,696,246) were expensed.

### ***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. 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 vesting period.

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

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## **Contractual Obligations**

The Company has had no material changes to its contractual obligations as disclosed in the Company's 2007 Annual Report on Form 10-K filed with the SEC on March 17, 2008 and the Financial Statements at September 30, 2008 as provided herein under the section heading "Financial Statements" above.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our operations are not yet exposed to risks associated with commodity prices, interest rates and credit. Commodity price risk is defined as the potential loss that we may incur as a result of changes in the fair value of uranium. Interest rate risk results from our debt and equity instruments that we issue to provide financing and liquidity for our business. Credit risk would arise from the extension of credit throughout all aspects of our business but is not yet significant. Industry wide risks can, however, affect our general ability to finance exploration, and development of exploitable resources; such effects are not predictable or quantifiable.

## **Item 4. 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 September 30, 2008, 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 statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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- (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.
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## **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 1A. Risk Factors**

Except for the risk factor as provided below, there have been no material changes from the risk factors as previously disclosed in our Form 10-K, which was filed on with the SEC on March 17, 2008.

*Recent market events and conditions, including disruptions in the U.S. and international credit markets and other financial systems and the deterioration of the U.S. and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on our ability to fund our working capital and other capital requirements.*

In 2007 and into 2008, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, subprime and non-prime mortgages) and a decline in the credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions continued and worsened in 2008, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all.

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

During the quarter ended September 30, 2008, all transactions in which we have offered and sold unregistered securities pursuant to exemptions under the Securities Act of 1933, as amended, have been previously reported on Current Reports on Form 8-K.

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

None.

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

None.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

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

**Exhibit****Number Description**

3.1	Articles of Incorporation <sup>(1)</sup>
3.2	Bylaws, as amended <sup>(1)</sup>
3.3	Articles of Amendment filed July 5, 2005 <sup>(2)</sup>
3.4	Articles of Amendment filed August 8, 2008 <sup>(3)</sup>
4.1	Share Certificate <sup>(1)</sup>
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act</u>
<u>32.1</u>	<u>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</u>
<u>32.2</u>	<u>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</u>

(1) Previously filed as an exhibit to the Registrant's Form SB-2 filed March 15, 2002

(2) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-KSB filed April 14, 2006

(3) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q filed August 11, 2008

**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

Date: November 10, 2008

By: /s/ Glenn Catchpole

Glenn Catchpole, President and Principal Executive  
Officer, Director

Date: November 10, 2008

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