

URANERZ ENERGY CORP.
Form 10-Q
May 09, 2012

**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 March 31, 2012

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 or 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)

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

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 the definitions 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 **May 7, 2012: 77,159,074**

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Item 1. Financial Statements (unaudited)

Uranerz Energy Corporation
(An Exploration Stage Company)
March 31, 2012

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

| | March 31, 2012 \$ (Unaudited) | December 31, 2011 \$ (Audited) |
|--|--|---|
| ASSETS | | |
| Current Assets | | |
| Cash | 27,577,410 | 34,644,745 |
| Prepaid expenses and deposits (Note 7(a)) | 881,821 | 890,848 |
| Other current assets | 87,740 | 29,826 |
| Total Current Assets | 28,546,971 | 35,565,419 |
| Prepaid Expenses and Deposits (Note 7(a)) | 868,380 | 816,016 |
| Mineral Property Reclamation Surety Deposits (Note 9) | 2,043,107 | 2,043,107 |
| Property and Equipment (Note 4) | 601,118 | 469,934 |
| Construction in Progress (Note 5) | 15,882,088 | 9,754,067 |
| Total Assets | 47,941,664 | 48,648,543 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities | | |
| Accounts payable | 2,534,598 | 1,507,968 |
| Accrued liabilities (Note 7(b)) | 765,179 | 1,226,242 |
| Due to related parties (Note 8) | 45,110 | 71,340 |
| Total Current Liabilities | 3,344,887 | 2,805,550 |
| Asset Retirement Obligation (Note 9) | 656,732 | 339,564 |
| Total Liabilities | 4,001,619 | 3,145,114 |
| Commitments (Notes 6 and 14) | | |
| Stockholders Equity | | |
| Preferred Stock, 10,000,000 shares authorized, \$0.001 par value; No shares issued and outstanding | | |
| Common Stock, 750,000,000 shares authorized, \$0.001 par value; 77,159,074 and 77,086,774 shares issued and outstanding, respectively | | |
| Additional Paid-in Capital | 77,159 | 77,087 |
| Deficit Accumulated During the Exploration Stage | 144,020,290 | 143,876,826 |
| Total Stockholders Equity | (100,209,594) | (98,562,700) |
| Non-controlling Interest | 43,887,855 | 45,391,213 |
| Total Equity | 52,190 | 112,216 |
| Total Liabilities and Stockholders Equity | 43,940,045 | 45,503,429 |
| | 47,941,664 | 48,648,543 |

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

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

| | Accumulated From May 26, 1999 (Date of Inception) to March 31, 2012 \$ | Three Months Ended March 31, 2012 \$ | 2011 \$ |
|---|--|---|-------------|
| Revenue | | | |
| Expenses | | | |
| Depreciation | 852,549 | 59,124 | 54,718 |
| Accretion expense (Note 9) | 8,334 | 5,816 | |
| Foreign exchange | 90,465 | 7,970 | 16,083 |
| General and administrative (Note 11) | 51,904,574 | 1,412,357 | 4,996,565 |
| Mineral property expenditures | 53,360,338 | 237,787 | 289,738 |
| Total Operating Expenses | 106,216,260 | 1,723,054 | 5,357,104 |
| Operating Loss | (106,216,260) | (1,723,054) | (5,357,104) |
| Other Income (Expense) | | | |
| Gain on sale of investment securities | 79,129 | | |
| Interest income | 2,035,058 | 16,134 | 96,394 |
| Loss on settlement of debt | (132,000) | | |
| Mineral property option payments received | 152,477 | | |
| Total Other Income | 2,134,664 | 16,134 | 96,394 |
| Loss from continuing operations | (104,081,596) | (1,706,920) | (5,260,710) |
| Discontinued operations | | | |
| Loss from discontinued operations | (28,732) | | |
| Gain on disposal of discontinued operations | 979,709 | | |
| Gain on Discontinued Operations | 950,977 | | |
| Net Loss | (103,130,619) | (1,706,920) | (5,260,710) |
| Net loss attributable to non-controlling interest | 2,921,025 | 60,026 | 78,038 |
| Net loss Attributable to the Company | (100,209,594) | (1,646,894) | (5,182,672) |
| Amounts attributable to Company stockholders | | | |
| Loss from continuing operations | (101,160,571) | (1,646,894) | (5,182,672) |
| Gain on discontinued operations | 950,977 | | |
| Net loss attributable to the Company | (100,209,594) | (1,646,894) | (5,182,672) |
| Net Loss Per Share Basic and Diluted | | (0.02) | (0.07) |
| Weighted Average Number of Shares Outstanding | | 77,121,000 | 73,339,000 |

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

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

| | Accumulated From May 26, 1999 (Date of Inception) to March 31, 2012 \$ | Three Months Ended March 31, 2012 \$ | 2011 \$ |
|---|--|---|--------------------|
| Operating Activities | | | |
| Net loss | (103,130,619) | (1,706,920) | (5,260,710) |
| Adjustments to reconcile net loss to cash used in operating activities: | | | |
| Depreciation | 852,549 | 59,124 | 54,718 |
| Accretion expense | 8,334 | 5,816 | |
| Equity loss on investment | 74,617 | | |
| Gain on disposition of discontinued operations | (979,709) | | |
| Gain on sale of investment securities | (79,129) | | |
| Loss on settlement of debt | 132,000 | | |
| Non-cash mineral property option payment | (37,500) | | |
| Shares issued to acquire mineral properties | 19,105,000 | | |
| Warrants issued for mineral property costs | 1,258,000 | | |
| Stock-based compensation | 26,746,703 | 82,177 | 2,854,578 |
| Changes in operating assets and liabilities: | | | |
| Prepaid expenses and deposits | (1,743,964) | (43,337) | (481,905) |
| Other current assets | (87,715) | (57,914) | (24,195) |
| Accounts payable and accrued liabilities | 940,872 | (348,082) | 415,544 |
| Due to related parties | 515,869 | (26,230) | 350,131 |
| Net Cash Used in Operating Activities | (56,424,692) | (2,035,366) | (2,091,839) |
| Investing Activities | | | |
| Reclamation surety deposits | (2,043,107) | | |
| Acquisition of subsidiary, net cash paid | (48) | | |
| Proceeds from sale of marketable securities | 20,548,664 | | |
| Investment in property and equipment | (13,994,250) | (5,093,328) | (404,899) |
| Purchase of investment securities | (20,432,035) | | |
| Disposition of subsidiary | 905,092 | | |
| Net Cash Used In Investing Activities | (15,015,684) | (5,093,328) | (404,899) |
| Financing Activities | | | |
| Repayment of loan payable | (98,414) | | |
| Advances from related party | 10,700 | | |
| Contributions from non-controlling interest | 2,973,216 | | |
| Proceeds from issuance of common stock | 100,639,422 | 61,359 | 13,453,046 |
| Share issuance costs | (4,507,138) | | (24,643) |
| Net Cash Provided By Financing Activities | 99,017,786 | 61,359 | 13,428,403 |

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| | | | |
|--|------------|-------------|------------|
| Increase In Cash | 27,577,410 | (7,067,335) | 10,931,665 |
| Cash - Beginning of Period | | 34,644,745 | 36,437,370 |
| Cash - End of Period | 27,577,410 | 27,577,410 | 47,369,035 |
| Non-cash Investing and Financing Activities | | | |
| Sale of 60% of subsidiary for interest in mineral property | 774,216 | | |
| Investment securities received as a mineral property | 37,500 | | |
| option payment | | | |
| Purchase of equipment with loan payable | 98,414 | | |
| Stock options issued for construction in progress | 105,119 | | |
| Common stock issued to settle debt | 744,080 | | |
| Warrants issued for mineral property costs | 1,258,000 | | |
| Common stock issued for mineral property costs | 19,105,000 | | |
| Supplemental Disclosures | | | |
| Interest paid | 12,608 | | |
| Income taxes paid | | | |

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

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Uranerz Energy Corporation
 (An Exploration Stage Company)
 Consolidated Statement of Stockholders' Equity
 For the Three-Month Period Ended March 31, 2012
 (Expressed in US dollars)
 (Unaudited)

| | Common Stock | | Additional Paid-in Capital | Deficit Accumulated During the Development Stage | Non- Controlling Interest | Total |
|--|--------------|--------------|----------------------------------|--|---------------------------------|-------------|
| | Shares # | Amount \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2011 | 77,086,774 | 77,087 | 143,876,826 | (98,562,700) | 112,216 | 45,503,429 |
| Fair value of stock options granted | | | 82,177 | | | 82,177 |
| Shares issued upon the exercise of options | 72,300 | 72 | 61,287 | | | 61,359 |
| Net loss for the year | | | | (1,646,894) | (60,026) | (1,706,920) |
| Balance, March 31, 2012 | 77,159,074 | 77,159 | 144,020,290 | (100,209,594) | 52,190 | 43,940,045 |

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

Uranerz Energy Corporation
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
March 31, 2012
(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 mineral property interests in the United States.

The Company is an Exploration Stage Company, as defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 915, *Development Stage Entities*. The Company's principal business is the acquisition and exploitation of uranium and mineral resources.

2. Summary of Significant Accounting Policies

a) Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the Securities and Exchange Commission (SEC) instructions for companies filing Form 10-Q. In the opinion of management, the unaudited interim consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of March 31, 2012, and the results of operations and cash flows for the period then ended. The financial data and other information disclosed in the notes to the interim consolidated financial statements related to this period are unaudited. The results for the three-month period ended March 31, 2012 are not necessarily indicative of the results to be expected for any subsequent quarter or the entire year ending December 31, 2012. The unaudited interim consolidated financial statements have been condensed pursuant to the Securities and Exchange Commission's rules and regulations and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these unaudited interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements and notes thereto for the year ended December 31, 2011, included in the Company's Annual Report on Form 10-K filed on March 14, 2012 with the SEC.

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 consolidated financial statements include the accounts of the Company and the accounts of an unincorporated venture, Arkose Mining Venture (Arkose) in which the Company holds an 81% interest and maintains majority voting control. The Company's fiscal year-end is December 31.

b) Cash and Cash Equivalents

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

c) Mineral Property Costs

The Company is primarily engaged in the acquisition, exploration and development of mineral properties with the objective of extracting minerals from these properties.

Mineral property exploration costs are expensed as incurred. Costs for acquired mineral property databases are similarly expensed upon acquisition. Capitalization of mine development costs that meet the definition of an asset commence once all operating mineralization is classified as proven and probable reserves, and a bankable feasibility study has been completed or the Company determines that a mine will be developed. Mineral property acquisition costs are expensed as incurred if the criteria for capitalization are not met and unless the Company determines a property can be economically developed as a result of establishing proven and probable reserves, a bankable feasibility study and reasonably securing all operating permits. In the event that a mineral property is acquired through the issuance of the Company's shares, the mineral property is recorded at the fair value of the respective property or the fair value of common shares and other instruments issued, 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, shares, or other instruments are recorded only when the Company has made or is obliged to make the payment or issue the shares or instruments.

As of March 31, 2012, the Company has capitalized mineral property construction in progress expenditures of \$15,882,088 (December 31, 2011 - \$9,754,067). During the three months ended March 31, 2012, mineral property expenditures totaling \$237,787 (2011 - \$289,738) were expensed.

Uranerz Energy Corporation
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
March 31, 2012
(Expressed in US dollars)
(Unaudited)

2. Summary of Significant Accounting Policies (continued)

d) Restoration and Reclamation Costs (Asset Retirement Obligations)

United States regulatory authorities require the Company to restore and reclaim its mine area after mining is completed. Pursuant to ASC 410, *Asset Retirement and Environmental Obligations*, the fair value of asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Upon initial recognition of a liability, the fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. Future reclamation and remediation costs are accrued based on management's best estimate at the end of each period of the costs expected to be incurred to remediate each project.

Estimations and assumptions used in applying the expected present value technique to determine fair values are reviewed periodically. At March 31, 2012, the Company had accrued \$656,732 for restoration and reclamation obligations, of which \$311,352 was added to construction in progress during the three months ended March 31, 2012.

Estimated site restoration costs for exploration activities are accrued when incurred. Costs for environmental remediation are estimated each period by management based on current regulations, actual expenses incurred, available technology and industry standards. Any change in these estimates is included in exploration expense during the period and the actual restoration expenditure incurred are charged to the accumulated asset retirement obligation provision as the restoration work is completed. At March 31, 2012 and December 31, 2011, the Company has recorded \$50,160 for well reclamation obligations in accrued liabilities for which work is required as part of its ongoing exploration expenses.

e) 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 ASC 740, *Income Taxes* as of its inception. Pursuant to ASC 740 the Company is required to compute tax asset benefits for net operating losses carried forward and mineral property acquisition, exploration and development costs. The potential benefits of net operating losses have not been recognized in these consolidated financial statements because the Company cannot be assured that it is more likely than not to utilize the net operating losses carried forward in future years.

f) Fair Value of Financial Instruments

Financial instruments consist principally of cash and cash equivalents and accounts payable. Pursuant to ASC 820, *Fair Value Measurements and Disclosures* and ASC 825, *Financial Instruments* the fair value of cash equivalents and marketable securities is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

g) Recent Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

| | Cost | Accumulated Depreciation | March 31, 2012 Net Carrying Value | December 31, 2011 Net Carrying Value |
|--------------------------------|-----------|-----------------------------|--|---|
| | \$ | \$ | \$ | \$ |
| Computers and office equipment | 296,519 | 183,524 | 112,995 | 85,258 |
| Field equipment | 1,157,146 | 669,023 | 488,123 | 384,676 |
| | 1,453,665 | 852,547 | 601,118 | 469,934 |

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Uranerz Energy Corporation
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
March 31, 2012
(Expressed in US dollars)
(Unaudited)

5. Construction in Progress

The construction in progress consists of construction costs related to the construction of the plant and equipment for the Nichols Ranch ISR Uranium Project. Upon completion of construction and commissioning of the plant, these costs will be transferred to property and equipment and categorized for amortization based on the estimated useful life of the plant and the related ore deposits that the plant is expected to service.

| | March 31, 2012 | | | December 31, 2011 | | |
|-----------------------------|----------------|-----------------------------|-----------------------|-------------------|-----------------------------|-----------------------|
| | Cost | Accumulated Depreciation | Net Carrying Value | Cost | Accumulated Depreciation | Net Carrying Value |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Site | 1,853,045 | | 1,853,045 | 1,232,431 | | 1,232,431 |
| Buildings | 2,455,626 | | 2,455,626 | 1,991,156 | | 1,991,156 |
| Equipment | 2,934,013 | | 2,934,013 | 1,323,042 | | 1,323,042 |
| Field equipment | 629,349 | 33,124 | 596,225 | 474,320 | | 474,320 |
| Well field | 5,862,590 | | 5,862,590 | 3,342,056 | | 3,342,056 |
| Mine development cost | 2,180,589 | | 2,180,589 | 1,391,062 | | 1,391,062 |
| | 15,915,212 | 33,124 | 15,882,088 | 9,754,067 | | 9,754,067 |

6. Mineral Properties

- a) 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 an advanced royalty payment of \$250,000. The amounts were paid in instalments and completed by January 2007. These mining claims are mainly located on the Nichols Ranch ISR Uranium Project and subject to varying royalty interests indexed to the sales price of uranium.
- b) 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 for uranium extracted, based on the uranium spot price at the time of extraction and delivery.
- c) On February 1, 2007, the Company acquired three mineral properties consisting of 138 unpatented lode mining claims located in Campbell County, Wyoming for a total purchase price of \$3,120,000.
- d) 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, and entered into a venture agreement (the Arkose Mining Venture) with the vendor pursuant to which the Company will explore the properties.
- e) On August 20, 2008, the Company leased 891 acres of mineral properties near the Company's Nichols Ranch project area in Wyoming for an advance royalty payment of \$22,275.

- f) On August 20, 2008, the Company, on behalf of the Arkose Mining Venture, leased 6,073 acres of mineral properties within Arkose's area of interest in Wyoming for an advance royalty payment of \$151,828.
- g) On September 18, 2008, the Company leased 984 acres of mineral properties within the Company's North Reno Creek project area in Wyoming.
- h) On December 3, 2008, the Company, on behalf of the Arkose Mining Venture, leased 1,680 acres of mineral properties within Arkose's area of interest in Wyoming for a five year advance royalty payment of \$83,993.
- i) On July 7, 2009, the Company, on behalf of the Arkose Mining Venture, leased 320 acres of mineral properties within the Arkose area of interest in Wyoming.
- j) On January 26, 2010, the Company acquired Geological Data on the North Reno Creek uranium prospect located in Campbell County, Wyoming for a total purchase price of \$600,000.
- k) On August 13, 2010, the Company acquired Geological Data on the Powder River Basin, Wyoming by issuing warrants with a fair value of \$1,258,000 to purchase 2,000,000 common shares of the Company at an exercise price of \$3.00 per share, expiring June 2014.
- l) On July 19, 2011, the Company received its Materials License from the Nuclear Regulatory Commission which allowed it to proceed with construction of its Nichols Ranch ISR Uranium Project in Wyoming.

Uranerz Energy Corporation
 (An Exploration Stage Company)
 Notes to the Consolidated Financial Statements
 March 31, 2012
 (Expressed in US dollars)
 (Unaudited)

7. Balance Sheet Details

a) The components of prepaid expenses and deposits are as follows:

| | March 31, 2012 \$ | December 31, 2011 \$ |
|---|-------------------------|-------------------------------|
| Insurance | 93,687 | 148,910 |
| Lease costs | 256,594 | 324,800 |
| Reclamation bonding | 174,026 | 209,183 |
| Surface use and damage costs | 309,514 | 205,514 |
| Other | 48,000 | 2,441 |
| Current prepaid expenses and deposits | 881,821 | 890,848 |
| Deposits | 29,589 | 29,417 |
| Power supply advance | 674,200 | 674,200 |
| Power supply deposit | 164,591 | 112,399 |
| Non-current prepaid expenses and deposits | 868,380 | 816,016 |

b) The components of accrued liabilities are as follows:

| | March 31, 2012 \$ | December 31, 2011 \$ |
|------------------------------|-------------------------|-------------------------------|
| Construction expenses | 329,315 | 309,624 |
| Mineral exploration expenses | 207,637 | 148,808 |
| Reclamation costs | 50,160 | 50,160 |
| Registration fees | | 74,050 |
| Employee vacation | 129,133 | 72,200 |
| Executive compensation | | 500,000 |
| Professional fees | | 71,400 |
| Other | 48,934 | |
| Total accrued liabilities | 765,179 | 1,226,242 |

Uranerz Energy Corporation
 (An Exploration Stage Company)
 Notes to the Consolidated Financial Statements
 March 31, 2012
 (Expressed in US dollars)
 (Unaudited)

8. Related Party Transactions / Balances

- a) During the three months ended March 31, 2012, the Company incurred \$272,873 (2011 - \$261,915) for consulting services (included in general and administrative expenses) provided by officers. Other general and administrative expenses were reimbursed in the normal course of business. At March 31, 2012, consulting services and expenditures incurred on behalf of the Company of \$45,110 (2011 - \$71,340) are owed to these officers, and these amounts are unsecured, non-interest bearing, and due on demand.
- b) During the three months ended March 31, 2012, the Company paid fees of \$43,125 (2011 - \$40,375) to non-executive directors of the Company for their services as directors. Other general and administrative expenses were reimbursed to the directors in the normal course of business.
- c) During the three months ended March 31, 2012, the Company paid bonuses to related party officers of \$520,000 (2011 - \$671,993), of which \$500,000 was accrued at December 31, 2011 (included in general and administrative expenses).

| | |
|----------------------------------|------------|
| Balance at December 31, 2011 | \$ 339,564 |
| Liabilities incurred | 311,352 |
| Accretion expense | 5,816 |
| Revision of estimated cash flows | |
| Balance at March 31, 2012 | \$ 656,732 |

The current portion of reclamation and remediation liabilities of \$50,160 and \$50,160 at March 31, 2012 and December 31, 2011, respectively, are included in accrued liabilities as these remediation activities are conducted on a recurring basis (see Note 7).

In 2008 the Company 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.

In December 2010, the Company provided a \$1,700,000 cash security to support a bond in the amount of \$6,800,000 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 mine reclamation. The bond applies to the first year's operation of the Company's Nichols Ranch ISR Uranium Project. This amount together with other surety deposits of \$343,107 have been classified as mineral property reclamation surety deposits.

10. Common Stock

During the three months ended March 31, 2012 the Company issued 72,300 shares of common stock, pursuant to the exercise of stock options, for proceeds of \$61,359.

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Uranerz Energy Corporation
 (An Exploration Stage Company)
 Notes to the Consolidated Financial Statements
 March 31, 2012
 (Expressed in US dollars)
 (Unaudited)

11. 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 for the five trading days before the date of grant on the Toronto Stock Exchange or American Stock Exchange, now the NYSE Amex, whichever has the greater trading volume. On June 15, 2011, the Company amended the 2005 Non-Qualified Stock Option Plan to increase the number of shares authorized for issuance under the plan from 10,000,000 to 30,000,000 and extend the plan termination date for an additional 10 years.

During the three month period ended March 31, 2012, the Company recorded \$82,177 for the vesting of previously granted stock options.

On January 10, 2011, the Company granted 1,045,000 stock options with immediate vesting to directors, officers, employees and consultants to acquire 1,045,000 common shares at an exercise price of \$3.98 per share expiring in 5 – 10 years. During the three months ended March 31, 2011, the Company recorded stock-based compensation for the vested options of \$2,854,578, as general and administrative expense related to these options.

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option-pricing model and the weighted average grant date fair values of stock options granted and vested during the three months ended March 31, 2012 and 2011 were \$nil and \$2.72 per share, respectively.

The weighted average assumptions used for each of the three months ended March 31, are as follows:

| | 2012 | 2011 |
|---------------------------------|------|-------|
| Expected dividend yield | | 0% |
| Risk-free interest rate | | 1.48% |
| Expected volatility | | 98% |
| Expected option life (in years) | | 4.05 |

The total intrinsic value of stock options exercised during the three months ended March 31, 2012 and 2011 was \$128,814, and \$5,612,700, 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, 2011 | 7,751,180 | 2.54 | 7.08 | 1,162,421 |

| | | | | |
|-----------------------------|-----------|------|------|-----------|
| Exercised | (72,300) | 0.85 | | |
| Expired | (45,000) | 3.05 | | |
| Outstanding, March 31, 2012 | 7,633,880 | 2.55 | 6.87 | 3,165,785 |
| Exercisable, March 31, 2012 | 7,152,380 | 2.60 | 6.68 | 2,862,440 |

A summary of the status of the Company's non-vested stock options outstanding as of December 31, 2011, and changes during the three months ended March 31, 2012 is presented below:

| Non-vested stock options | Number of Options | Weighted Average Grant Date Fair Value \$ |
|--|----------------------|---|
| Non-vested at December 31, 2011 and March 31, 2012 | 481,500 | 1.37 |

As at March 31, 2012, there was \$560,788 of unrecognized compensation cost related to non-vested stock option agreements. This cost is expected to be recognized over a weighted average period of 1.70 years.

Uranerz Energy Corporation
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
March 31, 2012
(Expressed in US dollars)
(Unaudited)

12. Stock Purchase Warrants

On August 13, 2010, the Company issued warrants to purchase 2,000,000 shares of common stock to a third party in exchange for the acquisition of intellectual property related to certain uranium prospects. Each warrant entitles the holder to acquire one common share of the Company for \$3.00. The warrants have a four year term and vest as to 25% in July 2010, 2011, 2012 and 2013, respectively. (Refer to Note 6(k)). None of these warrants have been exercised as at March 31, 2012.

13. Shareholder Rights Plan

The Company has adopted a Shareholder Rights Plan (the "Plan") effective August 25, 2010. The Plan confers one right per share to shareholders (a "Right") for each of the Company's outstanding shares of common stock, as at August 25, 2010 and for shares of common stock issued thereafter. Each Right will be evidenced by the Company's shares of common stock and will trade with the Company's shares of common stock. Under the terms of the Plan, the Rights separate and become exercisable upon a flip-in event: A flip-in event occurs if a person or group acquires 20% or more of the Company's common stock other than through a take-over bid which meets certain requirements, among them that the take-over bid offer be extended to all shareholders, that it remain open for 60 days, and that it receive approval of not less than 50% of independent shareholders. If a flip-in event occurs as described in the Plan, the Rights entitle the holder of each Right to purchase, for \$8.75 per share (the exercise price), that number of shares of common stock of the Company which has a market value of twice the exercise price, subject to certain adjustments as provided under the Plan. The Plan is effective for a three-year period.

14. Commitments

- a) The Company has employment or consulting services agreements with each of its executives. Officers with contracts for services have notice requirements which permit pay in lieu of notice and all officers are due a termination payment following a change in control of the Company.
- b) On September 18, 2008, the Company signed two mining lease agreements which require ten annual payments of \$75,000. The first four payments have been made. Refer to Note 6(g).
- c) Refer to Note 9 for commitments pertaining to mineral property reclamation surety deposits.
- d) On May 1, 2009, the Company agreed to pay an estimated cost of \$202,987, subsequently revised to \$215,298, for the Nichols Ranch Power Line Extension Project. As at March 31, 2012, \$50,708 for engineering and design has been incurred and recorded as an expense and \$164,590 has been paid as a deposit which will be reclassified as the Project is completed.
- e) On May 19, 2010, the Company signed an office premises lease for a period of three years commencing September 1, 2010. Rent is approximately \$50,604 (Cdn\$50,604) per annum.
- f) On February 14, 2012 the Company signed an office lease for a primary term of two years, February 1, 2012 and ending January 31, 2014. Rent consideration is \$141,258 per annum. The lease agreement may

be renewed for two additional years.

- g) The Company is party to a processing agreement under which it is committed to minimum annual payments of \$450,000 for each of the years 2013, 2014 and 2015.
- h) The Company is committed under two sales agreements to supply triuranium octoxide (U₃O₈) over a five year period. One sales agreement has defined pricing each year and the second agreement has pricing which contains market referenced price, with combined spot and long term indicators, to set the sales price.
- i) At March 31, 2012 the Company has construction purchase orders outstanding for approximately \$4,100,000.

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Uranerz Energy Corporation
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
March 31, 2012
(Expressed in US dollars)
(Unaudited)

15. Segment Disclosures

The Company has two operating segments both involving the acquisition and exploitation of uranium and mineral resources. These operating segments consist of the Arkose Mining Venture (Arkose) and the Company's remaining operations.

Factors used to identify the Company's reportable segments include the organizational structure of the Company and the financial information available for evaluation by the chief operating decision-maker in making decisions about how to allocate resources and assess performance. The Company's operating segments have been broken out based on similar economic and other qualitative criteria. The Company operates both reporting segments in one geographical area, the United States.

The Chief Executive Officer is the Company's Chief Operating Decision Maker (CODM) as defined by ASC 280, *Segment Reporting*. The CODM allocates resources and assesses the performance of the Company based on the results of operations.

Financial statement information by operating segment is presented below:

| | March 31, 2012 | | | December 31, 2011 | | |
|--------|----------------|---------------|--------------|-------------------|---------------|--------------|
| | Total \$ | Uranerz \$ | Arkose \$ | Total \$ | Uranerz \$ | Arkose \$ |
| Assets | 47,941,664 | 47,297,406 | 644,258 | 48,648,543 | 47,986,464 | 662,079 |

| | For the Three Months Ended March 31, 2012 | | | For the Three Months Ended March 31, 2011 | | |
|------------------|---|---------------|--------------|---|---------------|--------------|
| | Total \$ | Uranerz \$ | Arkose \$ | Total \$ | Uranerz \$ | Arkose \$ |
| Net Loss | (1,706,920) | (1,592,497) | (114,423) | (5,182,671) | (5,062,772) | (119,899) |
| Interest revenue | 16,134 | 16,134 | | 96,394 | 96,394 | |
| Depreciation | (59,124) | (59,124) | | (54,718) | (54,718) | |
| Accretion | (5,816) | (5,816) | | | | |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This quarterly report contains "forward-looking-statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements concern our anticipated results and developments in our operations in future periods, planned exploration and, if warranted, development of our properties, plans related to our business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "believes", "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- risks related to our limited operating history;
- risks related to the probability that our properties contain reserves;
- risks related to our past losses and expected losses in the near future;
- risks related to our need for qualified personnel for exploring for, starting and operating a mine;
- risks related to our lack of known reserves;
- risks related to the fluctuation of uranium prices;
- risks related to demand for uranium;
- risks related to environmental laws and regulations and environmental risks;
- risks related to using our in-situ recovery mining process;
- risks related to exploration and, if warranted, development of our properties;
- risks related to our ability to acquire necessary mining licenses or permits;
- risks related to our ability to make property payment obligations;
- risks related to the competitive nature of the mining industry;
- risks related to our dependence on key personnel;
- risks related to requirements for new personnel;
- risks related to securities regulations;
- risks related to stock price and volume volatility;
- risks related to dilution;
- risks related to our lack of dividends;
- risks related to our ability to access capital markets;
- risks related to security of our cash and investments;
- risks related to our issuance of additional shares of common stock;
- risks related to acquisition and integration issues; and
- risks related to defects in title to our mineral properties.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the section titled "Risk Factors" contained in our annual report on Form 10-K for the year ended December 31, 2011 and filed with the Securities and Exchange Commission on March 14, 2012. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those

anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by law.

General

We are a U.S.-based uranium company focused on achieving near-term commercial in-situ recovery (ISR) uranium production. ISR is a mining process that uses a leaching solution to dissolve uranium from sandstone uranium deposits; it is the generally accepted extraction technology used in the Powder River Basin area of Wyoming. Our management team has specialized expertise in the ISR uranium mining method, and a record of licensing, constructing, and operating ISR uranium projects.

We control a large strategic land position in the Pumpkin Buttes Uranium Mining District of the central Powder River Basin of Wyoming, U.S.A. and continually investigate other uranium opportunities as they arise. We are principally focused on the development of our properties in the Powder River Basin area into commercial ISR uranium mines. Our plan of operations is to bring two properties into production, the Nichols Ranch and Hank units, together referred to as the Nichols Ranch ISR Uranium Project, and continue the exploration and development of our other Wyoming Powder River Basin properties.

A third project is in the license application preparation stage. In March 2010, we commenced preparation of the environmental permit and license applications for the Jane Dough unit, which is adjacent to the area currently being developed at the Nichols Ranch unit and will share its infrastructure. Jane Dough includes the Doughstick, South Doughstick and North Jane properties. Additional units may be added as we assess our geological data.

In August 2011 we began construction of our Nichols Ranch ISR Uranium Project with a target completion date of late 2012. Construction of the processing facility and installation of the environmental monitor and production wells for the first wellfield of the Nichols Ranch unit are ongoing. We are also pursuing activities necessary to obtain the final authorizations needed to commence production at this facility when complete. The mine plan for the Nichols Ranch ISR Uranium Project includes the facility at Nichols Ranch as well as a second ion exchange uranium concentrating facility at our Hank unit.

In November 2011 we signed a processing agreement with Cameco Resources (Cameco), a wholly-owned Wyoming subsidiary of Cameco Corporation, the world's largest publicly-traded uranium company. Under the agreement we will deliver uranium-loaded resin produced from the Company's Nichols Ranch ISR Uranium Project to Cameco's Smith Ranch Highland uranium mine for final processing into dried uranium concentrate packaged for shipping to a converter. Cameco's Smith Ranch Highland mine is located in the Powder River Basin approximately 25 air miles south of Uranerz's Nichols Ranch ISR Uranium Project. The Jane Dough unit is also compatible with this plan.

In anticipation of receiving the final regulatory approvals necessary to begin production, we commenced a marketing program for conditional sales of uranium from our Nichols Ranch ISR Uranium Project. In July of 2009 we announced that we entered into a sales agreement with Exelon Generation Company, LLC for the sale of uranium over a five year period at defined pricing. In August of 2009 we announced our second contract for the sale of uranium to a U.S. utility, also over five years, with a pricing structure that contains references to both spot and long-term prices and includes floor and ceiling prices. These long-term contracts for the sale of uranium are with two of the largest nuclear utilities in the U.S. These two agreements do not individually represent a substantial portion of our targeted uranium production and our business is not substantially dependent on these agreements.

Our Powder River Basin properties include:

- our 100% owned properties that totaled 25,261 acres as of March 31, 2012; and
-

- our 81% interest in Arkose Mining Venture properties that totaled 62,005 acres as of March 31, 2012.

Our 100% owned properties are comprised of unpatented mineral lode claims, state leases and fee (private) mineral leases, summarized as follows:

| Property Composition | Ownership Interest ⁽¹⁾ | Number of Claims/ | |
|-------------------------------|-----------------------------------|-------------------|---------------|
| | | Leases | Acreage |
| Unpatented Lode Mining Claims | 100% | 839 | 16,780 |
| State Leases | 100% | 6 | 5,840 |
| Fee (private) Mineral Leases | 100% | 41 | 2,641 |
| Total | | | 25,261 |

(1) Subject to various royalties.

Our 100% owned properties in the Powder River Basin include the following property units:

| Property | No. Claims | Acreage |
|-------------------|------------|---------------|
| Jane Dough | 22 | 440 |
| Collins Draw | 32 | 640 |
| North Rolling Pin | 54 | 1,080 |
| Hank | 66 | 1,320 |
| Nichols Ranch | 36 | 720 |
| Willow Creek | 11 | 220 |
| West North-Butte | 125 | 2,500 |
| East Nichols | 44 | 880 |
| North Nichols | 107 | 2,140 |
| Reno Creek | 13 | 260 |
| TOTAL | 510 | 10,200 |

The Arkose Mining Venture properties are comprised of unpatented lode mining claims, state leases and fee (private) mineral leases, summarized as follows:

| Property Composition | Ownership Interest ⁽¹⁾ | Number of Claims/ | |
|-------------------------------|-----------------------------------|-------------------|---------------|
| | | Leases | Acreage |
| Unpatented Lode Mining Claims | 81% | 2,641 | 43,207 |
| State Leases | 81% | 3 | 2,080 |
| Fee (private) Mineral Leases | 81% | 65 | 16,718 |
| Total | | | 62,005 |

(1) Subject to various royalties.

Through a combination of claim staking, purchasing and leasing, we have also acquired interests in projects that lie within the Powder River Basin but outside of the project areas discussed above. These additional properties include the Arvina, Verna Ann and Niles Ranch projects. However, due to our focus on other projects, we have not yet made any decisions on these projects.

Information regarding the location of and access to our 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, 2011 under the heading "Description of Properties", previously filed with the Securities and Exchange Commission on March 14, 2012.

During the first quarter of 2012 we:

- Continued construction of the Nichols Ranch production facility;
- Installed 80 production wells at Nichols Ranch;
- Completed integrity testing of all Production Area 1 monitor wells;
- Finalized electrical power delivery arrangements;
- Hired five new employees for wellfield development at Nichols Ranch;
- Hired plant and laboratory personnel;
- Commenced construction and installation of well head equipment;
- Continued preparation of permit applications for a third mining unit;
- Issued 72,300 shares of common stock pursuant to the exercise of stock options, for proceeds of \$61,359; and
- Participated in multiple investor relations presentations.

Financial Position

The Company's overall financial position is disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 14, 2012 and the unaudited consolidated Financial Statements at March 31, 2012 as provided herein under the section heading "Financial Statements" above.

Liquidity and Capital Resources

We are carrying out an exploration, environmental and mine development program with a budget of approximately \$26,000,000 in 2012 as reported in Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2011 under the heading "Description of Properties", previously filed with the Securities and Exchange Commission.. This plan targets completion of our Nichols Ranch unit in late 2012, with production commencing shortly thereafter. Mineral property acquisitions, dependent upon opportunities that may arise, will be additional expenditures. During the three months ended March 31, 2012, operational expenditures incurred were \$1,723,054 and \$5,093,328 of cash was invested in capital assets.

At March 31, 2012 we had cash and short-term securities of \$27,577,410 and working capital of \$25,202,084, as compared to cash and short term securities of \$34,644,745 and working capital of \$32,759,869 as at December 31, 2011. Our cash is invested in bank guaranteed savings accounts which are available on demand.

Net cash used in operating activities was \$2,035,366 for the three months ended March 31, 2012, compared to \$2,091,839 for the corresponding period in 2011, substantially unchanged. Net cash used to purchase property and equipment was \$5,093,328 for the three months ended March 31, 2012, compared to \$404,899 used in the corresponding period in 2011. Asset acquisitions for the Nichols Ranch ISR Uranium Project accounted for most of the 2012 investment in property and equipment.

Net cash provided by financing activities amounted to \$61,359 for the three months ended March 31, 2012, from proceeds of issuance of common stock on the exercise of options, compared to \$13,428,403 provided in the corresponding period in 2011. The decrease is attributable to the issuance of 5,430,341 fewer shares of common stock in 2012.

During the twelve-month period following the date of this quarterly report, we may begin to generate a modest amount of revenue, depending on when production commences. The Nichols Ranch ISR Uranium Project is expected to incur additional expenditures of approximately \$17 million before it is ready for production by late 2012. 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 drilling 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, permitting time line and available capital. Further, the extent of exploration programs that we undertake will be partially dependent upon the amount of financing available to us.

We believe we have sufficient cash to complete the construction of the Nichols Ranch ISR Uranium Project. The extent of our future exploration activities will be scaled to the resources we have available. Depending on when we commence production, we may require additional resources to meet ongoing operating expenses over the next twelve months. To date, our primary source of funds has been equity investments. We anticipate that any additional funding required may be in the form of equity or debt financing from the sale of our common stock or debt securities, depending on capital markets, from production financing when we are in production, from loan arrangements, or from the exercise of share purchase options.

Our current short term investments have not been devalued by the current stock market disruptions as these investments are primarily in low risk bearer deposit notes issued and guaranteed by Canadian Chartered Banks. Rates of return, however, are at historic lows. 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 March 31, 2012 compared to three-month period ended March 31, 2011

Revenue and Operating Expenses

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

We incurred total operating expenses of approximately \$1,723,054 for the three-month period ended March 31, 2012, as compared to \$5,357,104 for the corresponding period in 2011. The decrease of operating expenses in the amount of \$3,634,050 was primarily attributable to a \$2,772,399 decrease in stock-based compensation, and by a decrease in other general and administration expenses of \$811,809.

We had no significant financing expenses for the three-month periods ended March 31, 2012 and 2011. Our interest income of \$16,134 for the three-month period ended March 31, 2012 was comparable to 2011 after adjusting for a bank error corrected in the second quarter of 2011. This income resulted from short-term investments which are periodically adjusted to market.

Net loss for the three-month period ended March 31, 2012 was approximately \$1,646,894, as compared to approximately \$5,182,672 for the corresponding period in 2011.

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 are material to stockholders except as disclosed in the unaudited Financial Statements at March 31, 2012. The Company has had no material changes to its off-balance sheet arrangements as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 14, 2012 and the unaudited Financial Statements at March 31, 2012 as provided herein under the section heading "Financial Statements" above.

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 with the objective of extracting minerals from these properties.

Mineral property exploration costs are expensed as incurred. Costs for acquired mineral property databases are similarly expensed upon acquisition. Capitalization of mine development costs that meet the definition of an asset commence once all operating mineralization is classified as proven and probable reserves, and a bankable feasibility study has been completed or the Company determines that a mine will be developed.

Mineral property acquisition costs are expensed as incurred if the criteria for capitalization are not met and unless the Company determines a property can be economically developed as a result of establishing proven and probable reserves, a bankable feasibility study and reasonably securing all operating permits. In the event that a mineral property is acquired through the issuance of the Company's shares, the mineral property is recorded at the fair value of the respective property or the fair value of common shares and other instruments issued, 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, shares, or other instruments are recorded only when the Company has made or is obliged to make the payment or issue the shares or instruments.

As of March 31, 2012, the Company has capitalized mineral property construction in progress expenditures of \$15,882,088 (December 31, 2011 - \$9,754,067). During the three months ended March 31, 2012, mineral property expenditures totaling \$237,787 (2011 - \$289,738) were expensed.

Restoration and Reclamation Costs (Asset Retirement Obligations)

United States regulatory authorities require the Company to restore and reclaim its mine area after mining is completed. Pursuant to ASC 410, *Asset Retirement and Environmental Obligations*, the fair value of asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Upon initial recognition of a liability, the fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. Future reclamation and remediation costs are accrued based on management's best estimate at the end of each period of the costs expected to be incurred at each project.

Estimations and assumptions involved in using the expected present value technique to determine fair values are reviewed periodically.

Contractual Obligations

The Company has had no material changes to its contractual obligations as disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2012 and the unaudited Financial Statements at March 31, 2012 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 Controls 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 CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During our most recently completed fiscal quarter ended March 31, 2012, 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:

- (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 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 14, 2012.

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

During the quarter ended March 31, 2012, no unregistered securities were sold.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine safety Disclosure

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States, and that is subject to regulation by the Federal Mine Safety and Health Administration under the Mine Safety and Health Act of 1977 (Mine Safety Act), are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the quarter ended March 31, 2012, the Company s mineral properties were not subject to regulation by the Federal Mine Safety and Health Administration under the Mine Safety Act.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit

Number Description

| | |
|-----|---|
| 3.1 | Articles of Incorporation ⁽¹⁾ |
| 3.2 | Bylaws, as amended ⁽¹⁾ |
| 3.3 | Articles of Amendment filed July 5, 2005 ⁽²⁾ |
| 3.4 | Articles of Amendment filed August 8, 2008 ⁽³⁾ |
| 3.5 | Articles of Amendment filed July 8, 2009 ⁽⁴⁾ |
| 3.6 | Articles of Amendment filed August 8, 2011 ⁽⁵⁾ |
| 4.1 | Share Certificate ⁽¹⁾ |

| | |
|---------|---|
| 4.2 | Form of Lock-up Agreement ⁽⁶⁾ |
| 4.3 | Warrant Indenture, dated October 27, 2009 ⁽⁷⁾ |
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act</u> |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act</u> |
| 32.1 | <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> |
| 32.2 | <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> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculations |
| 101.DEF | XBRL Taxonomy Extension Definitions |
| 101.LAB | XBRL Taxonomy Extension Labels |

- (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
- (4) Previously filed as an exhibit to the Registrant s Form S-3 filed July 9, 2009
- (5) Previously filed as an exhibit to the Registrant s Form 8-K, filed August 12, 2011
- (6) Previously filed as an exhibit to the Registrant s Form 8-K, filed October 22, 2009
- (7) Previously filed as an exhibit to the Registrant s Form 8-K, filed October 27, 2009

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

URANERZ ENERGY CORPORATION

By: /s/ Benjamin Leboe

By: /s/ Glenn Catchpole

Benjamin Leboe, Senior Vice President, Finance and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Glenn Catchpole, President and Chief Executive
Officer, Director
(Principal Executive Officer)

Date: May 9, 2012

Date: May 9, 2012
