

Limelight Networks, Inc.  
Form 10-Q  
May 08, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

**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 001-33508

**LIMELIGHT NETWORKS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**20-1677033**  
*(I.R.S. Employer  
Identification No.)*

**222 South Mill Avenue, 8<sup>th</sup> Floor**

**Tempe, AZ 85281**

*(Address of principal executive offices, including Zip Code)*

**(602) 850-5000**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (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

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to such filing requirements for the past 90 days. Yes  No

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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

The number of shares outstanding of the registrant's common stock as of May 2, 2012: 104,240,968 shares.

**Table of Contents**

**LIMELIGHT NETWORKS, INC.**

**FORM 10-Q**

**Quarterly Period Ended March 31, 2012**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
ITEM 1. <u>FINANCIAL STATEMENTS (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended March 31, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements for the Three Months Ended March 31, 2012 and 2011</u>	7
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	20
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	32
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	32
<b><u>PART II. OTHER INFORMATION</u></b>	<b>33</b>
ITEM 1. <u>LEGAL PROCEEDINGS</u>	33
ITEM 1A. <u>RISK FACTORS</u>	33
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	48
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	49
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	49
ITEM 5. <u>OTHER INFORMATION</u>	49
ITEM 6. <u>EXHIBITS</u>	50
<u>SIGNATURES</u>	51
<u>EXHIBIT INDEX</u>	52

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)****(Unaudited)**

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 108,733	\$ 120,349
Marketable securities	27,914	19,850
Accounts receivable, net	27,339	28,045
Deferred income taxes	53	62
Income taxes receivable	80	31
Prepaid expenses and other current assets	15,179	20,646
Total current assets	179,298	188,983
Property and equipment, net	52,903	56,368
Marketable securities, less current portion	40	51
Deferred income tax, less current portion	1,273	1,177
Goodwill	80,304	80,105
Other intangible assets, net	8,598	9,207
Other assets	12,239	10,454
Total assets	\$ 334,655	\$ 346,345
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,519	\$ 6,797
Deferred revenue	7,903	7,287
Capital lease obligations	1,741	1,750
Income taxes payable	287	774
Other current liabilities	12,393	13,195
Total current liabilities	25,843	29,803
Capital lease obligations, less current portion	1,697	2,124
Deferred income tax	566	580
Deferred revenue, less current portion	696	539
Other long-term liabilities	3,687	4,194
Total liabilities	32,489	37,240
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding	104	104

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Common stock, \$0.001 par value; 300,000 shares authorized at March 31, 2012 and December 31, 2011; 104,245 and 104,349 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively		
Additional paid-in capital	463,579	460,845
Contingent consideration	110	219
Accumulated other comprehensive (loss) income	(67)	(509)
Accumulated deficit	(161,560)	(151,554)
Total stockholders' equity	302,166	309,105
Total liabilities and stockholders' equity	\$ 334,655	\$ 346,345

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**Table of Contents****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenues	\$ 44,316	\$ 41,403
Cost of revenue:		
Cost of services (1)	20,501	19,608
Depreciation network	6,829	6,657
Total cost of revenue	27,330	26,265
Gross profit	16,986	15,138
Operating expenses:		
General and administrative	8,320	6,611
Sales and marketing	11,632	10,798
Research and development	5,166	3,691
Depreciation and amortization	1,398	551
Total operating expenses	26,516	21,651
Operating loss	(9,530)	(6,513)
Other income (expense):		
Interest expense	(50)	(36)
Interest income	106	184
Other, net	(86)	3
Total other (expense) income	(30)	151
Loss from continuing operations before income taxes	(9,560)	(6,362)
Income tax provision	137	138
Loss from continuing operations	(9,697)	(6,500)
Discontinued operations:		
Loss from discontinued operations, net of income taxes	(309)	(3,318)
Net loss	\$ (10,006)	\$ (9,818)
Basic net loss per weighted average share:		
Continuing operations	\$ (0.09)	\$ (0.06)
Discontinued operations	(0.01)	(0.03)
Total	\$ (0.10)	\$ (0.09)
Diluted net loss per weighted average share:		

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Continuing operations	\$ (0.09)	\$ (0.06)
Discontinued operations	(0.01)	(0.03)
Total	\$ (0.10)	\$ (0.09)
Shares used in per weighted average share calculations:		
Basic	104,226	103,917
Diluted	104,226	103,917

- (1) Cost of services excludes amortization related to intangibles, including existing technologies, customer relationships, and trademarks, which are included in depreciation and amortization

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**Table of Contents**

**LIMELIGHT NETWORKS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(In thousands, except per share data)**

**(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net loss	\$ (10,006)	\$ (9,818)
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on investments	(15)	134
Cumulative translation adjustment		494
Foreign exchange translation	457	711
Discontinued operations		81
Other comprehensive income, net of tax	442	1,420
Comprehensive loss	\$ (9,564)	\$ (8,398)

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**Table of Contents****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net loss	\$ (10,006)	\$ (9,818)
Loss from discontinued operations	(309)	(3,318)
Net loss from continuing operations	(9,697)	(6,500)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	8,227	7,208
Share-based compensation	3,951	3,833
Deferred income taxes	(112)	(79)
Accounts receivable charges	426	233
Accretion of marketable securities	99	49
Non cash increase in cost basis investment	(374)	(73)
Changes in operating assets and liabilities:		
Accounts receivable	280	1,160
Prepaid expenses and other current assets	5,478	(909)
Income taxes receivable	(35)	(125)
Other assets	(2,130)	(3,941)
Accounts payable	(625)	(833)
Deferred revenue	774	(775)
Other current liabilities	(1,246)	(1,923)
Income taxes payable	(500)	(51)
Other long term liabilities	(508)	84
Net cash provided by (used in) operating activities of continuing operations	4,008	(2,642)
<b>Investing activities</b>		
Purchase of marketable securities	(15,469)	(1,410)
Maturities of marketable securities	7,303	6,970
Purchases of property and equipment	(5,680)	(7,973)
Net cash used in investing activities of continuing operations	(13,846)	(2,413)
<b>Financing activities</b>		
Payments on capital lease obligations	(436)	(227)
Payment of employee tax withholdings related to restricted stock	(259)	(234)
Cash paid for purchase of common stock	(1,161)	
Proceeds from exercise of stock options	118	415
Proceeds from secondary public offering, net		77,169
Net cash (used in) provided by financing activities of continuing operations	(1,738)	77,123
Effect of exchange rate changes on cash and cash equivalents	(40)	234

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**Discontinued operations**

Cash used in operating activities of discontinued operations		(1,111)
Cash used in investing activities of discontinued operations		(77)

Net cash used in discontinued operations		(1,188)
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Net (decrease) increase in cash and cash equivalents	(11,616)	71,114
Cash and cash equivalents, beginning of period	120,349	54,861

Cash and cash equivalents, end of period	\$ 108,733	\$ 125,975
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**Supplement disclosure of cash flow information**

Cash paid during the period for interest	\$ 51	\$ 36
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Cash paid during the period for income taxes	\$ 790	\$ 492
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Property and equipment remaining in accounts payable and other current liabilities	\$ 1,439	\$ 2,959
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Property and equipment acquired through leasehold incentives	\$	\$ 2,361
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Contingent consideration common stock issued in connection with acquisition of businesses	\$ 109	\$ 1,404
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*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

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**Table of Contents**

**LIMELIGHT NETWORKS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Business**

Limelight Networks, Inc. (the Company) operates a globally distributed, high-performance computing platform (the global computing platform) upon which it provides an integrated suite of services including content delivery services, web content management services, video content management services, web acceleration services, mobility and monetization services, cloud storage services and related consulting services. The Company's web content management and video content management services are provided as Software as a Service (SaaS) solutions, its cloud storage services and content delivery services are provided as a Platform as a Service (PaaS) solutions and the Company sometimes refers to all of these integrated services and solutions (other than content delivery services) collectively as its value-added services (VAS). These integrated services are provided in the cloud and are supported by Limelight's global computing platform, which provides highly-available, highly-redundant storage, bandwidth and computing resources as well as connectivity to last-mile broadband network providers. The Company's scalable cloud solutions improve the quality of online media and content, accelerate the performance of web applications, enable secure online transactions and manage and monetize digital assets. The Company also offers other platform and infrastructure services, such as transit and rack space services. The Company operates in one industry segment. The Company's services enable businesses to build and manage their digital presence across Internet, mobile and social channels by delivering a high quality experience to their audiences on mobile and connected devices, enabling them to enhance their brand presence, build stronger customer relationships, manage web content and video assets, analyze viewer preferences, optimize their advertising, and monetize their digital assets. The Company provides its services to entities that the Company believes view Internet, mobile and social initiatives as critical to their success, including traditional and emerging media companies, or content publishers, including businesses operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries, as well as enterprises, technology companies, and government entities conducting business online.

The Company has operated in the Phoenix metropolitan area since 2001 and elsewhere throughout the United States since 2003. The Company began international operations in 2004.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, consistent in all material respects with those applied in its financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that in the opinion of management are necessary for the fair presentation of the interim periods presented. The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or for any future periods. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The condensed consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. In addition, certain other reclassifications have been made to prior year amounts to conform to the current year presentation.

On September 1, 2011, the Company completed the sale of its EyeWonder LLC and subsidiaries and chors GmbH video and rich media advertising services (EyeWonder and chors) to DG FastChannel, Inc. (DG) (now Digital Generation, Inc.). The sale of EyeWonder and chors met the criteria for discontinued operations during the year ended December 31, 2011. Accordingly, the results of operations related to EyeWonder and chors have been classified as discontinued operations in all periods presented. See further discussion at Note 5.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results and outcomes may differ from those estimates.

***Recent Accounting Pronouncements***

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As of January 1, 2012, the Company adopted Accounting Standards Update (ASU) 2011-04 related to guidance associated with fair value measurements and disclosures. This ASU clarifies the Financial Accounting Standards Board's (FASB) intent on current guidance, modifies and changes certain guidance and principles, and expands disclosures concerning Level 3 fair value measurements

**Table of Contents**

in the fair value hierarchy (including quantitative information about significant unobservable inputs within Level 3 of the fair value hierarchy). In addition, this ASU requires disclosure of the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position, but whose fair value is required to be disclosed. Adoption of this new guidance did not have a material impact on the Company's financial statements.

As of January 1, 2012, the Company adopted ASU 2011-05 related to guidance on the presentation of comprehensive income. The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This ASU requires an entity to present the components of net income and other comprehensive income and total comprehensive income (includes net income) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity, but does not change the items that must be reported in other comprehensive income. This ASU is effective January 1, 2012, the Company will present total comprehensive income in a separate statement. Additionally, in December 2011, FASB deferred the effective date for the requirement in this ASU for presenting reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements.

As of January 1, 2012, the Company adopted ASU 2011-08 related to the testing of goodwill for impairment. The objective of this ASU is to simplify goodwill impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis that exists today is necessary. The ASU permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The ASU was effective for the Company beginning January 1, 2012. Adoption of this new guidance did not have a material impact on the Company's financial statements.

**3. Investments in Marketable Securities**

The following is a summary of marketable securities (designated as available-for-sale) at March 31, 2012 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 12,721	\$ 2	\$ 1	\$ 12,722
Certificate of deposit	2,738			2,738
Commercial paper	1,247			1,247
Corporate notes and bonds	11,211	1	5	11,207
	27,917	3	6	27,914
Publicly traded common stock	12	28		40
<b>Total marketable securities</b>	<b>\$ 27,929</b>	<b>\$ 31</b>	<b>\$ 6</b>	<b>\$ 27,954</b>

At March 31, 2012, the Company evaluated its marketable securities, and noted unrealized losses of approximately \$0.06 million were due to fluctuations in interest rates. Management does not believe any of the unrealized losses represented an other-than-temporary impairment based on its evaluation of available evidence as of March 31, 2012. The Company's intent is to hold these investments to such time as these assets are no longer impaired. There have been no marketable securities in a continuous unrealized loss position for twelve months or longer.

Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

The amortized cost and estimated fair value of marketable securities at March 31, 2012, by maturity, are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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Available-for-sale debt securities				
Due in one year or less	\$ 24,284	\$ 2	\$ 5	\$ 24,281
Due after one year and through five years	3,633	1	1	3,633
	\$ 27,917	\$ 3	\$ 6	\$ 27,914

**Table of Contents**

The following is a summary of marketable securities (designated as available-for-sale) at December 31, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 9,614	\$ 1	\$ (1)	\$ 9,614
Certificate of deposit	2,730			2,730
Commercial paper	1,749			1,749
Corporate notes and bonds	5,757	1	(1)	5,757
	19,850	2	(2)	19,850
Publicly traded common stock	12	39		51
Total marketable securities	\$ 19,862	\$ 41	\$ (2)	\$ 19,901

The amortized cost and estimated fair value of marketable securities at December 31, 2011, by maturity, are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities				
Due in one year or less	\$ 19,850	\$ 2	\$ (2)	\$ 19,850
Due after one year and through five years				
	\$ 19,850	\$ 2	\$ (2)	\$ 19,850

**4. Business Acquisitions*****AcceloWeb, (IL) Ltd. Acquisition***

On May 9, 2011, the Company acquired all the issued and outstanding shares of AcceloWeb, (IL) Ltd. (AcceloWeb), a Tel Aviv, Israel-based privately-held provider of advanced technology that helps speed the presentation of websites and applications. The services provided by AcceloWeb align with the Company's current whole site acceleration strategy, providing a time to market advantage over development of a new product and furthers the Company's value-added services growth strategy. The aggregate purchase price consisted of approximately \$5.0 million of cash paid at the closing (cash paid net of cash acquired was \$4.7 million) and 1,100,629 shares of the Company's common stock with an estimated fair value of approximately \$7.0 million on the acquisition date. The number of common shares issued at the closing was determined on the basis of the average closing market price of the Company's common shares on the five days preceding the acquisition date. In addition, the purchase price included contingent consideration with an aggregate potential value of \$8.0 million (\$4.0 million payable in cash and \$4.0 million payable in the Company's common stock), which may be earned upon the achievement of certain performance milestones which will be measured quarterly during the eight full consecutive quarters ending June 30, 2013 (the Earn-Out).

During the quarter ended March 31, 2012, management determined that the achievement of certain performance milestones were not probable and reversed the previously recorded earn-out liability of \$0.8 million. The reversal has been reflected as a reduction to general and administrative expense in the accompanying condensed consolidated statement of operations.

Under the terms of the merger agreement, 188,677 shares of the common stock portion of the purchase price with an estimated fair value on the acquisition date of approximately \$1.2 million has been set aside in an escrow account and will be held for a period of up to 18 months following the closing date to satisfy any unresolved indemnification claims. Any potential claims will be settled from escrow with the number of shares of common stock calculated based on the amount of the claim divided by \$6.36, adjusted to such number of shares of common stock for stock splits, reverse stock splits, spin offs, recapitalizations, reorganization, reclassification, stock dividends, or similar events. Escrow amounts not then subject to a settled or pending, unsatisfied or unresolved indemnity claims, will be released as soon as practicable following the end of the 18-month escrow period. The Company has not recognized any indemnification assets as of March 31, 2012.

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For additional information and a more detailed description of the AcceloWeb acquisition, please see Note 4, contained in the Company's 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 with the SEC on March 2, 2012.

**Table of Contents*****Clickability Acquisition***

On May 2, 2011, the Company acquired all the issued and outstanding shares of Clickability, Inc. (Clickability), a privately-held SaaS provider of web content management located in San Francisco, California. The services provided by Clickability align with the Company's current value-added services and furthers the Company's value-added services growth strategy. The aggregate purchase price consisted of approximately \$4.9 million of cash paid at the closing (cash paid net of cash acquired was \$2.7 million), \$0.1 million held by the Company to cover future claims and 732,000 shares of the Company's common stock with an estimated fair value of approximately \$4.6 million on the date of acquisition. The Company issued 382,000 common shares with an estimated fair value of approximately \$2.4 million at the closing. The number of shares of common stock consideration for Clickability was determined on the basis of the average closing market price of the Company's common shares on the thirty days preceding the acquisition date.

Under the terms of the merger agreement, approximately 350,000 shares of the common stock portion of the purchase price with an estimated fair market value on the acquisition date of approximately \$2.2 million and \$0.1 million of cash will remain unissued and available to cover future claims. Approximately 60% of this amount is subject to an indemnification holdback and the remaining portion is subject to a retention holdback that has been set aside for a period of up to 12 months following the closing date. The indemnification holdback has been set aside for a period of up to 18 months following the closing date. Any potential claims will be settled from escrow with the number of shares of common stock calculated based on the amount of the claim divided by \$6.83, adjusted to such number of shares of common stock for stock splits, reverse stock splits, spin offs, recapitalizations, reorganization, reclassification, stock dividends, or similar events. Amounts of the indemnification holdback not then subject to a settled or pending indemnity claim will be released as soon as practicable following the end of the 18 month holdback period. The Company has not recognized any indemnification assets as of March 31, 2012.

For additional information and a more detailed description of the Clickability acquisition, please see Note 4, contained in the Company's 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 with the SEC on March 2, 2012.

**5. Discontinued Operations**

On September 1, 2011, the Company completed the sale of its EyeWonder and chors rich media advertising services to DG FastChannel, Inc. (DG) (now Digital Generation, Inc.) for net proceeds of \$61.0 million (\$66.0 million gross cash proceeds less \$5.0 million held in escrow) plus an estimated \$10.9 million receivable from DG pursuant to the Purchase Agreement dated as of August 30, 2011 by and among the Company, DG and Limelight Networks Germany GmbH. The \$5.0 million held in escrow is intended to cover DG's ordinary operating expenses associated with the integration of EyeWonder and chors. The Company estimates that it will not receive any portion of the funds held in escrow and has excluded such amount from its calculation of the gain on sale of discontinued operations. The Purchase Agreement also includes a provision that would require the Company to refund a portion of the purchase price equal to 1.67 times the amount that revenue related to a chors customer is below \$4.4 million during the period from September 1, 2011 to August 31, 2012. As of March 31, 2012, the Company has estimated that the revenue related to this customer will not be below \$4.4 million and has not recorded a liability related to this payment as it is not deemed probable. If such a payment is required the Company would record a reduction to the net proceeds on sale of EyeWonder and chors resulting in a loss on discontinued operations.

The \$10.9 million receivable from DG was determined by the Company based on estimated future cash payments equal to the excess of certain current assets over certain current liabilities of EyeWonder and chors as of August 30, 2011, as defined in the Purchase Agreement (the Net Working Capital). The Company has estimated the Net Working Capital based on its determination of the current assets and current liabilities in accordance with the relevant provisions of the Purchase Agreement. As of August 31, 2011, the estimated Net Working Capital related to EyeWonder and chors was comprised of the following (in thousands):

<b>Current assets</b>	
Cash and cash equivalents	\$ 2,677
Accounts receivable	9,643
Income tax receivables	500
Other current assets	528
<b>Total current assets</b>	<b>13,348</b>
<b>Current liabilities</b>	
Accounts payable and other current liabilities	(2,494)

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Net Working Capital	\$ 10,854
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Under the terms of the Purchase Agreement, prior to the Company receiving any cash payments from DG, the current liabilities must be settled with cash and cash equivalents and the value of the other current assets. As of August 31, 2011, the excess of the cash

**Table of Contents**

and cash equivalents and other current assets over the current liabilities was \$0.7 million, with this portion of the Net Working Capital payable to the Company. DG is required to pay the Company the remaining Net Working Capital as the accounts receivable of \$9.6 million and income tax receivable of \$0.5 million are collected. As of March 31, 2012 approximately \$7.2 million of the receivables have been collected by DG and must be remitted to the Company in accordance with the terms of the Purchase Agreement. During the three months ended March 31, 2012 the Company made certain adjustments totaling \$0.5 million to the receivable from DG which have been reflected as a charge to discontinued operations. As of March 31, 2012, approximately \$2.6 million of the Net Working Capital comprised of \$2.1 million of accounts receivable and \$0.5 million of income tax receivables remained uncollected. The Company has assessed the collectability of the accounts receivable and has recorded its estimate of the amount expected to be collected based on historical experience and the financial condition of the underlying customers. The Company's estimate of collectability could change significantly if the financial condition of the underlying customers changes or if the economy in general deteriorates. Changes to the Company's estimate of future cash payments will be reflected as an adjustment to income (loss) from discontinued operations. As of March 31, 2012, the receivable from DG was approximately \$4.9 million reflecting cash payments received from DG and other adjustments occurring during the three months ended March 31, 2012.

After 120 days from the closing of the sale of EyeWonder and Chors (the Receivables Collection Period), the Company and DG have the option to have the uncollected accounts receivable assigned to the Company. Following the expiration of the Receivables Collections Period, DG and the Company may mutually agree to extend the Receivables Collections Period in 60 day increments. As of March 31, 2012, DG and the Company had agreed to extend the Receivables Collection Period and the accounts receivable were not assigned to the Company.

The sale of EyeWonder and Chors meets the criteria to be reported as discontinued operations. Accordingly, the operating results of EyeWonder and Chors have been reclassified to discontinued operations in the accompanying condensed consolidated statements of operations. The Company includes only revenues and costs directly attributable to the discontinued operations, in determining income (loss) from discontinued operations, and not those attributable to the ongoing entity. Accordingly, no general corporate overhead costs have been allocated to discontinued operations. Operating results of discontinued operations for the three month periods ended March 31, 2012 and 2011, respectively, and the year ended December 31, 2011, are as follows (in thousands):

	Three Months Ended March 31,		Year Ended
	2012	2011	2011(a)
Revenues	\$	\$ 8,414	\$ 22,302
Cost of revenues		(3,147)	(8,843)
General and administrative expenses	147	(2,198)	(6,055)
Sales and marketing expenses		(3,096)	(8,183)
Research and development expenses		(1,927)	(4,853)
Depreciation and amortization		(1,404)	(3,761)
Interest expense		(6)	(16)
Interest income		3	21

Other income "1%"

style="TEXT-ALIGN: left">

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Loss
	Number of Shares	Par Value					
Balance, January 1, 2003 (pre-development stage)	135,801	\$ 136	\$ 434,962	\$ (449,785 )	\$ -	\$ (14,687 )	
Loss for the year - 2003	-	-	-	(422,516 )	-	(422,516 )	\$(422,516 )

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Shares issued in acquisition (ZNG)	14,286	14	(14 )	-	-	-
Balance, December 31, 2003	150,087	\$ 150	\$ 434,948	\$ (872,301 )	\$ -	\$ (437,203 )
Loss for the year - 2004	-	-	-	(833,567 )	-	(833,567 )
Foreign currency translation adjustment	-	-	-	-	(53,120)	(53,120 ) \$ (886,687 )
Shares issued in acquisition (ZNG)	49,286	49	749,951	-	-	750,000
Shares issued for professional services	715	1	9,999	-	-	10,000
Other	-	-	34,426	-	-	34,426
Balance, December 31, 2004	200,088	\$ 200	\$ 1,229,324	\$ (1,705,868)	\$ (53,120)	\$ (529,464 )
Loss for the year - 2005	-	-	-	(1,153,686)	-	(1,153,686)
Foreign currency translation adjustment	-	-	-	-	50,614	50,614 \$ (1,103,072)
Shares issued for professional services	5,500	6	198,208	-	-	198,214
Shares issued for accrued salaries	24,286	24	303,547	-	-	303,571
Warrants granted for professional services	-	-	310,000	-	-	310,000
Balance, December 31, 2005	229,874	\$ 230	\$ 2,041,079	\$ (2,859,554)	\$ (2,506 )	\$ (820,751 )
Loss for the year - 2006	-	-	-	(4,072,788)	-	(4,072,788)
Foreign currency translation adjustment	-	-	-	-	(1,939 )	(1,939 ) \$ (4,074,727)
Shares issued for employee stock option plan and warrants	2,786	3	45,497	-	-	45,500
Shares issued for geological data	27,143	27	3,324,973	-	-	3,325,000

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Shares issued for professional services	16,279	16	2,121,444	-	-	2,121,460
Warrants granted for professional services	-	-	1,201,960	-	-	1,201,960
Shares cancelled	(8,707 )	(9 )	9	-	-	-
Balance, December 31, 2006	267,375	\$ 267	\$ 8,734,962	\$ (6,932,342)	\$ (4,445 )	\$ 1,798,442

See accompanying notes.

F-4

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## SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

## Condensed Consolidated Statements of Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1, 2003 through June 30, 2011

	Common Stock Number of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Loss
Balance, December 31, 2006	267,375	\$267	\$8,734,962	\$(6,932,342 )	\$(4,445 )	\$1,798,442	
Loss for the year - 2007	-	-	-	(2,060,487 )	-	(2,060,487)	
Foreign currency translation adjustment	-	-	-	-	(9,804 )	(9,804 )	\$ (2,070,291 )
Shares issued for employee stock option plan and warrants	8,100	8	(8 )	-	-	-	
Shares issued for geological data	2,857	3	349,997	-	-	350,000	
Shares issued for accrued salaries	11,257	11	1,445,395	-	-	1,445,406	
Shares issued for licenses	28,571	29	1,319,971	-	-	1,320,000	
Shares issued for professional services	10,215	10	1,071,100	-	-	1,071,110	
Warrants granted for professional services	-	-	150,394	-	-	150,394	
Balance, December 31, 2007	328,375	\$328	\$13,071,811	\$(8,992,829 )	\$(14,249 )	\$4,065,061	

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Loss for the year - 2008	-	-	-	(5,863,560 )	-	(5,863,560)
Foreign currency translation adjustment	-	-	-	-	27,019	27,019 \$ (5,836,541 )
Shares issued for professional services and accrued salaries	2,213	2	41,748	-	-	41,750
Warrants granted for professional services	-	-	6,303	-	-	6,303
Shares issued for loan repayment and related interest	1,536	2	10,751	-	-	10,753
Balance, December 31, 2008	332,124	\$332	\$13,130,613	\$(14,856,389)	\$12,770	\$(1,712,674)
Loss for the year - 2009	-	-	-	(666,116 )	-	(666,116 )
Foreign currency translation adjustment	-	-	-	-	(19,714 )	(19,714 ) \$ (685,830 )
Shares issued for accrued salaries	858	1	3,599	-	-	3,600
Options vested to employees and directors	-	-	45,852	-	-	45,852
Balance, December 31, 2009	332,982	\$333	\$13,180,064	\$(15,522,505)	\$(6,944 )	\$(2,349,052)
Loss for the year - 2010	-	-	-	(579,251 )	-	(579,251 )
Foreign currency translation adjustment	-	-	-	-	(7,146 )	(7,146 ) \$ (586,397 )
	331,748	332	2,554,127	-	-	2,554,459

Shares issued for  
accounts payable  
and accrued  
salaries

Shares issued for  
accounts payable  
and accrued  
salaries

2,929	3	22,547	-	-	22,550
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Balance,  
December 31,  
2010

667,659	\$668	\$15,756,738	\$(16,101,756)	\$(14,090 )	\$(358,440 )
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See  
accompanying  
notes.

F-5

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## SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

## Condensed Consolidated Statements of Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1, 2003 through June 30, 2011

	Common Stock Number of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Loss
Balance, December 31, 2010	667,659	\$ 668	\$ 15,756,738	\$ (16,101,756)	\$ (14,090 )	\$ (358,440 )	
Loss for six months - 2011	-	-	-	(294,536 )	-	(294,536 )	
Foreign currency translation adjustment	-	-	-	-	24	24	\$ (294,512 )
Shares issued in acquisition (RMC)	65,200,000	65,200	24,058,800	-	-	24,124,000	
Shares issued for geological data	1,500,000	1,500	343,500	-	-	345,000	
Balance, June 30, 2011	67,367,659	\$ 67,368	\$ 40,159,038	\$ (16,396,292)	\$ (14,066 )	\$ 23,816,048	

See accompanying notes.

## SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Condensed Consolidated Statements of Cash Flows	For the cumulative period of Development Stage Activity- January 1, 2003 through June 30, 2011		
For the six months ended June 30,	2011	2010	
<b>Operating activities:</b>			
Net loss (development stage)	\$ (294,536 )	\$ (293,099 )	\$ (15,946,507)
Depreciation and amortization	-	335	105,397
Common stock and warrants issued for professional services and salaries and geological data	-	-	7,231,933
Gain from entrance into joint venture	-	-	(364,479 )
Loss on disposition of office furniture	623	-	1,652
Loss on sale of investment, including deconsolidation of subsidiary	-	-	823,692
Loss on deemed disposition of oil and gas properties, unproved	-	-	3,928,000
Impairment charge on investment	-	-	525,947
Changes in other current assets and current liabilities:			
Management fee receivable	-	-	110,000
Prepaid expenses and other assets	8,544	(17 )	(263,658 )
Accounts payable and accrued expenses	284,324	299,708	4,869,451
Net operating activities	(1,045 )	6,927	1,021,428
<b>Investing activities:</b>			
Expenditures for licenses and related	-	-	(528,961 )
Expenditures for oil and gas properties	-	-	(770,750 )
Expenditures for property and equipment	-	-	(6,244 )
Proceeds of disposition of office furniture	-	-	107
Loan to affiliate	-	-	(29,500 )
Cash received in acquisition	1,655	-	1,661
Cash received from entrance into joint venture	-	-	175,000
Net investing activities	1,655	-	(1,158,687 )
<b>Financing activities:</b>			
Net proceeds from demand loans	-	-	72,500
Common stock issued for employee stock option plan	-	-	45,500
Additional paid-in capital	-	-	34,426
Net financing activities	-	-	152,426

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Effect of exchange rates on cash	24	(7,173 )	(14,066 )
Net change in cash	634	(246 )	1,101
Cash - beginning	467	751	-
Cash - ending	\$ 1,101	\$ 505	\$ 1,101

See accompanying notes.

F-7

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation:

The accompanying unaudited consolidated financial statements of Siberian Energy Group Inc. (the “Company”) include the accounts of the Company and its 100% owned subsidiaries. These financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) interim reporting, and do not include all of the information and note disclosures required by generally accepted accounting principles. These consolidated financial statements and notes herein are unaudited, but in the opinion of management, include all the adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company’s financial positions, results of operations, and cash flows for the periods presented. Accounting policies used in fiscal 2011 are consistent with those used in the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2010. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto. Interim operating results are not necessarily indicative of operating results for any future interim period or the full year.

2. The Company and Description of Business:

The Company has been in the development stage since its inception of its current endeavors.

Rare Minerals and Koklanovskoe

On April 27, 2011, the Company entered into a Share Exchange Agreement (the “Agreement”) with Rare Minerals Corporation (“RMC”), a privately held corporation, to acquire all of the outstanding shares of RMC. This Agreement became effective on May 11, 2011, which is the date the Company took control of RMC.

RMC was formed as a Nevada corporation on December 9, 2010. RMC’s wholly-owned subsidiary is OOO Koklanovskoe (Koklanovskoe), a Russian limited liability company. Koklanovskoe holds a license (KUG00939TE) for the Koklanovskoe Molybdenum-Tungsten deposit in the Kurgan Region of the Russian Federation. Through the acquisition of this license, the Company plans to enter the market for the exploration and production of rare and semi-rare earth metals and precious minerals.

Pursuant to the Agreement, the Company acquired all of the outstanding shares of RMC by issuing 65,200,000 shares of restricted common stock (representing 99% of the Company’s then outstanding common stock) to the RMC shareholders. As a result of the Agreement, control of the Company changed to the former RMC Shareholders, subject to certain voting restrictions in relation to the appointment of the Company’s Board of Directors during the first year subsequent to the effective date of the Agreement.

The fair value of the common stock issued to RMC shareholders on May 11, 2011, the acquisition date, was \$.37 per share which equates to \$24,124,000 of common stock being issued.

This transaction has been accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The approximate \$24,141,000 excess of the book value of the net assets acquired has been allocated to mineral properties on the condensed consolidated balance sheet.



The approximate consolidated balance sheet of RMC as of May 11, 2011 is as follows:

#### Balance Sheet

##### Assets:

Cash	\$ 2,000
Prepaid expenses	87,000
Mineral properties	405,000
	\$ 494,000

##### Liabilities

Loans payable and accrued interest	\$ 508,000
Other Liabilities	3,000
	511,000

##### Accumulated

deficit	(17,000 )
	\$ 494,000

#### Kondaneftegaz

The Company, through its subsidiary Kondaneftegaz, LLC (KNG), has been engaged in the business of exploiting and developing certain oil and gas and other petroleum products licenses issued for a period of five years by Russia's subsurface management authorities in October 2007. The two licensed areas lie in the Karabashsky zone in the Khanty-Mansiysk Autonomous area of the Russian Federation. KNG has its principal place of business in the city of Khanty-Mansiysk, Russia.

KNG was acquired together with the vast collection of geological information data (oil and gas properties, unproved) on the Karabashski zone of Khanty-Mansiysk Autonomous district of the Tuymen region of the Russian Federation through the issuance of shares and warrants as follows:

Restricted common shares issued for oil and gas properties, unproved in 2006	27,143
Restricted common shares issued in connection with license	28,571

acquisition by KNG in 2007 Restricted common shares issued in 2006	2,857
Total restricted common shares issued	58,571
Stock warrants issued in 2006 for purchase option	3,572

As a result of the purchase, a calculated acquisition value of \$3,928,000 was assigned to the oil and gas properties, unproved that considered the approximate market value of the stock issued (\$122.50) on the transaction date including \$3,675,000 assigned to 30,000 shares issued in 2006 and \$253,000 assigned to 3,572 stock warrants issued. A value of \$1,320,000 was assigned to the acquisition of licenses by KNG based on the market value of the 28,571 shares on the date of issue.

On September 30, 2008, the Company sold a 51% interest in KNG to a Russian oil and gas company, and a 5% interest to two Russian individuals for \$223. This Russian company has committed to lead the exploration works on the licensed areas by accepting the operator's role and agreeing to provide funding for KNG's activities. Simultaneously with the sale of 56% of KNG, the Company made available all geological data to the operator to be used in the program of geological studies in the region. Since no consideration was received and the Company has no intent to further utilize this geological data, a loss on the deemed disposition of these unproved oil and gas properties of \$3,928,000 has been recorded. Operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective September 30, 2008, the Company's 44% investment in KNG is recorded on the equity method of accounting. At September 30, 2008, KNG's assets were \$13,572 and liabilities were \$135,740. Since 56% of the Company was sold for a nominal amount, a non-cash impairment charge of \$525,947 has been recorded to reduce the carrying value of the 44% investment in KNG to zero.

KNG previously prepared and coordinated with the Russian authorities an exploration works program on the Karabashki-61 and Karabashki-67 license areas. Certain preliminary exploration activities were performed on the licensed areas over the past several years; however, KNG subsequently determined to cease exploration activities on the licensed areas. As such, we do not anticipate KNG generating any revenues moving forward. The Company is currently evaluating spinning or selling off its investment in KNG.

#### Zauralneftegaz

Zauralneftegaz Ltd. (“ZNG, Ltd.”) is the Company’s 50% owned joint venture with Baltic Petroleum Limited, UK created in 2005, which operates through its Russian subsidiary Zaural Neftegaz (“ZNG”). ZNG has been involved in oil and gas research activities in the Kurgan region of the Russian Federation. During 2003 through 2008 it has completed seismic studies and drilling programs in the Kurgan region, after which date Kurgan operations were put on hold until further economical advisability is confirmed. The Company believes ZNG, Ltd. has created value through the geological results of the two exploratory wells and other data gathered in the area, and ZNG, Ltd. is considering its options with regard to realizing this value by either a farm out or a direct sale of geophysical and seismic data to a third party operating in the area.

Activities of ZNG for the period March 2003 through October 2005 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective October 14, 2005, the Company’s investment in Joint Venture has been recorded on the equity method of accounting. Since the cumulative losses of the Joint Venture exceed the Company’s investment, the investment asset is carried at zero value as of and through June 30, 2011.

Both equity investments are recorded at zero on the accompanying balance sheets. Although management is hopeful, the Company is uncertain when and if any income will be realized from these investments. On a moving forward basis, the Company anticipates further business expansion. It is constantly evaluating new mineral resource assets, both explored and unexplored, as part of its growth strategy.

The Company was incorporated in the State of Nevada on August 13, 1997, and previously provided comprehensive outpatient rehabilitation services to patients suffering from work, sports and accident related injuries. All activities related to the Company’s previous business ventures were essentially discontinued prior to January 1, 2000. Predecessor names of the Company since its inception include Trans Energy Group, Inc., Oyster King Incorporated and Advanced Rehab Technology Corporation.

#### 3. Loan Payable:

The Company obtained a long-term loan facility from an unrelated individual with a maximum borrowing capacity of 500,000 British pounds (equivalent to \$800,880 on June 30, 2011). The proceeds were used to purchase a geological license. The loan is unsecured, bears interest at 12%, and is due January 31, 2015. At June 30, 2011, there was \$481,329 (300,000 British pounds) outstanding.

#### 4. Issuance of Common Stock:

In June 2011, the Company issued 1,500,000 shares of its common stock to acquire geological data. The fair value of the common stock was \$.23 per share on the date of issuance which equates to \$345,000 of common stock being issued. This geological data has been classified as mineral properties on the condensed consolidated balance sheet.

5. Income Taxes:

At June 30, 2011, the Company effectively has U.S. tax net operating loss carry-forwards totaling approximately \$4,547,000. These carry-forwards may be used to offset future taxable income, and expire in varying amounts through 2031. No tax benefit has been reported in the financial statements, however, because the Company believes there is at least a 50% chance that the carry-forwards will expire unused. Accordingly, the \$1,592,000 estimated cumulative tax benefit of the loss carry-forwards have been offset by a valuation allowance of the same amount.

6. Loss Per Common Share:

Basic and diluted loss per common share is computed using the weighted average number of common shares outstanding during the period. Shares issuable for common stock options and warrants may have had a dilutive effect on earnings per share had the Company generated income during the periods through June 30, 2011.

7. Going Concern:

These financial statements have been prepared assuming the Company will continue as a going concern, however, since inception of its current endeavor in 2003, it has not earned substantial revenues and is considered to be in the development stage, which raises substantial doubt about its ability to continue as a going concern.

Management is of the opinion that sufficient financing will be obtained from external sources to provide the Company with the ability to continue its operations in the near term.

For the cumulative period ended June 30, 2011, the Company has obtained cash financing from organizing stockholders and employees in the form of loans, advances, and deferred salaries. However, there can be no certainty as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

8. Reverse Stock Split:

On February 28, 2011, the Company, with the consent of its stockholders, approved a 1:70 reverse stock split of the outstanding common stock effective March 15, 2011. Additionally, the Company re-authorized 100,000,000 shares of \$.001 par value common stock and 10,000,000 shares of \$.001 par value preferred stock. Accordingly, the consolidated financial statements have been retroactively adjusted as if these changes to the Company's capital structure occurred on January 1, 2003.

9. Cash Flows Information:

Noncash investing and financing activities excluded from the statement of cash flows for the six months ended June 30, 2011:

RMC asset acquisition acquired through the issuance of common stock:	
Prepaid expenses and other	\$ 87,202
Mineral properties	\$ 24,549,301
Accounts payable and accrued expenses	\$ 32,829
Loan payable	\$ 481,329
Geological data acquired through the issuance of common stock	\$ 345,000

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q (THIS "FORM 10-Q"), CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF SIBERIAN ENERGY GROUP INC. AND KONDANEFTEGAZ, LLC, A RUSSIAN LIMITED LIABILITY, THE REGISTRANT'S 44% OWNED SUBSIDIARY, ZAURALNEFTEGAZ LIMITED, A COMPANY ORGANIZED UNDER THE LAWS OF THE COUNTRY OF ENGLAND, WHICH THE REGISTRANT OWNS 50% OF, AND RARE MINERALS CORPORATION, A NEVADA CORPORATION, THE COMPANY'S WHOLLY-OWNED SUBSIDIARY AS A RESULT OF THE SHARE EXCHANGE, DESCRIBED BELOW (COLLECTIVELY "SIBERIAN", THE "COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-Q, UNLESS ANOTHER DATE IS STATED, ARE TO JUNE 30, 2011.

Investors should also take note of the fact that some of the more technical terms relating to the Company's operations as described below are explained in greater detail under exhibit 99.1, incorporated by reference hereto.

All dollar amounts used throughout this Report are in United States dollars, unless otherwise stated. All amounts in Canadian dollars used throughout this Report are preceded by CDN, for example CDN \$500, is referring to \$500 Canadian dollars.

### BUSINESS DEVELOPMENT:

Siberian Energy Group Inc. was formed as a Nevada corporation on August 13, 1997, as Advanced Rehab Technology Corporation. Subsequently, on March 9, 2001, the Company changed its name to Talking Cards, Inc.; on February 12, 2002, the Company changed its name to Oysterking Incorporated; on December 3, 2002, the Company changed its name to 17388 Corporation Inc., at which point the controlling interest of the Company was sold and a new board of directors was appointed; on May 5, 2003, the Company changed its name to Trans Energy Group Inc.; and on December 3, 2003, the Company changed its name to Siberian Energy Group Inc.

On September 17, 1999, the Company affected a 1-for-30 reverse stock split. A subsequent 3-for-1 forward split was consummated on October 2, 2000 and a further 1:2 reverse stock split was affected on May 2, 2005. Effective March 15, 2011, the Company affected a 1:70 reverse stock split with the shares held by remaining shareholders rounded up to a minimum of 100 shares on a per shareholder basis (collectively the "Stock Splits"). All share amounts, trading prices, and option and warrant exercise prices, subsequently listed are retroactively adjusted to reflect these Stock Splits unless otherwise provided.

In the spring of 2003, a majority of the Company's shares were purchased by new shareholders who stepped into the management of the Company and defined its new business direction as an oil and gas exploration company.

On May 9, 2003, the Company entered into an Acquisition Agreement (the "Acquisition Agreement") by and among the Company, Zaural Neftegaz, a Russian corporation ("ZNG"), the shareholders of ZNG and Oleg Zhuravlev,

President of ZNG, and a former Director of the Company. Pursuant to the Acquisition Agreement, the Company acquired a 51% interest in ZNG by issuing to ZNG 28,571 shares of the Company's common stock. In June 2004, the Company purchased the remaining 49% of ZNG in exchange for 98,571 shares of the Company's common stock, making ZNG a wholly-owned subsidiary of the Company. The Company had no affiliation with ZNG prior to the acquisition in May 2003.

-2-

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The activities of ZNG were carried out through the Joint Venture Shareholders' Agreement ("Joint Venture") entered into on October 14, 2005 with Baltic Petroleum (E&P) Limited ("BP" or "Baltic") and Zauralneftegaz Limited, the joint venture company ("ZNG, Ltd."), as contemplated by the Option Agreement, as amended (the "Option"). The Company closed the Joint Venture and transferred 100% of the outstanding stock of ZNG to ZNG, Ltd. in connection with the terms and conditions of the Joint Venture. As a result of such transfer, the Company holds 50% of the outstanding stock of ZNG, Ltd., which holds 100% of the outstanding stock of the Company's former wholly-owned subsidiary, ZNG. ZNG, Ltd. operates through ZNG and is engaged in the exploration and development of, production and sale of, oil and gas assets in the Western Siberian region of the Russian Federation and the former Soviet Union.

On December 13, 2006, we entered into an Interest Purchase Agreement (the "Purchase Agreement") with Key Brokerage LLC ("Key Brokerage"), pursuant to which we purchased 100% of the stock of Kondaneftegaz LLC ("KNG"), a Russian limited liability company, which was created in 2004 for the purpose of oil and gas exploration in the Khanty-Mansiysk district of Western Siberia, Russia. In addition to acquiring 100% of the stock of KNG, we received the geological information package on the Karabashski zone of Khanty-Mansiysk Autonomous district (Tuymen region of Russian Federation) ("Geological Data").

On or about September 30, 2008, we entered into an Agreement of Purchase and Sale with Limited Liability Company Neftebitum, a Russian limited liability company, and two Russian individuals, pursuant to which we sold fifty-six percent (56%) of the ownership interest of KNG, as described in greater detail below.

#### Rare Minerals Acquisition

On April 27, 2011, we entered into a Share Exchange Agreement with Rare Minerals Corporation, a Nevada corporation ("RMC" and the "Share Exchange") and RMC's shareholders (the "RMC Shareholders"). Pursuant to the Share Exchange, we agreed to exchange 65,200,000 shares of newly issued common stock (representing 99% of our then outstanding common stock) with the RMC Shareholders for 100% of the outstanding shares of RMC. The Share Exchange closed effective May 11, 2011 (the "Closing").

Pursuant to the Share Exchange, the RMC Shareholders agreed not to vote the shares which they hold in favor of removing any current Director of the Company, to vote any and all shares in favor of re-appointing all current members of the Board of Directors (subject to the terms of the Share Exchange) for a period of one year from Closing, and that they had no rights to appoint or remove Directors for a period of one year from Closing (collectively the "Voting Requirements").

In connection with and pursuant to the Share Exchange, we agreed to issue an aggregate of 65,200,000 shares of restricted common stock (representing 99% of our then outstanding shares of common stock) to the following RMC shareholders in the amounts stated, which RMC Shareholders own percentage interests in the Company subsequent to the transaction as follows:

RMC Shareholder Name	Shares	Percentage of Company's Outstanding Shares*
The Abner Rosen Foundation (a)	5,600,000	8.5%
Jonathan P. Rosen (a)	5,600,000	8.5%
Ferris Hill LLP (b)	1,800,000	2.7%
Mikhail Frayman	200,000	0.3%
Ilya Aharon	4,400,000	6.7%
Yohanan Aharon	3,200,000	4.9%
Ioulia Chipilevskaia	4,400,000	6.7%

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Rosa Shimonov	4,000,000	6.1%
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-3-

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Polina Matsuleva	8,800,000	13.4%
Valeria Zagourski	7,200,000	10.9%
Liudmila Radziminskaya	3,200,000	4.9%
Olga Yulanova	6,200,000	9.4%
Yury Kolomiets	6,600,000	10.0%
Donatina Cordone	200,000	0.3%
Oksana Danylych	3,800,000	5.8%
Total	65,200,000	99.0%

\* Based on 667,659 shares of common stock outstanding immediately prior to the consummation of the Share Exchange.

(a) The President of The Abner Rosen Foundation is Jonathan P. Rosen.

(b) The beneficial owner of Ferris Hill LP is Norman H. Brown, Jr., its Managing Member.

As a result of the Share Exchange, control of the Company changed to the former RMC Shareholders described above, subject to the Voting Requirements of the Share Exchange.

Additionally, prior to the effectiveness of the Share Exchange, Michael Hellenbrand (who was also appointed as the Chief Executive Officer of the Company, as described below) was appointed as the sole officer and Director of RMC.

On June 1, 2011, the Company entered into a Data Purchase Agreement with Ioulia Chipilevskaia and the Joseph Rosen Foundation, Inc., significant shareholders of the Company and former shareholders of RMC, and purchased all of the geological data held by them relating to the Deposit including certain core samples. In consideration for the acquisition of the geological data, the Company issued an aggregate of 1,500,000 shares of restricted common stock to Ms. Chipilevskaia and the Joseph Rosen Foundation, Inc. The closing of the Data Purchase Agreement occurred on June 15, 2011.

#### Description of KNG

KNG was created in 2004 for the purpose of oil and gas exploration in the Khanty-Mansiysk district of Western Siberia, Russia. In October 2007, KNG was awarded two oil and gas exploration licenses in the Khanty-Mansiysk region in Western Siberia, Russia for the Karabashsky-61 and Karabashsky-67 blocks located in the Khanty-Mansiysk Autonomous Region, Russian Federation. The license areas together cover 166,000 acres and are situated in the territory of the Urals oil and gas bearing area. KNG also has eight more outstanding applications for exploration licenses filed with the Russian authorities, which auctions have not occurred to date.

The right to use the subsurface resources of the Karabashski-61 and Karabashki-67 Fields is granted for the term of validity of the license (five (5) years), from the date of its state registration (October 22, 2007), subject to the completion of certain exploration activities on the license blocks. The term of use of the subsurface resources can be extended to finish exploration and estimation of deposit or for liquidation work, if the terms of usage of the subsurface resources are not breached.

On or about September 30, 2008, we entered into an Agreement of Purchase and Sale with Limited Liability Company Neftebitum, a Russian limited liability company (“Neftebitum”), Sergey V. Prokopiev, an individual and Russian citizen, and Oleg G. Shelepov, an individual and Russian citizen (collectively, the “Purchasers” and the “Sale Agreement”). The Company’s Board of Directors approved and ratified the Company’s entry into the Sale Agreement and the transactions contemplated therein on or about October 30, 2008. Pursuant to the Sale Agreement, the Company agreed to sell to the Purchasers an aggregate of fifty-six percent (56%) of the registered capital of KNG for

aggregate consideration of 5,600 Russian Rubles (approximately \$223). Neftebitum agreed to purchase a 51% interest for total consideration of 5,100 Russian Rubles (approximately \$203) and Mr. Prokopiev and Mr. Shelepov agreed to each purchase a 2.5% interest for consideration of 250 Russian Rubles each (approximately \$10).

Pursuant to the Sale Agreement, the Sellers were obligated to maintain KNG's main priority of performing geological studies and exploring for hydrocarbon deposits in the Karabashsky-61 and Karabashsky-67 blocks (the "Blocks"). Further, the Purchasers were obligated to provide financing, by way of direct financing or third-party loans, in the amounts necessary to comply with the licensing agreements for the Blocks. The Company's and the Purchasers' relationship is regulated by an Operating Agreement, which was entered into in connection with the Sale Agreement. Lastly, the Sale Agreement provides that in connection with Neftebitum obtaining a majority interest in KNG, it is obligated to be a guarantor and accept joint responsibility with KNG for repayment of any financing the Purchasers obtain for KNG.

-4-

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KNG previously prepared and coordinated with the Russian authorities an exploration works program on the Karabashski-61 and Karabashski-67 license areas. Certain preliminary exploration activities were performed on the licensed areas over the past several years; however, KNG subsequently determined to cease exploration activities on the licensed areas. As such, we do not anticipate KNG generating any revenues moving forward. The Company is currently evaluating spinning or selling off its investment in KNG.

As of June 30, 2011, the Company owned a 44% interest in KNG. Effective September 30, 2008, the Company's 44% investment in KNG is recorded on the equity method of accounting. The operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements.

After careful consideration of the current financial position of KNG, the Company has applied an impairment charge to the value of investment in KNG which resulted in carrying it at zero value.

#### Description of ZNG

ZNG has been involved in the oil and gas research activities in the Kurgan region of the Russian Federation. During 2003-2008 it has completed seismic studies and a drilling program in the Kurgan region of Siberia, Russia. The Company believes ZNG, Ltd. has created value through the geological results of the two exploratory wells and other data gathered in the area and ZNG, Ltd. is considering its options with regard to realizing this value in connection with a potential direct sale of geophysical and seismic data to a third party operating in the area.

Between 2003 and 2007, ZNG carried out extensive seismic and gas seismotomographic studies on its 4 licensed blocks acquired in 2003 through a government tender (which have since expired): the Privolny, Mokrousovsky, West-Suersky and Orlovo-Pashkovsky blocks, and drilled 2 exploratory wells on the Privolny and Mokrousovsky blocks. Based on the interpretation of seismic and seismotomographic surveys and analysis of samples from the wells, ZNG prepared a comprehensive analysis of geological resources of the Kurgan region. Both the Privolny-1 and Mokrousovsky-1 studies confirmed the presence of hydrocarbons and contributed greatly to the understanding of geological resources in the region. However, a substantial amount of further exploration studies and work is required before a conclusion on the future potential of the blocks can be drawn. Upon the expiration of the license terms of these blocks in March 2008, ZNG kept the preferential right to re-apply for the licenses.

The Company's investment in the Joint Venture is recorded on the equity method of accounting. Since cumulative losses of Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through June 30, 2011.

As of the date of this filing, Baltic has advised us that Baltic and as a result, ZNG, has withdrawn from any further exploration activities in the Kurgan region and that they will not expend any further resources on such activities moving forward. Baltic has however advised us that they believe they may be able to sell ZNG's previously prepared seismic and geological studies and data in the future, assuming other exploration companies in the area desire to purchase such information, of which there is no assurance.

#### Joint Venture

The operations of the Joint Venture were funded via loans provided to ZNG, Ltd. and ZNG by Caspian Finance Limited ("Caspian"), a financing company wholly-owned by Baltic. Loans are guaranteed by ZNG, Ltd.'s holdings in ZNG. As of June 30, 2011, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to approximately \$23.5 million plus accrued interest of approximately \$5 million. The loans are not dilutive to the Company's ownership in ZNG.



#### RMC Operations:

RMC, which the Company acquired ownership of pursuant to the Share Exchange (described above), which was consummated in May 2011, was formed as a Nevada corporation on December 9, 2010. RMC's wholly-owned subsidiary is OOO Koklanovskoe, a Russian limited liability company ("Koklanovskoe"). Koklanovskoe holds a license (KUG00939TE) for the Koklanovskoe Molybdenum-Tungsten deposit in the Kurgan Region of the Russian Federation (the "License" and the "Deposit").

Through the acquisition of the License, the Company plans to enter the market for the exploration and production of rare and semi-rare earth metals and precious minerals.

The Deposit is a molybdenum-tungsten deposit that was identified and subsequently explored between 1985 and 1988. The Deposit is located in the Russian Urals, approximately 45 kilometers ("km") south-east from the town of Kamens-Uralskiy which is also the nearest rail head. The Deposit area can be accessed via all seasonal roads from the town of Kataysk which is located approximately 30 km to the north-east.

#### Recent Events:

Effective May 5, 2011, David Zaikin resigned as the Chief Executive Officer of the Company and Michael Hellenbrand was appointed as the Chief Executive Officer of the Company to fill the vacancy left by Mr. Zaikin's resignation. Mr. Zaikin continues to serve as the Chairman of the Board of Directors of the Company.

In April 2011, and effective as of January 1, 2011, the Company entered into extensions to the Employment Agreements of David Zaikin, its Chairman and Elena Pochapski, its Director and Chief Financial Officer, which Employment Agreements were extended until December 31, 2011 and June 30, 2011, respectively. Mr. Zaikin's Employment Agreement extension set his annual compensation at \$180,000 and Ms. Pochapski's Employment Agreement extension set her annual compensation at \$75,000.

As part of the acquisition of RMC, the Company obtained rights to a Loan Agreement provided to Koklanovskoe by a third party on January 17, 2011 and amended on January 24, 2011, in the aggregate amount of 500,000 British Pounds (approximately \$815,000 as of the date of this report)(the "Loan"). The Loan provides Koklanovskoe the right to make drawdowns from time to time under the Loan prior to January 31, 2015, at which time the outstanding amount of the Loan is required to be repaid in full. All amounts borrowed under the Loan bear interest at the rate of 12% per annum; provided that if an event of default occurs under the Loan any and all outstanding amounts bear interest at the rate of 18% per annum. The Loan provides the lender the right to secure such Loan by any or all of Koklanovskoe's assets. The Loan was required to be used for the acquisition of the Deposit and geological exploration activities on such Deposit. As of June 30, 2011, there was \$481,329 (300,000 British Pounds) outstanding under the Loan.

#### Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. On an on-going basis, we evaluate our estimates. We base our estimates on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policy affects our more significant judgments and estimates used in the preparation of our consolidated financial statements:



## Going Concern

The Company's financial statements have been prepared assuming that the Company will continue as a going concern; however, since inception of its current endeavors in 2003, the Company has not earned any revenues from production of hydrocarbons or minerals and is considered to be in the development stage, which raises substantial doubt about its ability to continue as a going concern. The Company is of the opinion that sufficient financing will be obtained from external sources to provide the Company with the ability to continue its operations. Since inception, the Company has obtained cash financing from organizing stockholders and employees in the form of loans, advances and deferred salaries, as well as through financing previously received of \$25,000 to \$85,000 per month in management fees from its Joint Venture, which management fees the Company has not received since October 2007, and which the Company does not believe will ever resume. There can be no certainty as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

## PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

We are a development stage company which is seeking opportunities for investment in and/or acquisition of small to medium companies in Russia, specifically in the precious minerals and oil and gas industries.

We currently hold investments in ZNG, Ltd. and KNG. Both companies were previously involved in oil and gas exploration in the Western Siberia region of Russia; provided however, as described above, ZNG, Ltd. has advised us that it will no longer undertake any further exploration activities in Western Siberia and we have recently been advised that KNG has determined not to undertake any further exploration activities.

In May 2011, as described above, we obtained ownership of RMC and its rights to the Deposit. The Company plans to explore the Deposit (funding permitting) in the hopes of discovering commercial quantities of molybdenum, tungsten, iron ore, gold, fluorite, bismuth, copper and other rare and semi-rare earth metals and precious minerals. The Company believes that the Deposit is potentially suitable for open-pit mining.

Additionally, moving forward, the Company may focus on the acquisition of additional assets which involve less exploration risk; however, the Company has not entered into any definitive agreements to date, and there can be no assurance that any such agreements will be entered into on favorable terms, if at all.

Historically, we have obtained cash financing from organizing stockholders in the form of loans and advances. Additionally, during the fourth quarter of 2005 and the fourth quarter of 2010, we restructured much of our debt through the issuance of shares of our common stock to our creditors and in certain cases, in 2005, obtained waiver letters, postponing certain of our liabilities until such time as we have generated sufficient revenues to pay such debts.

In connection with the Joint Venture, the Company previously received monthly management fees, which varied from \$25,000 to \$85,000 per month. Due to the "transition period" of the Joint Venture's exploration activities and subsequent decision of Baltic not to pursue further exploration activities through ZNG, no management fees have been paid since October 2007, and the Joint Venture will not pay any management fees in the future. As the Company will not receive any management fees moving forward, the Company believes that its organizing stockholders will continue to provide financing for the Company, of which there can be no assurance.

In the past, we have obtained cash financing from organizing stockholders in the form of loans and advances, as a result, amounts totaling \$236,280 and \$125,631 were payable to the stockholders as of June 30, 2011 and December 31, 2010, respectively.

There can be no certainty as to the availability of continued financing in the future. Failure to obtain sufficient financing may require us to reduce our operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

-7-

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## COMPARISON OF OPERATING RESULTS

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2011, COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2010

We had no revenues or other income for the three months ended June 30, 2011 or 2010. The Company does not anticipate generating revenues until such time, if ever, as we are able to generate sufficient funding to continue our business plan and complete exploration and mining activities on the Deposit, and then only if such property contains commercial quantities of minerals and we are able to successfully extract and sell such materials, of which there can be no assurance.

We had total expenses of \$147,981 for the three months ended June 30, 2011, compared to total expenses for the three months ended June 30, 2010, of \$146,205, which represented an increase in total expenses from the prior period of \$1,776 or 1%.

The main reasons for the increase in total expenses for the three months ended June 30, 2011, compared to the three months ended June 30, 2010, were a \$4,234 or 255% increase in finance and other charges, to \$5,895 for the three months ended June 30, 2011, compared to \$1,661 for the three months ended June 30, 2010, in connection with the Loan bearing 12% annual interest and a \$6,657 or 11% increase in professional and consulting fees, to \$65,050 for the three months ended June 30, 2011, compared to \$58,393 for the three months ended June 30, 2010, which increase was mainly due to the acquisition of RMC, which increases were offset by a \$9,199 or 11% decrease in salaries, to \$73,501 for the three months ended June 30, 2011, compared to \$82,700 for the three months ended June 30, 2010, due to a decrease in the value of the monthly shares due to the Company's President, Helen Teplitskaia for the three months ended June 30, 2011, compared to the three months ended June 30, 2010, and the termination of the employment of the Company's Moscow, Russia representative.

We had a foreign currency translation gain on the Loan of \$14,700 for the three months ended June 30, 2011, which was due to fluctuation of the Pound Sterling against the Russian Ruble.

We had a net loss of \$133,281 for the three months ended June 30, 2011, compared to a net loss of \$146,205 for the three months ended June 30, 2010, a decrease in net loss of \$12,924 or 9% from the prior period, which decrease in net loss was mainly due to the foreign currency translation gain as described above.

### RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2011, COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2010

We had no revenues or other income for the six months ended June 30, 2011 or 2010. The Company does not anticipate generating revenues until such time, if ever, as we are able to generate sufficient funding to continue our business plan and complete exploration and mining activities on the Deposit, and then only if such property contains commercial quantities of minerals and we are able to successfully extract and sell such materials, of which there can be no assurance.

We had total expenses of \$309,236 for the six months ended June 30, 2011, compared to total expenses for the six months ended June 30, 2010, of \$293,099, which represented an increase in total expenses from the prior period of \$16,137 or 6%.

The main reasons for the increase in total expenses for the six months ended June 30, 2011, compared to the six months ended June 30, 2010, were an \$18,977 or 16% increase in professional and consulting fees, to \$137,521 for the six months ended June 30, 2011, compared to \$118,544 for the six months ended June 30, 2010, and an \$11,120 or 177% increase in marketing and other fees, to \$17,420 for the six months ended June 30, 2011, compared to \$6,300

for the six months ended June 30, 2010, which increases were mainly due to certain one-time expenses associated with the Company's 1:70 reverse stock split and the cost of mailing notice of and holding the Company's 2011 Annual Meeting of Stockholders, as well as fees paid to relist the Company on the OTCBB in March 2011, which were offset by a \$17,599 or 11% decrease in salaries to \$146,901 for the six months ended June 30, 2011 compared to \$164,500 for the six months ended June 30, 2010, due to a decrease in the value of the monthly shares due to the Company's President, Helen Teplitskaia for the six months ended June 30, 2011, compared to the six months ended June 30, 2010, and the termination of the employment of the Company's Moscow, Russia representative.

We had a foreign currency translation gain on the Loan of \$14,700 for the three months ended June 30, 2011, which was due to fluctuation of the Pound Sterling against the Russian Ruble.

We had a net loss of \$294,536 for the six months ended June 30, 2011, compared to a net loss of \$293,099 for the six months ended June 30, 2010, an increase in net loss of \$1,437 from the prior period.

## LIQUIDITY AND CAPITAL RESOURCES

We had total assets of \$24,982,870 as of June 30, 2011, consisting of current assets of \$88,569, including \$1,101 of cash and \$87,468 of prepaid expenses and other, and total long-term assets of \$24,894,301 consisting of mineral properties.

On April 27, 2011, with a closing date of May 11, 2011, we entered into the Share Exchange with RMC (described in greater detail above under "Rare Minerals Acquisition") and acquired rights to the Deposit, which together with certain geological data, represent the \$24,894,301 of mineral properties.

We had total liabilities of \$1,166,822 as of June 30, 2011, which included current liabilities of \$685,493, including \$236,280 of accounts payable to related party stockholders in connection with those shareholders paying certain of our expenses from the period between September 2010 and June 30, 2011 and advisory fees accrued to a shareholder of the Company for the period between October 2010 and June 30, 2011; \$77,940 of accounts payable to Baltic in connection with a \$29,000 loan advanced to the Company from Baltic, interest on such loan, and certain other expenses owed to Baltic; \$76,261 of accounts payable to others for advisory and professional services rendered; and \$295,012 of accrued payroll, which included \$135,000 payable to our Chief Executive Officer, David Zaikin, \$56,274 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam, and long-term liabilities of \$481,329 relating to the Promissory Note, described below.

We had negative working capital of \$596,924 and a total pre-development and development stage accumulated deficit of \$16,396,292 as of June 30, 2011.

In October 2010, the Company entered into Debt Conversion Agreements with nine (9) creditors of the Company (the majority of which were shareholders and related parties of the Company), pursuant to which such creditors agreed to convert an aggregate of \$2,554,459 of debt owed to such creditors by the Company into 331,748 shares of restricted common stock of the Company, at the rate of one share for each \$7.70 of debt converted (the "Conversion").

Because our cumulative losses associated with the operations of ZNG exceeded our investment as of the date of the Joint Venture, ZNG, Ltd. is carried on our balance sheet at \$-0- as of June 30, 2011. Our investment in ZNG, Ltd. will exceed \$-0- at such time as ZNG, Ltd. has cumulative earnings sufficient to repay all loans to Baltic as provided in the Joint Venture, if ever.

As part of the acquisition of RMC, the Company obtained rights to a Loan Agreement provided to Koklanovskoe by a third party on January 17, 2011 and amended on January 24, 2011, in the aggregate amount of 500,000 British Pounds (approximately \$815,000 as of the date of this report)(the "Loan"). The Loan provides Koklanovskoe the right to make draw-downs from time to time under the Loan prior to January 31, 2015, at which time the outstanding amount of the Loan is required to be repaid in full. All amounts borrowed under the Loan bear interest at the rate of 12% per annum; provided that if an event of default occurs under the Loan any and all outstanding amounts bear interest at the rate of 18% per annum. The Loan provides the lender the right to secure such Loan by any or all of Koklanovskoe's assets. The Loan was required to be used for the acquisition of the Deposit and geological exploration activities on such Deposit. As of June 30, 2011, there was \$481,329 (300,000 British Pounds) outstanding under the Loan.

As of June 30, 2011, the Company owns a 44% interest in KNG. The Company's investment in KNG is recorded on the equity method of accounting effective October 1, 2008. After careful consideration of the current financial position of KNG, the Company applied an impairment charge to the value of the investment in KNG which resulted in carrying it at zero value.

We had \$1,045 of net cash used in operating activities for the six months ended June 30, 2011, which was mainly attributable to adjustments to reconcile \$294,536 of net loss, offset by an increase of \$284,324 of accounts payable and accrued expenses.

We had \$1,655 of net cash provided by investing activities for the six months ended June 30, 2011, which represented cash received in the acquisition of the RMC.

In connection with the Joint Venture (described above), the Company previously received management fees, which varied from \$25,000 to \$85,000 per month. Due to the “transition period” of the Joint Venture’s exploration activities, no management fees were paid during the three months ended June 30, 2011 or 2010, and the Company does not anticipate receiving any such fees moving forward. If the Company does not receive any management fees moving forward, the Company anticipates that its stockholders and management will continue to provide financing for the Company, of which there can be no assurance.

We are taking steps to raise equity capital and/or to borrow additional funds. There can be no assurance that any new capital will be available to us or that adequate funds for our operations, whether from our financial markets, or other arrangements will be available when needed or on terms satisfactory to us, if at all. We have no commitments from officers, directors or affiliates to provide funding. Our failure to obtain adequate financing may require us to delay, curtail or scale back some or all of our operations. Additionally, any additional financing may involve dilution to our then-existing shareholders.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a “smaller reporting company,” as defined by Rule 229.10(f)(1).

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Control and Procedures

We conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of June 30, 2011. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2011, our disclosure controls and procedures are not effective as a result of the material weakness in internal control over financial reporting discussed below.

Notwithstanding the assessment that our internal control over financial reporting was not effective and that there were material weaknesses as identified in this report, we believe that our unaudited consolidated financial statements contained in this Report fairly present our financial position, results of operations and cash flows for the periods covered herein in all material respects.

As of December 31, 2010, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and SEC guidance on conducting such assessments. Based on that evaluation, management concluded that, during the period covered by our Annual Report on Form 10-K, such internal controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our internal controls and that taken together may be considered to be a material weakness.

We are committed to improving our financial organization. As part of this commitment, we will, as soon as funds are available to the Company (1) appoint one or more outside directors to our board of directors who shall be appointed to the audit committee of the Company resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; (2) create a position to segregate duties consistent with control objectives and will increase our personnel resources; and (3) hire independent third parties to provide expert advice.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In January 2007, we learned that certain of our former officers, Directors and shareholders, had attempted to transfer shares of our common stock, which those individuals had agreed to cancel in connection with the purchase of a majority of the Company's outstanding shares from those individuals by our current officers, Directors and majority shareholders in April 2003. In February 2007, we filed for a Temporary Restraining Order and Motion for Preliminary Injunction against those individuals in the District Court of Clark County, Nevada.

On February 20, 2007, our Temporary Restraining Order and Motion for Preliminary Injunction was heard by the District Court of Clark County, Nevada, and we were granted an indefinite injunction without a hearing by the court. As such, those individuals who previously attempted to transfer and sell the shares which they held will be prevented from transferring or selling such shares until they can show good cause with the court why such indefinite injunction should be lifted.

From time to time, we may become party to other litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations, other than the proceeding described above. We may become involved in material legal proceedings in the future.

### ITEM 1A. RISK FACTORS

Our securities are highly speculative and should only be purchased by persons who can afford to lose their entire investment in our Company. If any of the following risks actually occur, our business and financial results could be negatively affected to a significant extent. The Company's business is subject to many risk factors, including the following:

#### RISK OF CONTINUING OUR BUSINESS PLAN WITHOUT ADDITIONAL FINANCING.

We depend to a great degree on the ability to attract external financing in order to conduct future exploratory and development activities. The Company believes it can satisfy its cash requirements during the next twelve months, estimated at approximately \$300,000, through funding provided by existing stockholders. As of June 30, 2011, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$5 million, which has been spent on various purposes, including seismic and gas seismotomography surveys, drilling of two exploratory wells, and paying consultants for services performed in connection with surveys performed on the previously licensed area. Our partner in ZNG, Baltic and our partner in KNG, Neftebitum, have informed us that they do not plan to move forward with any further exploration activities through ZNG or KNG, respectively. We anticipate approximately \$15 million of additional funding to conduct exploration activities on the Deposit acquired through the Share Exchange (as described above), which funding may not be available on favorable terms, if at all. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

#### SHAREHOLDERS MAY BE DILUTED SIGNIFICANTLY THROUGH OUR EFFORTS TO PAY CONSULTANTS, OBTAIN FINANCING, SATISFY OBLIGATIONS AND/OR COMPLETE ACQUISITIONS THROUGH THE ISSUANCE OF ADDITIONAL SHARES OF OUR COMMON STOCK OR OTHER SECURITIES.

We have no committed source of financing. Wherever possible, our Board of Directors will attempt to use non-cash consideration to satisfy obligations and pay consultants. In many instances, we believe that the non-cash consideration

will consist of restricted shares of our common stock or other securities. These transactions may result in significant additional shares of common stock of the Company being issued in consideration for services rendered, loans made, or to satisfy outstanding amounts owed or accrued to various parties, similar to the Conversion, described above. Additionally, moving forward, we may attempt to conduct acquisitions of other entities or assets using our common stock or other securities as payment for such acquisitions. Our Board of Directors has authority, without action or vote of the shareholders, to issue all or part of the authorized but unissued shares of common stock and preferred stock with various preferences and other rights. These actions may, similar to the Conversions, result in substantial dilution of the ownership interests of existing shareholders, cause the value of the Company's common stock to decline in value, and dilute the book value of the Company's common stock.

WE WILL NEED TO RAISE SUBSTANTIAL FINANCING, WHICH MAY CAUSE SUBSTANTIAL DILUTION TO EXISTING SHAREHOLDERS. ADDITIONALLY, WE WILL REQUIRE SUBSTANTIAL TIME AND FINANCING BEFORE WE ANTICIPATE GENERATING REVENUES THROUGH OUR FUTURE OPERATIONS, IF ANY.

The Company will need to raise substantial additional funds totaling approximately \$15 million in order to complete exploration activities on the Deposit prior to the expected generation of any revenues, of which there can be no assurance. Furthermore, in order for the Company to generate any revenues it will have to successfully locate commercial quantities of rare and semi-rare earth metals and precious minerals, and be successful in extracting such minerals. Therefore, investors should keep in mind that even if the Company is able to raise the substantial amounts of additional financing that the Company will require for its future exploration operations, it could still be years before the Company generates any revenue, if ever. If the Company does not raise the funding required to complete future exploration activities, no commercial amounts of rare and semi-rare earth metals and precious minerals are discovered or the Company is unable to extract such rare and semi-rare earth metals and precious minerals, the Company may be forced to abandon its business plan, and the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to substantially decline or become worthless.

OUR AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT AS TO WHETHER OUR COMPANY CAN CONTINUE AS A GOING CONCERN.

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$666,116 for the year ended December 31, 2009, a net loss of \$579,251 for the year ended December 31, 2010, a net loss of \$294,536 for the six months ended June 30, 2011, and had total cash on hand of \$1,101 and a total accumulated deficit of \$16,396,292 as of June 30, 2011. These factors among others indicate that the Company may be unable to continue as a going concern, particularly in the event that it cannot generate sufficient cash flow to conduct its operations and/or obtain additional sources of capital and financing.

WE LACK AN OPERATING HISTORY WHICH YOU CAN USE TO EVALUATE US, MAKING ANY INVESTMENT IN OUR COMPANY RISKY.

Our Company lacks a long standing operating history which investors can use to evaluate our Company's potential revenues. Therefore, an investment in our Company is risky because we have no business history and it is hard to predict what the outcome of our business operations will be in the future.

WE MAY CONTINUE TO BE UNPROFITABLE AND MAY NOT GENERATE PROFITS TO CONTINUE OUR BUSINESS PLAN.

As a development stage company, we have had limited revenues and no profits to date and our net cumulative deficit attributable to our development stage as of June 30, 2011, was \$15,946,507, and our total cumulative deficit was \$16,396,292 which included \$449,785 of pre-development stage deficit. We had a working capital deficit of \$596,924 as of June 30, 2011. The Company is currently being funded by existing shareholders and other loans, but there can be no assurance this amount will be sufficient to continue our planned operations or that we will have enough money to repay our outstanding debts. ZNG has previously determined to cease further exploration activities and KNG determined to cease exploration activities as well. If we are unable to raise additional funding or generate revenues in the future, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in our Company. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.



**WE HAVE A POOR FINANCIAL POSITION AND IF WE DO NOT GENERATE REVENUES, WE MAY BE FORCED TO ABANDON OUR BUSINESS PLAN.**

Our Company currently has a poor financial position. We have generated only minimal revenues to date, and we have not discovered any rare and semi-rare earth metals and precious minerals. There is a risk that we will not find enough, or even any, minerals which we require to generate enough profits in the future for your investment in our Company to appreciate. If we never generate any revenues, our Company may be forced to curtail or abandon its business plan and your shares may become worthless.

**OUR BUSINESS IS SPECULATIVE AND RISKY AND IF WE DO NOT FIND RARE AND SEMI-RARE EARTH METALS AND PRECIOUS MINERAL RESERVES, WE MAY BE FORCED TO CURTAIL OUR BUSINESS PLAN.**

There is a risk that we will not find any rare and semi-rare earth metals and precious mineral reserves and the cost of acquiring assets or exploration activities will become too high for us to continue our business plan. If we were to cease operations, your investment in our Company could become devalued or could become worthless.

**OUR INDUSTRY IS COMPETITIVE AND AS SUCH, COMPETITIVE PRESSURES COULD PREVENT US FROM OBTAINING PROFITS.**

The main factor determining success in the rare and semi-rare earth metals and precious minerals industry is finding deposits. If our Company or joint ventures we may enter into in the future, are unable to find deposits and our competition is, it is likely that our Company will be driven out of business. Additionally, our industry is subject to significant capital requirements and as such, larger companies may have an advantage should they compete with us for deposits, because they may have resources substantially greater than ours. Investors should take into account the above factors and understand that if we are unable to raise additional capital or generate profits, the Company may be forced to liquidate its assets and an investment in our Company could become worthless.

**OUR GROWTH WILL PLACE SIGNIFICANT STRAINS ON OUR RESOURCES.**

The Company's growth is expected to place a significant strain on the Company's managerial, operational and financial resources. Furthermore, as the Company receives contracts, the Company will be required to manage multiple relationships with various customers and other third parties. These requirements will be exacerbated in the event of further growth of the Company or in the number of its contracts. There can be no assurance that the Company's systems, procedures or controls will be adequate to support the Company's operations or that the Company will be able to achieve the rapid execution necessary to succeed and implement its business plan. The Company's future operating results will also depend on its ability to add additional personnel commensurate with the growth of its business. If the Company is unable to manage growth effectively, the Company's business, results of operations and financial condition will be adversely affected.

**WE RELY ON KEY PERSONNEL AND IF THEY LEAVE OUR COMPANY OUR BUSINESS PLAN COULD BE ADVERSELY AFFECTED.**

We rely on the Company's Chief Executive Officer, Chief Financial Officer and Chairman, Michael Hellenbrand, Elena Pochapski, and David Zaikin, respectively, for the success of our Company. Mr. Zaikin is employed under an employment agreement expiring on December 31, 2011; however, Ms. Pochapski's employment agreement expired on June 30, 2011. The Company anticipates entering into an employment agreement with Mr. Hellenbrand subsequent to the date of this filing. Their experience and input create the foundation for our business and they are responsible for the directorship and control over the Company's development activities. The Company does not hold "key man" insurance on any members of management. Moving forward, should they be lost for any reason, the Company will

incur costs associated with recruiting replacement personnel and any potential delays in operations. If we are unable to replace such individuals, or such individuals are unable to spend a sufficient amount of time on Company matters, the Company may be forced to scale back or curtail its business plan. As a result of this, any securities you hold in our Company could become devalued or worthless.

-15-

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OUR FUTURE PROJECTIONS, ESTIMATES AND STATISTICAL ANALYSIS MAY BE INACCURATE OR SUBSTANTIALLY WRONG, WHICH MAY PREVENT US FROM EXECUTING OUR BUSINESS PLANS.

Projections on future revenues as well as costs and required capital expenditures are based on estimates. Business statistical analysis is used in projection of exploration activities, average production costs, world mineral price fluctuations and their correspondence to Russian domestic market. If our projections or estimates are wrong or our statistical analysis is faulty, our future revenues, if any, may be adversely affected which could prevent us from executing our business strategy. As an investor, if this happens your securities in our Company could be adversely affected and you could lose your investment in our Company.

THERE IS UNCERTAINTY AS TO OUR ABILITY TO ENFORCE CIVIL LIABILITIES BOTH IN AND OUTSIDE OF THE UNITED STATES DUE TO THE FACT THAT OUR OFFICERS, DIRECTORS AND ASSETS ARE NOT LOCATED IN THE UNITED STATES.

Our officers and Directors, our properties and licenses, and the majority of our assets are located in countries other than the United States, including Canada and Russia. As a result, it may be difficult for shareholders to effect service of process within the United States on our officers and Directors. In addition, investors may have difficulty enforcing judgments based upon the civil liability provisions of the securities laws of the United States or any state thereof, both in and outside of the United States.

WE FACE RISKS ASSOCIATED WITH THE FACT THAT THE MAJORITY OF OUR OPERATIONS THROUGH OUR HOLDINGS ARE CONDUCTED IN RUSSIA, AND THE LICENSES OWNED THROUGH OUR HOLDINGS ARE IN RUSSIA.

The assets we hold are located in Russia. As a result, we are subject to various risks associated with doing business in Russia relating to Russia's economic and political environment. As is typical of an emerging market, Russia does not possess a well-developed business, legal and regulatory infrastructure that would generally exist in a more mature free market economy and, in recent years, Russia has undergone substantial political, economic and social change. Furthermore, in recent years the Russian government has unilaterally annexed certain oil and gas properties and other companies for the government, and there can be no assurance that if resources and minerals are located on our properties, that such properties will not be annexed or otherwise claimed by the Russian government. Our failure to manage the risks associated with doing business in Russia could have a material adverse effect upon our results of operations.

WE MAY NOT FIND ANY COMMERCIAL QUANTITIES OF MINERALS IN THE FUTURE, AND MAY NOT GENERATE ANY PROFITS, WHICH MAY FORCE US TO CURTAIL OUR BUSINESS PLAN.

If we do not begin any exploration activities and/or do not have enough money to continue exploration activities it is likely that we will never generate any revenues. Additionally, if we are unsuccessful in mining attempts we may choose to attempt in the future, it is likely that we will never generate any revenues. The exploration of minerals is highly speculative, and if throughout our mineral exploration we do not find commercial quantities of minerals, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in us. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.

OUR PLANNED MINERAL EXPLORATION EFFORTS ARE HIGHLY SPECULATIVE.

Mineral exploration is highly speculative. It involves many risks and is often non-productive. Even if we believe we have found a valuable mineral deposit, it may be several years before production is possible. During that time, it may become no longer feasible to produce those minerals for economic, regulatory, political, or other reasons.

Additionally, we may be required to make substantial capital expenditures and to construct mining and processing facilities. As a result of these costs and uncertainties, we may be unable to start, or if started, to finish our exploration activities.

**THE PROBABILITY OF OUR PROPERTY PRODUCING ANY COMMERCIALY VIABLE RESERVES IN THE FUTURE IS REMOTE.**

Our mineral project is in the exploration stage as opposed to the development stage and we have no known body of economic mineralization. Until further exploration activities can be conducted, we will be unable to determine whether a commercially mineable ore body exists on our property. In order to carry out exploration and development programs of any economic ore body and place it into commercial production, we will be required to raise substantial additional funding, and even if we are successful in completing our exploration activities on our property, we may not be successful in finding commercial quantities of minerals. Furthermore, the probability of an individual prospect ever having reserves or being commercially viable is extremely remote. As a result, there is only a small probability that our property contains any reserves and that any funds spent on exploration activities will ever be recovered.

**OUR FUTURE PLANNED MINING OPERATIONS INVOLVE A HIGH DEGREE OF RISK, WHICH WE MAY BE UNABLE, OR MAY NOT CHOOSE TO INSURE AGAINST, MAKING EXPLORATION AND/OR DEVELOPMENT ACTIVITIES WE MAY PURSUE SUBJECT TO POTENTIAL LEGAL LIABILITY FOR CERTAIN CLAIMS.**

Our future exploration operations, if any, will be subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although we plan to take adequate precautions to minimize these risks, and risks associated with equipment failure or failure of retaining dams which may result in environmental pollution, even with our precautions, damage or loss may occur and we may be subject to liability which will have a material adverse effect on our business, results of operation and/or financial condition. If this were to happen, we could be forced to curtail or abandon our business activities.

**WE WILL BE SUBJECT TO NUMEROUS RISKS IF WE COMMENCE MINING OPERATIONS.**

The mineral exploration and mining business is competitive in all of its phases. We currently have no mining operations of any kind; however, if we do commence mining activities in the future, we will be subject to numerous risks, including:

- o competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive mineral properties;
- o our ability to select and acquire suitable producing properties or prospects for mineral exploration;
- o the accuracy of our reserve estimates, if any, which may be affected by the following factors beyond our control:
  - declines in the market price of the various metals we may mine in the future;
  - increased production or capital costs;
  - reduction in the grade or tonnage of the deposit;
  - increase in the dilution of the ore; or

- reduced recovery rates;
- o risks and hazards associated with environmental hazards, political and country risks, civil unrest or terrorism, industrial accidents, labor disputes, unusual or unexpected geologic formations, cave-ins, explosive rock failures; and flooding and periodic interruptions due to inclement or hazardous weather conditions; and
- o our failure to maintain insurance on certain risks associated with any exploration activities we may undertake in the future.

-17-

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If we do begin exploration activities in the future, we will be subject to the above risks. If any of the above risks occur, we may be forced to curtail or abandon our operations and/or exploration and development activities, if any. As a result, any investment in us could decrease in value and/or become worthless.

**OUR DETERMINATIONS OF PLANNED ACTIVITIES AND ESTIMATES OF POTENTIAL RESERVES, IF ANY, MAY BE INACCURATE.**

Before we can begin a development project, if ever, we must first determine whether it is economically feasible to do so. This determination is based on estimates of several factors, including:

- o expected recovery rates of metals from the ore;
- o facility and equipment costs;
- o capital and operating costs of a development project;
- o future metals prices;
- o tax rates;
- o inflation rates;
- o political risks and regulatory climates; and
- o availability of credit.

Any development projects we may undertake in the future will likely not have an operating history upon which to base these estimates and as a result, actual cash operating costs and returns from a development project, if any, may differ substantially from our estimates. Consequently, it may not be economically feasible to continue with a development project, if one is started.

**NEVADA LAW AND OUR ARTICLES OF INCORPORATION AUTHORIZE US TO ISSUE SHARES OF STOCK, WHICH SHARES MAY CAUSE SUBSTANTIAL DILUTION TO OUR EXISTING SHAREHOLDERS.**

We have authorized capital stock consisting of 100,000,000 shares of common stock, \$0.001 par value per share and 10,000,000 shares of preferred stock, \$0.001 par value per share. As of the date of this filing, we had 67,367,659 shares of common stock issued and outstanding and – 0 – shares of preferred stock issued and outstanding. As a result, our Board of Directors has the ability to issue a large number of additional shares of common stock without shareholder approval, which if issued could cause substantial dilution to our then shareholders. Additionally, shares of preferred stock may be issued by our Board of Directors without shareholder approval with voting powers, and such preferences and relative, participating, optional or other special rights and powers as determined by our Board of Directors, which may be greater than the shares of common stock currently outstanding. As a result, shares of preferred stock may be issued by our Board of Directors which cause the holders to have super majority voting power over our shares, provide the holders of the preferred stock the right to convert the shares of preferred stock they hold into shares of our common stock, which may cause substantial dilution to our then common stock shareholders and/or have other rights and preferences greater than those of our common stock shareholders. Investors should keep in mind that the Board of Directors has the authority to issue additional shares of common stock and preferred stock, which could cause substantial dilution to our existing shareholders. Additionally, the dilutive effect of any preferred stock, which we may issue may be exacerbated given the fact that such preferred stock may have super majority voting rights and/or other rights or preferences which could provide the preferred shareholders with voting control over us subsequent to this filing and/or give those holders the power to prevent or cause a change in control. As a result, the issuance of shares of common stock and/or preferred stock may cause the value of our securities to decrease and/or become worthless.

IF WE ARE LATE IN FILING OUR QUARTERLY OR ANNUAL REPORTS WITH THE SECURITIES AND EXCHANGE COMMISSION OR A MARKET MAKER FAILS TO QUOTE OUR COMMON STOCK ON THE OVER-THE-COUNTER BULLETIN BOARD FOR A PERIOD OF MORE THAN FOUR DAYS, WE MAY BE DE-LISTED FROM THE OVER-THE-COUNTER BULLETIN BOARD.

Pursuant to Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the Securities and Exchange Commission ("SEC"), any OTCBB issuer which fails to file a periodic report (Form 10-Q or 10-K) by the due date of such report (not withstanding any extension granted to the issuer by the filing of a Form 12b-25), three times during any 24 month period is automatically de-listed from the OTCBB. Such removed issuer would not be re-eligible to be listed on the OTCBB for a period of one year, during which time any subsequent late filing would reset the one-year period of de-listing. Additionally, if a market maker fails to quote our common stock on the OTCBB for a period of more than four consecutive days, we will be automatically delisted from the OTCBB (similar as to how we were automatically delisted from the OTCBB in February 2011, which forced us to take actions to re-quote our common stock on the OTCBB in March 2011). As we were late in filing our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, if we are late in our periodic filings two additional times prior to the filing of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 or three times in any subsequent 24 month and are de-listed from the OTCBB or are automatically delisted for failure of a market maker to quote our stock, our securities may become worthless and we may be forced to curtail or abandon our business plan.

WE INCUR SIGNIFICANT COSTS AS A RESULT OF OPERATING AS A FULLY REPORTING COMPANY IN CONNECTION WITH SECTION 404 OF THE SARBANES OXLEY ACT, AND OUR MANAGEMENT IS REQUIRED TO DEVOTE SUBSTANTIAL TIME TO NEW COMPLIANCE INITIATIVES.

We incur significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and rules subsequently implemented by the SEC imposed various requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

AS THERE IS CURRENTLY ONLY A LIMITED MARKET FOR OUR COMMON STOCK, THE MARKET FOR OUR COMMON STOCK MAY CONTINUE TO BE ILLIQUID, SPORADIC AND VOLATILE.

There is currently only a limited market for our common stock, and as such, we anticipate that such market will be illiquid, sporadic and subject to wide fluctuations in response to several factors moving forward, including, but not limited to:

- (1) actual or anticipated variations in our results of operations;
- (2) our ability or inability to generate new revenues;

(3) the number of shares in our public float;

-19-

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- (4) increased competition;
- (5) the political atmosphere in Russia; and
- (6) conditions and trends in the market for precious metals and minerals in general.

Furthermore, because our common stock is traded on the Over-The-Counter Bulletin Board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock.

#### STATE SECURITIES LAWS MAY LIMIT SECONDARY TRADING, WHICH MAY RESTRICT THE STATES IN WHICH AND CONDITIONS UNDER WHICH YOU CAN SELL SHARES.

Secondary trading in our common stock may not be possible in any state until the common stock is qualified for sale under the applicable securities laws of the state or there is confirmation that an exemption, such as listing in certain recognized securities manuals, is available for secondary trading in the state. If we fail to register or qualify, or to obtain or verify an exemption for the secondary trading of the common stock in any particular state, the common stock cannot be offered or sold to, or purchased by, a resident of that state. In the event that we do not apply for registration in, there is not a valid exemption for, and/or a significant number of states refuse to permit secondary trading in our common stock, the liquidity for the common stock could be significantly impacted.

#### INVESTORS MAY FACE SIGNIFICANT RESTRICTIONS ON THE RESALE OF OUR COMMON STOCK DUE TO FEDERAL REGULATIONS OF PENNY STOCKS.

Our common stock will be subject to the requirements of Rule 15(g)9, promulgated under the Securities Exchange Act as long as the price of our common stock is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock.

Generally, the Commission defines a penny stock as any equity security not traded on an exchange or quoted on NASDAQ that has a market price of less than \$5.00 per share. The required penny stock disclosures include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. Such requirements could severely limit the market liquidity of the securities and the ability of purchasers to sell their securities in the secondary market.

In addition, various state securities laws impose restrictions on transferring "penny stocks" and as a result, investors in the common stock may have their ability to sell their shares of the common stock impaired.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company has previously agreed to pay its President, Helen Teplitskaia, 143 shares of common stock per month for her service to the Company. As of the date of this filing, the Company owes Ms. Teplitskaia an aggregate of 1,144 shares of common stock for services rendered during the months of January through August 2011, which shares have

not been issued to date or reflected in the issued and outstanding shares disclosed throughout this report.

In connection with and pursuant to the Share Exchange, we issued an aggregate of 65,200,000 shares of restricted common stock (representing 99% of our then outstanding shares of common stock) to the RMC shareholders.

-20-

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On June 1, 2011, the Company entered into a Data Purchase Agreement with Ioulia Chipilevskaia, a significant shareholder of the Company and former shareholder of RMC and purchased from Ms. Chipilevskaia all of the geological data held by her relating to the Deposit including certain core samples. In consideration for the acquisition of the geological data, the Company issued an aggregate of 1,500,000 shares of restricted common stock to Ms. Chipilevskaia and the Joseph Rosen Foundation, Inc. The closing of the Data Purchase Agreement occurred on June 15, 2011.

The Company claims an exemption from registration afforded by Regulation S and/or Section 4(2) of the Securities Act of 1933, as amended (the "Act") since the foregoing issuances did not involve a public offering, the recipients took the shares for investment and not resale, the Company took appropriate measures to restrict transfer, and the recipients were "sophisticated investors" who had access to similar documentation and information similar as to what would be required in a Registration Statement under the Act. No underwriters or agents were involved in the foregoing issuances and the Company paid no underwriting discounts or commissions.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. (REMOVED AND RESERVED)

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

Exhibit Description of Exhibit  
No.

- 3.1(a) Original Articles of Incorporation of the Company then called "Advanced Rehab Technology Corporation."
- 3.2(b) Certificate of Amendment to the Company's Articles of Incorporation filed March 9, 2001, changing the Company's name to "Talking Cards, Inc."
- 3.3(b) Certificate of Amendment to the Company's Articles of Incorporation filed February 12, 2002, changing the Company's name to "Osterking Incorporated."
- 3.4(b) Certificate of Amendment to the Company's Articles of Incorporation filed December 3, 2002, changing the Company's name to "17388 Corporation Inc."
- 3.5(b) Certificate of Amendment to the Company's Articles of Incorporation filed May 5, 2003, changing the Company's name to "Trans Energy Group Inc."
- 3.6(b) Certificate of Amendment to the Company's Articles of Incorporation filed December 3, 2003, changing the Company's name to "Siberian Energy Group Inc."

- 3.7 (b) Certificate of Amendment to the Company's Articles of Incorporation filed April 25, 2005, affecting a 1:2 reverse stock split, re-authorizing 100,000,000 shares of common stock, par value \$0.001 per share, and authorizing 10,000,000 shares of preferred stock, par value \$0.001 par value per share
- 3.8(c) Certificate of Amendment to Articles of Incorporation Affecting a 1:70 Reverse Stock Split
- 3.9(d) Amended and Restated Bylaws
- 4.1(e) Siberian Energy Group Inc. 2010 Stock Incentive Plan

-21-

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- 10.1(1) Option Agreement with Baltic Petroleum Limited dated April 28, 2005
- 10.2(1) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.3(1) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.4(1) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005
- 10.5(1) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005
- 10.6(2) Option Agreement with Baltic Petroleum Limited dated April 28, 2005
- 10.7(2) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.8(2) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.9(2) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005
- 10.10(2) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005
- 10.11(3) Clarification to the Contract of Purchase and Sale of the Share in Charter Capital of LLC "Zauralneftegaz" dated 15 May 2004
- 10.12(3) Agreement with Business - Standard (translated from Russian version)
- 10.13(3) Supplementary Agreement to Business - Standard Agreement (translated from Russian version)
- 10.14(3) Supplementary Agreement No. 2 to Business - Standard Agreement (translated from Russian version)
- 10.15(3) Deed of Amendment between ZNG and BP
- 10.16(3) Deed of Amendment between the Company and BP
- 10.17(4) Joint Venture Shareholders' Agreement with Baltic Petroleum (E&P) Limited and Zauralneftegaz Limited dated October 14, 2005
- 10.18(5) Amendment to the Employment Agreement Dated August 1, 2003, with Elena Pochapski
- 10.19(5) Form of Waiver Agreement

10.20(6) Loan Agreement between OOO Zauralneftegaz and Caspian Finance Limited

10.21(6) Deed of Novation between Baltic Petroleum Limited, Caspian Finance Limited and OOO Zauralneftegaz

10.22(6) Deed of Release

10.23(6) Release of Pledge

-22-

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- 10.24(6) Guarantee
- 10.25(6) Debenture
- 10.26(6) Agreement for the Pledge of the Participatory Interest in OOO Zauralneftegaz (Russian translation removed)
- 10.27(6) Sale and Purchase Agreement
- 10.28(8) Option Agreement with Key Brokerage
- 10.29(8) Warrant Agreement with Key Brokerage
- 10.30(9) July 26, 2006 Deed of Agreement
- 10.31(10) Consulting Agreement with Business Standard
- 10.32(11) Addition to the Loan Agreement of November 9, 2005
- 10.33(11) Gross Overriding Royalty Agreement
- 10.34(12) Amendment No. 2 to the Employment Agreement Dated August 1, 2003 with Elena Pochapski
- 10.35(13) Deed of Variation to the Loan Agreement Dated 9th of November 2005, Entered into in June 2007
- 10.36(15) Agreement of Purchase and Sale with Limited Liability Company Neftebitum, Sergey V. Prokopiev, and Oleg G. Shelepov
- 10.37(15) Operating Agreement with Limited Liability Company Neftebitum
- 10.38(16) One Year Extension to the Employment Agreement of August 1, 2004 with David Zaikin
- 10.39(16) One Year Extension to the Employment Agreement of August 1, 2004 with Elena Pochapski
- 10.40(16) Stock Option Agreement for David Zaikin
- 10.41(16) Stock Option Agreement for Elena Pochapski
- 10.42(17) Extension of Employment Agreement of David Zaikin
- 10.43(17) Extension of Employment Agreement of Elena Pochapski
- 10.44(18) Form of Debt Conversion Agreement
- 10.45(18) Extension of Employment Agreement of David Zaikin

10.46(18) Extension of Employment Agreement of Elena Pochapski

10.47(19) Share Exchange Agreement with Rare Minerals Corporation and its  
Shareholders

10.48(19) Exploration License (Translated From Russian)

10.50(20) Data Purchase Agreement

-23-

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10.51(20) Extension of Employment Agreement of David Zaikin

10.52(20) Extension of Employment Agreement of Elena Pochapski

10.53\* Loan Agreement

10.54\* Addition to Loan Agreement

21.1(14) Subsidiaries

31.1\* Certificate of the Chief Executive Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002

31.2\* Certificate of the Chief Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002

32.1\* Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2\* Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.1(7) Glossary

101.INS\*\* XBRL Instance Document

101.SCH\*\* XBRL Taxonomy Extension Schema Document

101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herein.

\*\* XBRL  
(Extensible  
Business  
Reporting  
Language)  
information  
is furnished  
and not filed  
or a part of  
a  
registration

statement or  
prospectus  
for purposes  
of  
Sections 11  
or 12 of the  
Securities  
Act of 1933,  
as amended,  
is deemed  
not filed for  
purposes of  
Section 18  
of the  
Securities  
Exchange  
Act of 1934,  
as amended,  
and  
otherwise is  
not subject  
to liability  
under these  
sections.

- (a) Filed as an Exhibit to our Form SB-2 Registration Statement, filed with the Commission on September 10, 2004, and incorporated herein by reference.
- (b) Filed as an Exhibit to the Company's Form 8-K, filed with the Commission on May 2, 2005, and incorporated herein by reference.
- (c) Filed as an Exhibit to the Company's Form 8-K, filed with the Commission on March 15, 2011, and incorporated herein by reference.
- (d) Filed as an Exhibit to the Company's Form 10-KSB, filed with the Commission on April 2, 2007, and incorporated herein by reference.
- (e) Filed as an Exhibit to the Company's Definitive Information Statement on Schedule 14C, filed with the Commission on January 14, 2011, and incorporated herein by reference.
- (1) Filed as Exhibit 10.1, 10.2, 10.3, 10.4 and 10.5 to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.
- (2) Filed as Exhibits to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.
- (3) Filed as Exhibits to the Company's Report on Form 10-QSB, filed with the Commission on August 22, 2005, and incorporated herein by reference.
- (4) Filed as Exhibits to the Company's Report on Form 8-K, filed with the Commission on October 28, 2005, and incorporated herein by reference.

(5) Filed as Exhibits to our Report on Form 10-QSB for the period ending September 31, 2005, which was filed with the Commission on November 21, 2005, and is incorporated herein by reference.

(6) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on December 2, 2005, filed with the Commission on April 13, 2006, and incorporated herein by reference.

-24-

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- (7) Filed as Exhibit 99.1 to our Report on Form 10-KSB for the year ended December 31, 2004, filed with the Commission on March 28, 2005, and incorporated herein by reference.
- (8) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on September 19, 2006, and incorporated herein by reference.
- (9) Filed as an Exhibit to our Report on Form 10-QSB, filed with the Commission on November 14, 2006, and incorporated herein by reference.
- (10) Filed as an Exhibit to our Form 8-K filed with the Commission on February 20, 2007, and incorporated herein by reference.
- (11) Filed as Exhibits to our Report on Form 10-KSB filed with the Commission on April 2, 2007, and incorporated herein by reference.
- (12) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on May 15, 2007, and incorporated herein by reference.
- (13) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on August 14, 2007, and incorporated herein by reference.
- (14) Filed as an Exhibit to our Report on Form 10-K filed with the Commission on April 14, 2009, and incorporated herein by reference.
- (15) Filed as an Exhibit to our Report on Form 8-K filed with the Commission on November 14, 2008, and incorporated herein by reference.
- (16) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on May 19, 2009, and incorporated herein by reference.
- (17) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on May 21, 2010, and incorporated herein by reference.
- (18) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on November 19, 2010, and incorporated herein by reference.
- (19) Filed as an exhibit to our Report on Form 8-K filed with the Commission on May 12, 2011, and incorporated herein by reference.
- (20) Filed as an exhibit to our Report on Form 10-Q filed with the Commission on June 22, 2011, and incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIBERIAN ENERGY GROUP INC.

DATED: August 19, 2011

By: /s/ Michael Hellenbrand  
Michael Hellenbrand  
Chief Executive Officer  
(Principal Executive Officer)

DATED: August 19, 2011

By: /s/ Elena Pochapski  
Elena Pochapski  
Chief Financial Officer  
(Principal Accounting Officer)

