Siberian Energy Group Inc.
Form 10-Q
August 20, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from ____________ to ______________

Commission file number: 000-53766

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| NEVADA | 52-2207080 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

330 Madison Ave, 6th Floor, New York, New York 10017
(Address of principal executive offices)

(212) 828-3011
(Registrant's telephone number)

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 to such filing requirements for the past 90 days.
Yes [X] 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 [X]

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ] |
| Non-accelerated filer [ ] | Smaller reporting company [X] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of August 17, 2012, the issuer had 67,367,659 shares of common stock, $0.001 par value per share outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Siberian Energy Group Inc.

We have reviewed the condensed consolidated balance sheet of Siberian Energy Group Inc. (a development stage company) as of June 30, 2012, and the related condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2012 and 2011, and the cumulative period of development stage activity (January 1, 2003 through June 30, 2012), and the condensed consolidated statements of stockholders' equity and cash flows for the six months ended June 30, 2012 and 2011, and the cumulative period of development stage activity (January 1, 2003 through June 30, 2012). These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Siberian Energy Group Inc. as of December 31, 2011, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated May 8, 2012, we expressed an unqualified opinion on those financial statements with an explanatory paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Lumsden & McCormick, LLP
Buffalo, New York
August 20, 2012

F-1

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Condensed Consolidated Balance Sheets

| | (Unaudited) June 30, 2012 | December 31, 2011 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $747 | $874 |
| Prepaid expenses and other receivables | 265,445 | 220,932 |
| Total current assets | 266,192 | 221,806 |
| Investment in ZNG, Ltd., at equity | - | - |
| Investment in KNG, at equity | - | - |
| Mineral properties, unproved | 24,894,301 | 24,894,301 |
| Oil and gas properties, unproved | - | - |
| Property and equipment, net | - | - |
| | $25,160,493 | $25,116,107 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable: | | |
| Related party - stockholders | $446,631 | $375,793 |
| Related party - Baltic Petroleum, interest at 14% | 84,014 | 81,004 |
| Others | 159,430 | 111,031 |
| Accrued payroll | 527,673 | 420,173 |
| Total current liabilities | 1,217,748 | 988,001 |
| Loan payable | 694,487 | 624,348 |
| Stockholders' equity: | | |
| Preferred stock - authorized and unissued 10,000,000 shares, $.001 par value | - | - |
| Common stock - authorized 100,000,000 shares, $.001 par value, 67,367,659 issued and outstanding | 67,368 | 67,368 |
| Additional paid-in capital | 40,159,038 | 40,159,038 |
| Accumulated deficit: | | |
| Pre-development stage | (449,785) | (449,785) |
| Development stage | (16,537,118) | (16,268,893) |
| Accumulated other comprehensive income (loss) | 8,755 | (3,970) |
| Total stockholders' equity | 23,248,258 | 23,503,758 |
| | $25,160,493 | $25,116,107 |

See accompanying notes.

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Condensed Consolidated Statements of Operations and Comprehensive Income

| | For the three months ended June 30, 2012 | For the three months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the cumulative period of Development Stage Activity- January 1, 2003 through June 30, 2012 |
|---|---|---|---|---|---|
| Revenues and other income: | | | | | |
| Management fees from joint venture | $- | $- | $- | $- | $ 1,135,000 |
| Gain from entrance into joint venture | - | - | - | - | 364,479 |
| Other | - | - | - | - | 6,382 |
| Total revenues and other income | - | - | - | - | 1,505,861 |
| Expenses: | | | | | |
| Salaries | 54,491 | 73,501 | 109,140 | 146,901 | 4,519,752 |
| Professional and consulting fees | 28,170 | 65,050 | 76,543 | 137,521 | 5,653,886 |
| Rent and occupancy | - | - | - | - | 239,989 |
| Depreciation and amortization | - | - | - | - | 105,502 |
| Finance charges and interest | 21,527 | 5,895 | 42,118 | 7,394 | 221,752 |
| Marketing and other | 7,094 | 3,535 | 10,028 | 17,420 | 2,123,961 |
| Total expenses | 111,282 | 147,981 | 237,829 | 309,236 | 12,864,842 |
| Foreign currency exchange (gain) loss | 68,641 | (14,700) | 30,396 | (14,700) | 25,120 |
| Loss from disposition of loan receivable - affiliate | - | - | - | - | 29,500 |
| Loss from sale of investment | - | - | - | - | 669,570 |
| Loss on deemed disposition of oil and gas properties, unproved | - | - | - | - | 3,928,000 |
| Impairment charge on investment | - | - | - | - | 525,947 |
| Loss before income taxes | 179,923 | 133,281 | 268,225 | 294,536 | 16,537,118 |
| Provision for income taxes (benefit) | - | - | - | - | - |
| Net loss (development stage) | 179,923 | 133,281 | 268,225 | 294,536 | 16,537,118 |
| Other comprehensive loss, net of tax: | | | | | |
| Foreign currency translation adjustment | 55,809 | 24 | 12,725 | 24 | 8,755 |
| Comprehensive loss | $124,114 | $133,257 | $255,500 | $294,512 | $ 16,528,363 |

| | | | | | |
|---|---|---|---|---|---|
| Basic and diluted net loss per common share | $(0.00) | $(0.00) | $(0.00) | $(0.02) | $(1.95) |
| Weighted average number of basic and diluted common shares outstanding | 67,367,659 | 37,139,881 | 67,367,659 | 18,803,018 | 8,501,678 |

See accompanying notes.

F-3

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, 2012

| | Common Stock Number of Shares | Par Value | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| 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 ) |
| 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 ) |
| 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 |
| 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 ) |
| 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 |
| 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

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, 2012

| | Common Stock Number of Shares | Par Value | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| 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) |
| 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 |
| Loss for the year - 2008 | - | - | - | (5,863,560) | - | (5,863,560) |
| Foreign currency translation adjustment | - | - | - | - | 27,019 | 27,019 |
| Shares issued for professional services and accrued salaries | 2,213 | 2 | 41,748 | - | - | 41,750 |
| | - | - | 6,303 | - | - | 6,303 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Warrants granted for professional services | | | | | | |
| 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) |
| 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) |
| Shares issued for accounts payable and accrued salaries | 331,748 | 332 | 2,554,127 | - | - | 2,554,459 |
| Shares issued for accounts payable and accrued salaries | 2,929 | 3 | 22,547 | - | - | 22,550 |
| Balance, December 31, 2010 | 667,659 | $668 | $15,756,738 | $(16,101,756) | $(14,090) | $(358,440) |

See accompanying notes.

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, 2012

| | Common Stock Number of Shares | Par Value | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2010 | 667,659 | $ 668 | $ 15,756,738 | $ (16,101,756) | $ (14,090) | $ (358,440) |
| Loss for the year - 2011 | - | - | - | (616,922) | - | (616,922) |
| Foreign currency translation adjustment | - | - | - | - | 10,120 | 10,120 |
| 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, December 31, 2011 | 67,367,659 | $ 67,368 | $ 40,159,038 | $ (16,718,678) | $ (3,970) | $ 23,503,758 |
| Loss for the six months - 2012 | - | - | - | (268,225) | - | (268,225) |
| Foreign currency translation adjustment | - | - | - | - | 12,725 | 12,725 |
| Balance, June 30, 2012 | 67,367,659 | $ 67,368 | $ 40,159,038 | $ (16,986,903) | $ 8,755 | $ 23,248,258 |

See accompanying notes.

F-6

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Condensed Consolidated Statements of Cash Flows

| | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the cumulative period of Development Stage Activity- January 1, 2003 through June 30, 2012 |
|---|---|---|---|
| Operating activities: | | | |
| Net loss (development stage) | $(268,225) | $(294,536) | $(16,537,118) |
| Depreciation and amortization | - | - | 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 receivables | (44,513) | 8,544 | (441,635) |
| Accounts payable and accrued expenses | 229,747 | 284,324 | 5,378,195 |
| Net operating activities | (82,991) | (1,045) | 761,584 |
| | | | |
| Investing activities: | | | |
| 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) |
| | | | |
| Financing activities: | | | |
| Net proceeds from loans | 70,139 | - | 309,169 |
| Common stock issued for employee stock option plan | - | - | 45,500 |
| Additional paid-in capital | - | - | 34,426 |
| Net financing activities | 70,139 | - | 389,095 |
| | | | |
| Effect of exchange rates on cash | 12,725 | 24 | 8,755 |
| | | | |
| Net change in cash | (127) | 634 | 747 |

| | | | |
|---|---|---|---|
| Cash - beginning | 874 | 467 | - |
| Cash - ending | $747 | $1,101 | $747 |

See accompanying notes.

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation:

The accompanying unaudited condensed 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. 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.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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.

RMC was acquired through the issuance of 65,200,000 shares of restricted common stock (representing 99% of the Company's then outstanding common stock) to the RMC stockholders. As a result of the purchase, a calculated acquisition value of $24,124,000 was assigned to mineral properties, unproved that considered the approximate market value of the stock issued ($.37) on the transaction date.

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 has prepared and coordinated with Russion authorities the Program of exploration works on the Karabashski 61 and Karabashski 67 license areas. KNG is evaluating the possibility of using prior seismic data in the current exploration program.

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 acquisition by KNG in 2007 | 28,571 |
| 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 unproven 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.

Throughout the period 2007 to 2012, the Company was involved in the collection of geological data and preparation of exploration works 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, the Company does not anticipate KNG generating any revenues moving forward.

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, 2012.

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., 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 approximately $781,000 on June 30, 2012). The proceeds were used to purchase a geological license and to fund current operations. The loan provides the lender the right to secure this loan by any or all of Koklanovskoe's assets, bears interest at 12%, and is due January 31, 2015. At June 30, 2012 and December 31, 2011, there was $694,487 and $624,348 (444,100 and 405,000 British pounds) outstanding.

4. Income Taxes:

At June 30, 2012, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately $5,082,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2032. No tax benefit has been reported in the financial statements, however, because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the $1,779,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

The Company believes it is no longer subject to examination by Federal taxing authorities for years prior to 2008.

5. 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, 2012.

6. Adoption of New Accounting Standard:

On January 1, 2012, the Company adopted the new accounting standard that modifies the options of other comprehensive income. The new accounting standard requires the Company to present comprehensive income either in a single continuous statement or two separate but consecutive statements. The Company has elected to present comprehensive income in a single continuous statement.

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, 2012, the Company obtained cash financing from outside parties, 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.

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". 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. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made. 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 company, 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, 2012.

You should read the matters described below in “Risk Factors” and the other cautionary statements made in this Report as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

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.

-2-

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.

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, although ZNG, Ltd. is not currently conducting any business activities.

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 the Closing, which requirements expired on May 11, 2012 (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% |
| Rosa Shimonov | 4,000,000 | 6.1% |
| 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.

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 (defined below under "RMC Operations") 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.

BUSINESS OPERATIONS:

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 oil and gas industry.

We currently hold investments in ZNG, Ltd. and KNG. Both companies are involved in oil and gas exploration in the Western Siberia region of Russia; provided however, as described below, 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. As a result, we are currently seeking out additional oil and gas acquisition opportunities in Russia at this time and do not anticipate ZNG, Ltd. or KNG generating any revenues moving forward.

Moving forward the Company plans to focus on those assets that involve less exploration risk and is also actively seeking and negotiating the acquisition of production or close-to-production assets in Russia and countries of the former Soviet Union; 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.

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.

The right to use the subsurface resources of the Karabashsky-61 and Karabashky-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.

KNG previously prepared and coordinated with the Russian authorities an exploration works program on the Karabashsky-61 and Karabashsky-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, 2012, 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 the Joint Venture exceed the Company’s investment, the investment asset is carried at zero value as of and through June 30, 2012.

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.

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, 2012, 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.

-6-

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 outside parties, 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 may also enter into merger, acquisition or similar transactions in the future with companies in separate industries and fields in the event we determine such transactions are in the best interests of the Company and its shareholders.

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.  The Company has not undertaken any exploration activities on the Deposit to date.

Additionally, moving forward, the Company may focus on the acquisition of additional operations, assets or entities; 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 and outside parties 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. 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 $446,631 and $375,793 were payable to stockholders from the Company as of June 30, 2012 and December 31, 2011, 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.

## COMPARISON OF OPERATING RESULTS

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2012, COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2011

We had no revenues or other income for the three months ended June 30, 2012 or 2011. 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 $111,282 for the three months ended June 30, 2012, compared to total expenses for the three months ended June 30, 2011, of $147,981, which represented a decrease in total expenses from the prior period of $36,699 or 25%.

The main reasons for the decrease in total expenses for the three months ended June 30, 2012, compared to the three months ended June 30, 2011, were a $36,880 or 57% decrease in professional and consulting fees, to $28,170 for the three months ended June 30, 2012, compared to $65,050 for the three months ended June 30, 2011, which decrease was mainly due to the contract with one of its vendors, which was not renewed, ending March 31, 2012 and a $19,010 or 26% decrease in salaries to $54,491 for the three months ended June 30, 2012, compared to $73,501 for the three months ended June 30, 2011, due to the termination of the employment of the Company's Moscow, Russia representative as of January 1, 2012 and the non-accrual of salary for Elena Pochapski, the Company's former Chief Financial Officer, beginning on October 1, 2011, due to the fact that no services were performed for the Company by Ms. Pochapski during that time, offset by a $15,632 increase in finance charges and interest to $21,527 for the three months ended June 30, 2012, compared to $5,895 for the three months ended June 30, 2011, in connection with the Loan bearing 12% annual interest as described in greater detail below under "Liquidity and Capital Resources."