

Siberian Energy Group Inc.  
Form 10QSB/A  
May 15, 2007

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

**FORM 10-QSB/A  
AMENDMENT NO. 1**

(Mark One)

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

For the quarterly period ended March 31, 2007

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

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

Commission file number 333-118902

**SIBERIAN ENERGY GROUP INC.**

(Exact name of small business issuer as specified in its charter)

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

incorporation  
or  
organization)

**275 Madison Ave, 6th Floor, New York, NY 10016**

(Address of principal executive offices)

**(212) 828-3011**

(Registrant's telephone number)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of May 10, 2007, 15,034,961, shares of Common Stock of the issuer were outstanding ("Common Stock").

Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

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

Traditional Small Business Disclosure Format (Check One): Yes  No .

This Amended Form 10-QSB is being filed by the Registrant to include dated signatures of its Chief Executive Officer under "Signatures" below and its Chief Executive Officer and Chief Financial Officer under Exhibits 31.1, 32.1, 31.2, and 32.2, attached hereto. This Amended Form 10-QSB also corrects various formatting errors which were present in our Form 10-QSB for the period ended March 31, 2007, as originally filed.

---

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

**CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**March 31, 2007**

**REPORT OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Siberian Energy Group Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Siberian Energy Group Inc. (a development stage company) as of March 31, 2007, and the related condensed consolidated statements of operations, stockholders' equity, and cash flows for the three months ended March 31, 2007 and 2006, and the cumulative period of development stage activity (January 1, 2003 through March 31, 2007). These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the auditing standards of the Public Company Accounting Oversight Board, 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 review, 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, the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 28, 2007, we included 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, 2006 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  
May 10, 2007

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

**Condensed Consolidated Balance Sheets**

	<b>(Unaudited)</b> <b>March 31,</b> <b>2007</b>	December 31, 2006
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 8,920	\$ 1,435
Management fee receivable	55,000	110,000
Prepaid expenses and other	171,281	5,272
	<b>235,201</b>	116,707
Investment in joint venture	-	-
Oil and gas properties, unproved	2,700,000	2,700,000
Property and equipment, net	2,489	2,565
	<b>\$ 2,937,690</b>	<b>\$ 2,819,272</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable:		
Related party - stockholders	\$ 322,357	\$ 362,166
Related party - Baltic Petroleum, interest at 14%	52,113	50,615
Others	214,108	459,561
Accrued payroll	357,698	1,011,788
	<b>946,276</b>	1,884,130
<b>Stockholders' equity:</b>		
Common stock - authorized 100,000,000 shares, \$.001 par value, 15,093,095 and 14,112,961 issued and outstanding	15,093	14,113
Additional paid-in capital	7,960,247	6,593,829
Accumulated deficit		
Pre-development stage	(449,785)	(449,785)
Development stage	(5,527,663)	(5,218,570)
Accumulated other comprehensive income (loss)	(6,478)	(4,445)
	<b>1,991,414</b>	935,142
	<b>\$ 2,937,690</b>	<b>\$ 2,819,272</b>

*See accompanying notes.*

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

**Condensed Consolidated Statements  
of Operations**

For the three months ended March 31,	<b>2007</b>	2006	For the cumulative period of Development Stage Activity- January 1, 2003 through March 31, 2007
Revenues and other income:			
Management fees from joint venture	<b>\$ 165,000</b>	\$ 75,000	\$ 600,000
Gain from entrance into joint venture	-	-	364,479
Other	-	-	6,382
	<b>165,000</b>	75,000	970,861
Expenses:			
Salaries	<b>83,643</b>	33,311	1,961,710
Professional and consulting fees	<b>202,388</b>	155,716	2,852,034
Rent and occupancy	<b>12,385</b>	9,737	188,628
Depreciation and amortization	<b>82</b>	86	102,799
Finance charges and interest	<b>1,499</b>	3,848	59,875
Marketing and other	<b>174,096</b>	191,491	1,333,478
Total expenses	<b>474,093</b>	394,189	6,498,524
Loss before income taxes	<b>309,093</b>	319,189	5,527,663
Provision for income taxes (benefit)	-	-	-
Net loss (development stage)	<b>\$ 309,093</b>	\$ 319,189	\$ 5,527,663
Basic and diluted loss per common share	<b>\$ (0.02)</b>	\$ (0.03)	\$ (0.61)
Weighted average number of basic and diluted common shares outstanding	<b>14,241,408</b>	11,621,219	9,066,626

*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 March 31, 2007

	Common Stock		Additional Paid-In Capital
	Number of Shares	Par Value	
Balance, January 1, 2003 (pre-development stage)	4,902,886	\$ 4,903	\$ 430,195
Loss for the year - 2003	-	-	-
Shares issued in acquisition (ZNG)	1,000,000	1,000	(1,000)
Balance, December 31, 2003	5,902,886	\$ 5,903	\$ 429,195
Loss for the year - 2004	-	-	-
Foreign currency translation adjustment	-	-	-
Shares issued in acquisition (ZNG)	3,450,000	3,450	746,550
Shares issued for professional services	50,000	50	9,950
Other	-	-	34,426
Balance, December 31, 2004	9,402,886	\$ 9,403	\$ 1,220,121
Loss for the year - 2005	-	-	-
Foreign currency translation adjustment	-	-	-
Shares issued for professional services	385,000	385	138,365
Shares issued for accrued salaries	1,700,000	1,700	210,800
Warrants granted for professional services	-	-	217,000
Balance, December 31, 2005	11,487,886	\$ 11,488	\$ 1,786,286



Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

Loss for the year - 2006	-	-	-
Foreign currency translation adjustment	-	-	-
Shares issued for employee stock option plan and warrants	195,000	195	45,305
Shares issued for geological data	1,900,000	1,900	2,235,100
Shares issued for professional services	1,139,499	1,140	1,685,351
Warrants granted for professional services	-	-	841,177
Shares cancelled	(609,424)	(610)	610
Balance, December 31, 2006	14,112,961	\$ 14,113	\$ 6,593,829
Loss for three months - 2007			
Foreign currency translation adjustment			
Shares issued for geological data	200,000	200	285,800
Shares issued for professional services	780,134	780	1,080,618
Balance, March 31, 2007	15,093,095	\$ 15,093	\$ 7,960,247

*See accompanying notes.*

Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Loss
\$	(449,785)	\$ -	\$ (14,687)	
	(422,516)	-	(422,516)	\$ (422,516)
-		-	-	
\$	(872,301)	-	\$ (437,203)	
	(833,567)	-	(833,567)	
	-	(53,120)	(53,120)	\$ (886,687)
	-	-	750,000	
	-	-	10,000	
	-	-	34,426	
\$	(1,705,868)	\$ (53,120)	\$ (529,464)	
	(882,151)		(882,151)	
	-	50,614	50,614	\$ (831,537)
	-	-	138,750	
	-	-	212,500	
	-	-	217,000	
\$	(2,588,019)	\$ (2,506)	\$ (792,751)	
	(3,080,336)	-	(3,080,336)	
	-	(1,939)	(1,939)	\$ (3,082,275)
	-	-	45,500	
	-	-	2,237,000	
	-	-	1,686,491	
	-	-	841,177	

Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

	-		-		-
\$	(5,668,355)	\$	(4,445)	\$	935,142
	(309,093)				(309,093)
			(2,033)	(2,033)	\$ (311,126)
	-				286,000
	-				1,081,398
\$	(5,977,448)	\$	(6,478)	\$	1,991,414

-7-

---

## 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		
	March 31,		
	2007		
For the three months ended March 31,	<b>2007</b>	2006	
<b>Cash flows from operating activities:</b>			
Net loss (development stage)	\$ (309,093)	\$ (319,189)	\$ (5,527,663)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation and amortization	82	86	102,799
Common stock and warrants issued for professional services and salaries	<b>1,367,398</b>	193,000	4,233,816
Gain from entrance into joint venture	-	-	(364,479)
Changes in other current assets and current liabilities:			
Prepaid expenses and other assets	<b>(111,015)</b>	(50,000)	(379,679)
Accounts payable and accrued expenses	<b>(937,854)</b>	152,658	2,937,114
<b>Net cash flows from (for) operating activities</b>	<b>9,518</b>	(23,445)	1,001,908
<b>Cash flows from investing activities:</b>			
Expenditures for licenses and related	-	-	(528,961)
Expenditures for oil and gas properties	-	-	(770,750)
Expenditures for property and equipment	-	-	(4,231)
Cash received in acquisition	-	-	6
Cash received from entrance into joint venture	-	-	175,000
<b>Net cash flows for investing activities</b>	-	-	(1,128,936)
<b>Cash flows from financing activities:</b>			
Net proceeds from demand loan	-	-	62,500
Common stock issued for employee stock option plan	-	14,000	45,500
Additional paid-in capital	-	-	34,426
<b>Net cash flows from financing activities</b>	-	14,000	142,426
Effect of exchange rates on cash	<b>(2,033)</b>	(821)	(6,478)
Net increase (decrease) in cash	<b>7,485</b>	(10,266)	8,920
Cash - beginning	<b>1,435</b>	11,551	-

Cash - ending	\$	<b>8,920</b>	\$	1,285	\$	8,920
---------------	----	--------------	----	-------	----	-------

*See accompanying notes.*

-8-

---

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. Accounting policies used in fiscal 2007 are consistent with those used in the cumulative period of Development Stage Activity - January 1, 2003 through March 31, 2007. 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:

Through October 14, 2005, the Company operated through its wholly owned subsidiary, Zaural Neftegaz (ZNG). ZNG is engaged in the business of exploiting and developing certain oil and gas and other petroleum products licenses issued by Russia's Kurgan Provincial Government for the Eastern part of Kurgan Province. ZNG has its principal place of business in Kurgan City, Kurgan Province, Russia, and is the sole and exclusive owner of the exploration licenses.

On October 14, 2005, the Company entered into a joint venture agreement with a third party, Baltic Petroleum Limited (Baltic). The Company transferred 100% of its ownership interest in ZNG to the joint venture (the Joint Venture) and transferred 50% of the Joint Venture interest to Baltic for \$175,000 and the agreement by Baltic to provide future funding to the Joint Venture as detailed in a Joint Venture Shareholders' Agreement. Operations of the Joint Venture, which is currently drilling its first well on Privolny block and continues geological exploration works throughout the territory of its seven licenses covering in total 1 million acres, are funded via loans provided to the Joint Venture and ZNG by a financing company wholly owned by Baltic. Loans are guaranteed by the Joint Venture's holdings in ZNG. As of March 31, 2007 the total amounts provided through such loans to the Joint Venture and ZNG were equal to \$13.6 million plus accrued interest of approximately \$1.4 million.

In connection with the current program of seismic studies and drilling of the first four wells in the ZNG's license blocks, additional funds were raised by Baltic's parent through a placement of shares. It is anticipated that the Joint Venture and ZNG will enter into new loan agreements for approximately \$10.6 million covering drilling and geological works through the end of 2007. The loans will not be dilutive to the Company's ownership in ZNG. In connection with the funding provided by Baltic, ZNG entered into a gross override royalty agreement with Baltic.

Additional details surrounding the Company's involvement in the Joint Venture follow:

- During the arrangement, the Company will receive a monthly management fee of \$25,000 from ZNG (\$55,000 effective November 2006);
- Profits from the Joint Venture are allocated 50% to the Company only after all financing of ZNG are settled with Baltic and Baltic's financing subsidiaries;

Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

- Although the Company and Baltic each own 50% of the Joint Venture's shares and each appoint 50% of the Directors to the Joint Venture, Baltic always has an additional casting vote on Board of Director related issues;
- The Company has essentially no liability to guarantee the debts of the Joint Venture;
- The Company recognized a settlement gain of \$364,479 as a result of the initial joint venture transaction. This resulted primarily to adjust the Company's negative investment to zero as of the agreement date. All activity of ZNG before the agreement date is otherwise included in these financial statements.

Effective October 14, 2005, 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 March 31, 2007 and December 31, 2006. Activities of ZNG prior to October 14, 2005 are otherwise included in the consolidated accounts of the Company in the accompanying financial statements.

As part of a planned separate oil and gas venture, on December 31, 2006, the Company acquired oil and gas related geological information on the Karabashki zone of Khanty-Mansiysk Autonomous district (Tuymen region of the Russian Federation) from Key Brokerage, LLC, a Delaware limited liability company, for 1,900,000 shares of restricted common stock. In conjunction with this asset purchase, the Company was also assigned ownership of Kondaneftegaz, LLC (Konda), a Russian limited liability company wholly-owned by Key Brokerage, LLC.

As a result of the purchase, the Company assigned an acquisition value of \$2,700,000 to the geological data assets based on both the approximate share value of the Company's stock issued at the purchase date and the assets' estimated value as determined by an independent appraisal prior to the acquisition. Since Konda had essentially no assets or liabilities at the purchase date, had no previous operating history, and was transferred only to facilitate the Company's potential future operations in Russia, no value was otherwise assigned to it at acquisition.

In 2007, the Company plans to participate in two or three auctions for development and production licenses for the parcels belonging to the existing oil deposits of Khanty-Mansiysk district.

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., 17388 Corporation Inc., Talking Cards Inc., Oyster King Incorporated and Advanced Rehab Technology Corporation.

### **3. Income Taxes:**

At March 31, 2007, the Company has estimated U.S. tax net operating loss carryforwards totaling approximately \$4,200,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2027. 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 \$849,000 estimated cumulative tax benefit of the loss carryforward has been offset by a valuation allowance of the same amount.

### **4. 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 may have had a dilutive effect on earnings per share had the Company generated income during the periods through March 31, 2007.

### **5. 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 the Joint Venture arrangement established in 2005 will successfully generate allocable profits to the Company in the near term.

For the cumulative period ended March 31, 2007, 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 be reflected on a liquidation basis which could differ from the going concern basis.

-10-

---

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-QSB (THIS "FORM 10-QSB"), 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. ("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-QSB, UNLESS ANOTHER DATE IS STATED, ARE TO MARCH 31, 2007.

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.

### **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 effected a 1-for-30 reverse stock split. A subsequent 3-for-1 forward split was consummated on October 2, 2000. All share amounts subsequently listed are retroactively adjusted to reflect these stock splits unless otherwise provided. All activities related to the Company's business were discontinued prior to January 1, 2000 and the Company began looking for opportunities to acquire an operating business.

In the spring of 2003, the balance of the Company's shares was 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. In contemplation of the Company's acquisition of a Russian oil and gas exploration company, the Company changed its name to Trans Energy Group, Inc.

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. Pursuant to the Acquisition Agreement, the Company acquired a 51% interest in ZNG by issuing to ZNG 2,000,000 shares of the Company's common stock. In June 2004, the Company purchased the remaining 49% of ZNG in exchange for 6,900,000 shares of the Company's common stock, making ZNG a wholly owned subsidiary of the Company. ZNG holds seven (7) oil and gas licenses (see "Patents, Trademarks and Licenses" below) for the rights to prospect, explore, drill and remove oil and gas (the "Exploration Rights") in the eastern parts of Kurgan Province in Russia. The Company had no affiliation with ZNG prior to the acquisition in May 2003.

On May 2, 2005, the Company affected a 1:2 reverse stock split and all share amounts listed throughout this report on Form 10-QSB reflect such split unless otherwise stated.

-11-

---

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 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 are currently evaluating investment and joint venture opportunities throughout Russia.

Until October 14, 2005, the Company's operations were conducted solely through its then wholly owned subsidiary, Zaural Neftegaz ("ZNG") a development stage oil and gas exploration company located in the Western Siberian Region of Russia. However, on October 14, 2005, the Company entered into a Joint Venture agreement, whereby the Company transferred 100% of the ownership of ZNG to a newly formed Joint Venture company, Zauralneftegaz Limited ("ZNG, Ltd."), of which the Company owns 50% pursuant to the Joint Venture agreement entered into on October 14, 2005 (as described in greater detail below under Joint Venture Agreement). From October 14, 2005 to December 13, 2006, the Company had no oil and gas operations except through its ownership of 50% of ZNG, Ltd. On December 13, 2006, the Company entered into an Interest Purchase Agreement with Key Brokerage, whereby the Company purchased 100% of the issued and outstanding common 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. KNG has previously applied for 10 exploration and production licenses for parcels located within the existing oil deposits of the Khanty-Mansiysk district, in Russia, four of which are expected to be auctioned off during the second or third quarter of 2007.

Moving forward the Company plans to focus on the exploration and potential development of any licenses acquired by KNG through government auctions in fiscal 2007 and working with its partner in the Joint Venture, Baltic Petroleum (E&P) Limited ("BP" or "Baltic"), to continue the oil and gas exploration activities through their co-ownership of the Joint Venture and ZNG.

### **Description of KNG**

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 are receiving the geological information package on the Karabashski zone of Khanty-Mansiysk Autonomous district (Tuymen region of Russian Federation) ("Geological Data"). The Geological Data is included in the total purchase price discussed below.

From 2005 through 2007 KNG applied for a total of 15 exploration and production licenses in the Khanty-Mansiysk district of Russia. We believe that through auctions and/or tenders, KNG may obtain licenses to four of the licensed areas during the second or third quarters of 2007. We also believe four other license areas will be auctioned off during the third or fourth quarter of 2007; however, the remaining other auction/tender dates are currently undetermined.

The Purchase Agreement consummated the transactions contemplated by the Option Agreement (the "Key Brokerage Option"), which we entered into with Key Brokerage in September 2006. In consideration for agreeing to the Key Brokerage Option, we granted Key Brokerage 250,000 warrants to purchase shares of our common stock at an exercise price of \$2.20 per share, exercisable for up to two (2) years from the date of the Key Brokerage Option (the "Key Brokerage Warrants") in September 2006.



In connection with the purchase of KNG, we received certain geological information, including well logs, surveys and structural maps regarding the Karabashsky zone of the Khanty-Mansiysk district, which an independent appraisal valued at approximately \$2,700,000.

In consideration for the transfer of 100% of the stock of KNG, we issued Key Brokerage an aggregate of 1,900,000 restricted shares of our common stock valued at approximately \$2,700,000, which value approximated the value of geological information relevant to the license blocks applied for by KNG.

### **Description of ZNG**

ZNG was created to explore and develop new hydrocarbon fields and oil and gas properties in the Kurgan region of Southwest Siberia, Russia. ZNG has compiled data in the Eastern part of the Kurgan region by analyzing prior geological, geophysical and lithographic exploration works in the region, data, maps, and reports from 12 test wells drilled between 1979-1986, profile sections, correlation schemes, and geographic maps of the region. ZNG has also obtained core samples from parametric wells drilled in prior years on the licensed areas and adjacent territories in the Eastern part of Kurgan region during the initial search for oil and gas in the region, and performed analysis of the data provided by the samples.

In March 2003, ZNG acquired four 5-year exploration licenses through a government tender, which licenses expire in March 2008, and which licenses are for concessions covering a total territory of 643,000 acres. Upon expiration of the licenses, ZNG will have, subject to the signing of the Subsoil Legislation, preferential right to apply for the full production license for the term of 25 years.

The Mokrousovsky license is the largest of the four licenses, encompassing a total of 240,000 acres, followed by the West Suersky, which covers 230,000 acres, the Privolny, which covers 123,000 acres, and the Orlovo-Pashkovsky license, which covers 50,000 acres.

In June 2006, through participation in governmental auctions, ZNG successfully obtained three more oil and gas licenses in the Kurgan region of Siberia, Russia: the Yuzhno-Voskresensky, Petuhovsky and Lebyazhevsky parcels. The new licenses are for the period of 25 years and allow both exploration and production on the licensed areas. The total cost paid at the auctions for the three new licenses by ZNG was approximately \$425,000. The acquisition of the three new licenses increased the total area covered by the licenses held by ZNG from 643,000 acres to over 1 million acres. All seven licensed areas are located in the Eastern part of Kurgan region, have well-developed infrastructure, including close proximity to the major oil pipeline, and have available existing prior geological data.

ZNG also has outstanding applications for two more parcels in the same area - Zapadno-Petukhovsky and Orlovo-Pashkovsky-2. The anticipated auction dates for these licenses are currently unknown and there can be no assurance that ZNG will be awarded the licenses to the parcels at auction.

Following detailed data collection, survey and seismic testing, ZNG will proceed with development of the most promising licenses first. As of March 2007, ZNG has performed the following research and exploration works on its licensed areas:

- Obtained core samples from parametric wells drilled in prior years on the licensed areas and adjacent territories in the Eastern part of Kurgan region during the initial search for oil and gas in the region, and performed analysis of the data provided by the samples;
- Completed a 2D seismic survey on the West-Suersky block (approximately 320 linear kilometers), the Privolny block (approximately 140 linear kilometers), and the Mokrousovky block (approximately 340 linear kilometers) using Bazneftgeophysica;

· Performed gravimetric surveys on the West-Suersky block;

- Completed approximately 2,106 linear kilometers of gas seismotomographic and geochemical surveys performed by Exotrad on the Privolny, Mokrousovsky, West-Suersky, Orlovo-Pashkovky, South-Voskresensky, Petukhovsky and Lebyazhevsky blocks Gas seismotomography is an advanced technique of combining active gas geochemistry, passive seismic and electromagnetic methods. The surveys were performed by Exotrad, a world leader in this field. Exotrad has used this technology in more than 260 projects as well as “Caspian Pipeline Consortium”; “Sakhalin-2”; and “Blue Stream” in diverse locations across Asia, Eastern Europe and the Americas;
- Scientific and technical analysis was performed by the team of geologists, which included experts from Exploration Consultants Limited (“ECL”), a leading international oil and gas consulting firm (part of RPS Group);
- Based on the results of the gas seismotomographic surveys and high definition 2D seismic survey shot over the geochemical anomalies found in the Privolny and Mokrousovsky blocks, two robust drilling prospects have been identified in the northern part of the Privolny block; and

### **Seismic Interpretation On Mokrousovsky Block**

ZNG has completed an interim Seismic Interpretation and received a Mapping Report created by RPS Energy (“RPS”), relating to the 2D seismic studies conducted on the Mokrousovsky block to date. The Mokrousovsky block is the second licensed area surveyed using conventional 2D seismic surveys, over which 339 kilometers (“km”) of seismic surveys have been shot. The following results have been obtained through those surveys:

- One structural prospect has been identified in the south west of the Mokrousovsky license area. The structure has a maximum area of approximately 72 square km, of which approximately 52 square km lie within the licensed area. The surface geochemical anomaly discovered in the area lies over the north eastern flank of the structure within the license area.
- A drilling location has been recommended by RPS for the prospect, based on the strong structure and geochemical coincidence, which drilling has not begun to date.

### **Drilling On The Privolny Block**

Drilling of the first prospect located in the Privolny block is under way. The “Privolny-1” well is intended to provide physical data to enable the seismic survey to be correlated to the geology of the block and to better determine the subsurface structures which are present in the block. ZNG believes that this will provide an improved analysis to create a work program including the drilling of at least two more exploration wells. ZNG expects to provide a geological update during the second or third quarters of 2007, which period of time is needed to drill and process data from the 2,000 meter deep well.

ZNG's Board of Directors decided to drill up to four exploration wells in connection with the recent Seismotomographic surveys and high definition 2D seismic shot over geochemical anomalies in Privolny and Mokrousovsky blocks. At least two of these wells are proposed to be drilled in northern locations in the Privolny block and the other two wells are proposed to be drilled on the Mokrousovsky block.



In the event that the wells prove successful in establishing the presence of hydrocarbons, of which there can be no assurance, the Board of Directors of ZNG intends that production testing will be supervised by a leading firm of reservoir evaluation consultants and the Board will then determine the most appropriate means of commercializing the license blocks.

## **Joint Venture**

Operating activities described above are 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., will, operate through ZNG and be 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 and as a result of such transfer, the Company no longer has any separate oil and gas exploration activities in Kurgan, Russia, other than through its ownership of ZNG, Ltd.

On November 9, 2005, ZNG entered into a New Loan with Caspian (the "New Loan"). Under the loan agreement, Caspian Finance Limited ("Caspian") agreed to provide a loan of up to \$6,874,325 representing the assumed commitment under a prior loan equal to \$1,739,658, of which ZNG had received \$1,110,624 as of November 9, 2005, and a new commitment of up to \$5,134,667, to be used for operations in the Kurgan region in 2005 and through the first half of 2006. The New Loan is available to ZNG until the sixth anniversary of the date of the New Loan, or November 9, 2011 (the "Term"). On January 16, 2007, ZNG entered into an "Addition to the Loan Agreement of November 9, 2005," with Caspian, whereby ZNG agreed to increase the amount of the New Loan from \$6,874,325 to \$8,874,325 under the same terms and conditions as the New Loan. The New Loan had a total outstanding balance, including principal and accrued interest of \$9,289,219 as of April 27, 2007.

Interest on any amounts loaned under the New Loan bears interest at the following rates, calculated and accrued on a daily basis, 14% per annum during the first two years of the Term, 13% per annum during the third year of the Term; and 12% thereafter until the end of the Term. In the event that ZNG does not make the Interest Payments when due, interest on the unpaid amounts shall be payable from the due date to the date paid at the rate of 6% per annum, calculated and accrued on a daily basis. The New Loan is unsecured by ZNG, but Caspian reserved the right to request security over all or some of the assets and/or undertaking of ZNG at any time prior to any drawdown of the New Loan, or while any money is outstanding under the New Loan.

Pursuant to the New Loan, ZNG is responsible for satisfying all requirements of Russian Federation law and regulations in connection with each advance made under the New Loan, and ZNG shall indemnify Caspian for any loss or damage it may suffer as a result of the New Loan.

On November 9, 2005, ZNG, Ltd. and Caspian entered into a Debenture, whereby ZNG, Ltd. granted Caspian a security interest in substantially all of its assets, including its 100% ownership of ZNG, to secure the repayment of the New Loan Agreement. Pursuant to the Debenture, ZNG, Ltd. granted Caspian a continuing security interest for the payment, performance and discharge of all of the liabilities owing to Caspian by ZNG, Ltd., in the following assets, both present and future, from time to time to the extent owned by ZNG, Ltd., or to the extent in which it has an interest.

Additionally, on November 9, 2005, ZNG, Ltd. and Caspian entered into an "Agreement for the Pledge of the Participatory Interest in OOO Zauralneftegaz" (the "Pledge Agreement"). Pursuant to the Pledge Agreement, ZNG, Ltd., pledged its 100% ownership interest in ZNG to Caspian, which included any proceeds, dividends, distributions or income deriving from ZNG and any compensation, whether monetary or in-kind, deriving from ZNG, received due to the liquidation or reorganization of ZNG. The Pledge Agreement shall remain in effect until all amounts owed to Caspian by ZNG, Ltd. are repaid. Pursuant to the Pledge Agreement, ZNG, Ltd., agreed to hold all dividends, interest and other income deriving from and by it for the account of Caspian, and agreed to pay such dividends, interest and other income to Caspian upon Caspian's request.



If ZNG, Ltd., fails to pay the amounts owed to Caspian, pursuant to the Pledge Agreement, Caspian can sell the 100% interest in ZNG at public auction, in one or several sales, with an opening bid price of seventy-five percent (75%) of the value set forth for the value of ZNG in the Pledge Agreement (\$7,705,079) at the first public auction and fifty percent (50%) of the value set forth in the Pledge Agreement at the second public auction. If the opening bid for ZNG is not met at either the first or second public auction, Caspian shall have the right to retain ZNG, with its value equal to 90% of the value set at the second auction, and set-off its claims secured by ZNG, Ltd. by such value. If ZNG is sold at public auction, any and all proceeds from such sale received by Caspian shall be applied towards the discharge of the amounts owed by ZNG, Ltd. to Caspian.

The total budget for the exploration program and further seismic studies, which the Board has proposed to shoot on ZNG's Lebyazhevsky licensed block, totals approximately \$8 million British pounds or \$15 million US dollars. The funds were raised by BP's parent via a placement of shares. ZNG is currently in the process of entering into new loan agreements covering such funds. The loans will not be dilutive to the Company's ownership in ZNG. In connection with the funding provided by Baltic, ZNG entered into a gross override royalty agreement with Baltic, as described below under "Deed of Agreement," and "Gross Override Royalty Agreement."

### **Deed of Agreement**

On July 26, 2006, we entered into a Deed of Agreement with Baltic Petroleum (E&P) Limited ("BP" or "Baltic") and ZNG. Pursuant to the Deed of Agreement, BP agreed to allow the drawdown by ZNG, within 10 days of the date of the Deed of Agreement, of certain funds from Caspian under the New Loan, including:

- o \$185,000 to be paid to Business Standard, which was owed to Business Standard from ZNG in consideration for Business Standard assisting ZNG with the process of the granting of the three oil and gas licenses awarded to ZNG in June 2006;
- o \$170,000 to be paid to Mr. Victor Repin (a significant shareholder of the Company) and Sergey Potapov (a Director of the Company) in final settlement of amounts due to them by ZNG; and
- o \$44,000 to ZNG's landlord in full settlement of all sums due in connection with the rent on ZNG's offices in Kurgan, Russia.

The Deed of Agreement also contemplated ZNG's entry into a further loan agreement with Caspian (assuming Caspian is able to raise such financing on terms acceptable to BP), substantially with the same terms as the New Loan (other than due dates and interest amounts), whereby Caspian would provide ZNG funds for seismic drilling and work programs of approximately \$12,000,000 (the "Additional Loan").

The Deed of Agreement also provided that upon the entry into the Additional Loan, we, BP and ZNG will enter into a gross override royalty agreement, whereby ZNG will grant a gross override royalty ("GOR") to BP equal to 3% of the gross turnover on all production of oil and gas at the wellhead in Kurgan by ZNG until BP has received in aggregate \$20,000,000 from such GOR (the "GOR Sum"). In December 2006, ZNG entered into a Gross Overriding Royalty Agreement with Baltic, which is described in greater detail below.

On January 16, 2007, ZNG entered into an "Addition to the Loan Agreement of November 9, 2005," with Caspian, whereby Caspian agreed to increase the amount of the New Loan from \$6,874,325 to \$8,874,325 under the same terms and conditions as the New Loan. The increase in the new loan was intended to allow continuous cash flow to ZNG for its operating needs during the first two quarters of 2007 until the companies enter into the anticipated loan agreements to finance the current program of seismic studies and drilling of the first four (4) planned wells in ZNG's

license blocks, two of which are planned for 2007.

Baltic agreed to pay additional fees of \$300,000 in connection with consulting services rendered in connection with the acquisition of the licenses by ZNG during the year ended December 31, 2006. The \$300,000 expense was added to the total amounts loaned by Baltic to the Joint Venture.

-16-

---

### **Gross Overriding Royalty Agreement**

In December 2006, ZNG entered into a Gross Overriding Royalty Agreement (the "Royalty Agreement") with Baltic, which was contemplated by the Deed of Agreement dated July 26, 2006, described above and entered into in connection with the addition to the New Loan, described above. The Royalty Agreement provided that ZNG would grant Baltic a gross overriding royalty interest equal to 3% of ZNG's interest in any and all the hydrocarbons found in, produced, marketed and/or extracted from ZNG's licensed blocks (the "Royalty"). Pursuant to the Royalty Agreement, the Royalty shall be paid free and clear of any expenses associated with the exploration and/or production of any hydrocarbons discovered on the licensed blocks. The Royalty will apply until ZNG has received an aggregate of \$20,000,000 from the gross sales of any hydrocarbon production produced or occurring on any wells owned or operated by ZNG. The Royalty Agreement also provides that Baltic may at any time, upon not less than one (1) week prior notice, take the Royalty in oil and/or gas production, instead of in cash. ZNG also granted Baltic a security interest on any and all of its future hydrocarbon production to secure the payment of the Royalty.

### **Agreement With Alternative Energy Finance, Ltd.**

We previously agreed to issue Alternative Energy Finance Ltd. ("AEF"), of which Tim Peara is the Managing Director as well as a Director of the Company, certain warrants in connection with Mr. Peara introducing the parties who formed the joint venture. Pursuant to an agreement between AEF and the Company, AEF will receive compensation based on the total investment made by Baltic Petroleum Ltd. in the Joint Venture. This compensation included a commission of approximately \$18,024 (1% of Baltic's first \$1,802,441 investment in the Joint Venture), which amount has not been paid as of the date of this filing, and 50,068 options to purchase shares of our common stock at \$0.63 per share which were granted to Mr. Peara on March 6, 2006 and a commission of \$6,673 (1% of Baltic's \$667,313 investment in the Joint Venture in the first quarter of 2006), and 17,561 options to purchase shares of our common stock at \$0.67 per share for the first quarter of 2006, which were granted to Mr. Peara on March 31, 2006, which options contain a cashless exercise provision.

On June 30, 2006, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 20,412 shares of our common stock at an exercise price of \$2.02, which warrants contained a cashless exercise feature. The warrants expire three years from the grant date. We were also obligated to pay AEF \$23,562 during the quarter ended June 30, 2006 (equal to 1% of Baltic's \$2,356,153 investment in the Joint Venture in the second quarter 2006).

On September 30, 2006, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 20,952 shares of our common stock at an exercise price of \$1.53 per share, which warrants contained a cashless exercise feature. The warrants expire three years from the grant date. We were also obligated to pay AEF \$18,303 during the quarter ended September 30, 2006 (equal to 1% of Baltic's \$1,830,292 investment in the Joint Venture in the third quarter of 2006).

On December 31, 2006, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 38,648 shares of our common stock at an exercise price of \$1.44 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We were also obliged to pay AEF \$31,794 during the three months ended December 31, 2006 (equal to 1% of Baltic's approximately \$3,197,400 investment in the Joint Venture in the fourth quarter of 2006).

On March 13, 2007, Mr. Peara personally, and on behalf of AEF agreed to accept 58,134 shares of our restricted common stock in consideration for the forgiveness of \$45,626 owed personally to Mr. Peara in Directors fees and accrued expenses and \$47,969 owed to AEF in connection with our agreement with AEF, which shares have been issued to date and which debt has been forgiven by Mr. Peara and AEF.

On March 31, 2007, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 48,925 shares of our common stock at an exercise price of \$1.10 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We were also obliged to pay AEF approximately \$30,695 during the three months ended March 31, 2007 (equal to 1% of Baltic's approximately \$3,069,482 investment in the Joint Venture in the first quarter of 2007); which amount has not been paid to date.

#### **Consulting Agreement with Business Standard**

On January 25, 2007, our Board of Directors took action to ratify the Company's entry into a Consulting Agreement with Business Standard, a Russian company (the "Consulting Agreement"), which Consulting Agreement provides for Business Standard to provide us certain consulting services in connection with investigating financing opportunities, assisting in the Company's day to day business management, assisting in negotiations with potential investment partners, as well as assisting in the application for oil and gas exploration and production licenses by our wholly owned subsidiary KNG or current and potential investee companies in the Western Siberia region of Russia. We agreed to pay Business Standard \$15,000 per month pursuant to the Consulting Agreement and also agreed to issue Business Standard 200,000 shares of our restricted common stock as a signing bonus in connection with its entry into the Consulting Agreement and 200,000 restricted shares of common stock in connection with the acquisition of KNG. The Consulting Agreement ends on December 31, 2007, but is automatically extended for additional one (1) year terms unless either party communicates its desire to terminate the agreement to the other party fifteen (15) days prior to the end of the then current term.

Also on January 25, 2007, we approved an annual salary of \$180,000 (plus a performance based bonus to be determined by the Board of Directors at the end of the 2007 fiscal year) for our Chief Executive Officer and Director, David Zaikin for the 2007 fiscal year. On January 31, 2007, Mr. Zaikin notified us that effective February 1, 2007, he was withdrawing his previous request to not accrue any salary until we had sufficient funds to pay such salary, and instead requested that we pay him his 2007 salary if funds were available for such payments and/or that we accrue such salary until we have sufficient funds to repay him any accrued amounts. In February 2007, our Board of Directors approved the issuance of 350,000 shares of our restricted common stock to Mr. Zaikin, in consideration for compensation for the year ended December 31, 2006, which compensation was granted by our Board of Directors in its sole discretion, even though Mr. Zaikin had previously agreed not to be paid or accrue any salary for fiscal 2006.

#### **Uptick Capital Agreement**

On January 31, 2007, we entered into an agreement with Uptick Capital Ltd. ("Uptick"), whereby Uptick agreed to assist us in developing market links and strategic initiatives as well as financing introductions for us as requested from time to time. The initial agreement was for a period of three (3) months, but can be renewed indefinitely thereafter for additional three (3) month periods, unless we provide written notice ten (10) days prior to the expiration of any additional three (3) month term. We agreed to issue Uptick 10,000 shares of our restricted common stock for each month that the agreement with Uptick is in place. We also agreed to indemnify Uptick for certain costs and damages in connection with its performance of its duties under the Uptick agreement, as described in greater detail in the agreement.

#### **Global Consulting Group Agreement**

With an effective date of April 10, 2007, we entered into an agreement with The Global Consulting Group (“Global”), whereby Global agreed to perform investor relations and medial communications services for us for the period of one (1) year, which agreement is automatically renewable for additional one (1) year periods if not terminated prior as described below. Pursuant to the Global agreement, we agreed to pay Global \$12,000 per month during the term of the agreement (subject to 3% yearly increases, if such agreement is not terminated prior to the one (1) year anniversary of the agreement), and pay Global one time bonuses of \$5,000 upon the achievement of any of the following goals: our common stock being listed on the AMEX; a valuation of our common stock of at least \$40 million for more than 30 days; and/or any feature story in a top tier media outlet (The Wall Street Journal, The New York Times or similar publication). We also agreed to pay Global’s reasonable out of pocket expenses, subject to prior approval for any expense over \$300 and to indemnify Global against any losses they may incur as a result of the Global agreement up to a maximum of \$10,000.



The Global agreement can be terminated by either party after six (6) months upon thirty (30) days prior written notice, and can be terminated immediately at any time due to a material breach of the agreement by either party, which breach is not cured within 15 days of notice thereof from the non-breaching party, and/or if any party becomes bankrupt or ceases to carry on business.

### **Exercise of Stock Options**

On May 1, 2007 at 9:00 a.m., Tim Pearsa, our Director, exercised 50,000 of the options he held to purchase shares of our common stock at an exercise price of \$0.30 per share, which options would have expired on May 1, 2007 at 5:00 p.m. if not previously exercised by Mr. Pearsa. Mr. Pearsa used the cashless exercise provision of the options and will receive 41,925 shares of our common stock in connection with the exercise of the options, based on the fair market value of the common stock on the date he exercised of \$1.86. The 41,925 shares of common stock had not been issued as of May 10, 2007, and as such have not been included in the number of issued and outstanding shares disclosed throughout this report.

### **Amendment to Employment Agreement with Elena Pochapski**

On or about April 2, 2007, with an effective date of April 1, 2007, we entered into "Amendment 2 to the Employment Agreement Dated August 1, 2003" with Elena Pochapski, our Chief Financial Officer and Director, which amended the terms of the first amendment to Ms. Pochapski's Employment Agreement, in September 2005, to provide that Ms. Pochapski's annual salary shall thereafter be \$75,000 per year.

### **Appointment of New Officer and Director**

Effective May 1, 2007, Helen Teplitskaia was appointed as the Company's President and as a Director of the Company.

Helen Teplitskaia is Executive Vice President and Head of Eurasia Practice at Imnex International, Inc. She also serves as President of the American-Russian Chamber of Commerce & Industry, President of the American-Eurasian Chamber of Commerce, Director of the International Energy Advisory Council and Adjunct Associate Professor of International Business and Markets - Global Initiatives in Management at Northwestern University Kellogg School of Management.

Throughout her career, Ms. Teplitskaia has successfully assisted a variety of government agencies and private sector companies, including the United States Agency for International Development, US State Department, Ministry of Foreign Affairs of the Republic of Uzbekistan, AT&T, Baker & McKenzie, Case New Holland, Gazprom, Gillette, HeidelbergCement, Ingersoll-Rand, Maytag, Motorola, Pepsi-Cola and Morgan Stanley with start-up operations in markets, direct investment, mergers and acquisitions, joint ventures and licensing, marketing research, political interfacing and media relations.

Helen Teplitskaia received her BA/MIS from the St. Petersburg University of Culture and MBA degree from Northwestern University Kellogg School of Management.

It is anticipated that Ms. Teplitskaia will receive shares and options for her services and terms of such compensation will be disclosed in the future.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon our unaudited financial statements, which have been prepared in accordance with accounting principals 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 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 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 the process of development to achieve commercial production and sales of products. 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 debt financing and more recently has received \$55,000 per month in a management fee from its Joint Venture. 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**

As a result of the Joint Venture, the Company will work with its partner in the Joint Venture, Baltic Petroleum (E&P) Limited ("BP" or "Baltic") to continue the oil and gas exploration activities through their co-ownership of the Joint Venture, ZNG, Ltd., which in turn owns ZNG. The Company believes that ZNG has adopted an aggressive but sensible work program. In connection with the Joint Venture, BP will supply ZNG with both the technical and financial support that is required to fulfill the work program. If circumstances permit and ZNG is awarded additional blocks in the Kurgan Region, we believe that BP will be able to ensure that adequate funding is available to support the Work Programs on these blocks.

The Company also plans to put a large part of its resources into KNG, and the licenses which KNG has applied for. If KNG is granted any or all of the 10 licenses it applied for in November 2005 and May 2006, or the 5 additional licenses which it submitted applications for during the first quarter of 2007, the Company anticipates conducting oil and gas exploration surveys and studies on those licenses.

Moving forward, we anticipate targeting other potential long term investments in Russia, separate from our involvement in the Joint Venture and KNG. Currently we are evaluating different business opportunities in the oil and gas industry, including both development stage and revenue-producing enterprises. As of the filing of this report on Form 10-QSB, the Company is researching certain other projects which involve the potential purchase of oil and gas interests in Western Siberia, Russia; however no formal agreements or understandings have been entered into as of the filing date of this report, other than the purchase of KNG as described above.



Historically, we have obtained cash financing from organizing stockholders in the form of loans and advances. Additionally, during the fourth quarter of 2005, we restructured much of our debt through the issuance of shares to our creditors and obtained waiver letters, postponing certain of our liabilities until such time as we have generated sufficient profits to pay such debts. These waiver letters related to the payment of certain trade debts as well as shareholder loans and accrued salaries.

In connection with the Joint Venture (described under "Joint Venture Agreement," above), the Company received \$25,000 per month in management fees in connection with the Joint Venture from the date the Joint Venture was entered into until November 2006, at which time the management fees were increased to \$55,000 per month. The Company, however, can make no assurance that \$55,000 per month will be adequate to pay its upcoming expenses and liabilities, in which case the Company plans 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 \$322,357 and \$362,166 were payable to the stockholders as of March 31, 2007 and March 31, 2006, respectively. However, 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 MARCH 31, 2007, COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2006

We had revenues and other income of \$165,000 for the three months ended March 31, 2007, which was solely due to \$55,000 of monthly management fees received from ZNG, Ltd. We had \$75,000 of revenue and other income for the three months ended March 31, 2006, due solely to \$75,000 of management fees received. In November 2006, the management fees we received pursuant to our Joint Venture increased from \$25,000 per month to \$55,000 per month. Revenues increased \$90,000 or 120% for the three months ended March 31, 2007, compared to the three months ended March 31, 2006, which increase was due solely to the \$30,000 monthly increase in the management fees we receive from the Joint Venture.

We have not generated any revenues to date through the sale of oil and/or gas.

We had total expenses of \$474,093 for the three months ended March 31, 2007, compared to total expenses for the three months ended March 31, 2006, of \$394,189, which represented an increase in total expenses from the prior period of \$79,904 or 20.3%.

Total expenses for the three months ended March 31, 2007, included \$83,643 of salaries; \$202,388 of professional and consulting fees, including amounts paid to our legal counsel and accountants in connection with the preparation and filing of our annual report on Form 10-KSB, and certain warrants and shares granted for professional services during the three months ended March 31, 2007 including 400,000 shares of common stock issued to Business Standard in connection with the Business Standard Consulting Agreement, described above, 465,000 shares of common stock issued to our officers and Directors in compensation for services rendered, and various other shares of common stock issued to consultants for services rendered (as described below under "Unregistered Sales of Equity Securities"); \$12,385 in rent and occupancy; \$82 of depreciation and amortization; \$1,499 of finance charges and interest, attributable to interest paid on the advances we received from BP and other loans; and \$174,096 of marketing and other expenses, including marketing and advertising in connection with road shows, various general and administration expenses relating to the day to day operations of the Company, travel and hotel expenses in connection with the research on potential business acquisitions, and the value of shares of common stock issued for investor

relations services rendered.

-21-

---

## Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

The \$83,643 of salaries for the three months ended March 31, 2007, included approximately \$18,060 which was attributable to the our Chief Financial Officer, Elena Pochapski, which has been paid in full; \$45,000 attributable to the salary of our Chief Executive Officer, David Zaikin, which amount was accrued; and certain other amounts which were paid to various other officers, Directors, employees and consultants.

The main items leading to the increase in total expenses for the three months ended March 31, 2007, compared to the three months ended March 31, 2006, were an increase of \$50,332 or 151% in salaries, an increase of \$46,672 or 30% in professional and consulting fees and a \$2,648 or 27.2% increase in rent and occupancy. The increase in salaries is mainly attributable to the salary of David Zaikin, who previously agreed during the 2006 fiscal year, including the three months ended March 31, 2006, to not accrue salary, but who since decided as of January 30, 2007, to once again accrue salary from the Company .

Certain other expenses were less during the three months ended March 31, 2007, compared to the three months ended March 31, 2006, including marketing and other expenses, which decreased by \$17,395 or 9.1% from the prior period and finance charges and interest which decreased by \$2,349 or 61% from the prior period.

We had a net loss of \$309,093 for the three months ended March 31, 2007, compared to a net loss of \$319,189 for the three months ended March 31, 2006, a decrease in net loss of \$10,096 or 3.2% from the prior period. The decrease in net loss was mainly attributable to the \$90,000 or 120% increase in management fees offset by the \$79,904 or 20.3% increase in total expenses, namely the increases in professional and consulting fees and salaries, described above, for the three months ended March 31, 2007, compared to the three months ended March 31, 2006.

### **LIQUIDITY AND CAPITAL RESOURCES**

We had current assets of \$235,201 as of March 31, 2007, which included cash of \$8,920; management fee receivable of \$55,000, which represented amounts owed to us by ZNG, Ltd. in management fees, which amount has been paid to date; and prepaid expenses and other of \$171,281. This represented an increase in current assets of \$118,494 or 101%, from \$116,707 of current assets as of December 31, 2006.

We had total assets of \$2,937,690 as of March 31, 2007, which included current assets of \$235,201 and non-current assets of \$2,702,489. Non-current assets included \$2,700,000 of oil and gas properties, unproved, representing geological studies and data, which we received in connection with the purchase of KNG and \$2,489 of property and equipment, net.

We had total liabilities of \$946,276 as of March 31, 2007, which were solely current liabilities and which included \$322,357 of accounts payable to related party stockholders in connection with those shareholders paying certain of our expenses from the period between January 1, 2003 to March 31, 2007; \$214,108 of accounts payable to Baltic in connection with the \$29,000 loan advanced to the Company from Baltic, as described above under "Description of Business" and certain other expenses owed to Baltic; \$357,698 of accounts payable to others for advisory and professional services rendered; and \$357,698 of accrued payroll, which included \$157,500 payable to our Chief Executive Officer, David Zaikin which included \$112,500 which was owed to Mr. Zaikin for services rendered prior to September 2005, at which time he agreed to stop accruing salary until January 2007, when he provided us notice of his intent to once again begin accruing salary until such time as we have sufficient funds to pay such accrued salary, \$90,285 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam.

We had negative working capital of \$711,075 and a total pre development and development stage accumulated deficit of \$5,977,448 as of March 31, 2007.

Because our cumulative losses associated with the operations of ZNG exceeded our investment as of the date of the Joint Venture, ZNG is carried on our balance sheet at \$-0- as of March 31, 2007. Our investment in ZNG will exceed

\$-0- at such time as ZNG has cumulative earnings sufficient to repay all loans to Baltic as provided in the Joint Venture, if ever.

-22-

---

We had \$9,518 of net cash flows for operating activities for the three months ended March 31, 2007, which included \$1,367,398 of common stock and warrants issued for professional services and salaries offset by \$937,854 of accounts payable and accrued expenses, \$82 of depreciation and amortization, \$309,093 of net loss and \$111,015 of prepaid expenses and other assets.

As of March 31, 2007, ZNG had received \$9,289,219 pursuant to the New Loan, which amount includes \$1,110,624 assumed by ZNG in connection with a previous loan made to ZNG. Total interest accrued as of March 31, 2007 was \$962,521, including accrued interest on the previous loan; however, we are currently in a dispute with Baltic over whether the interest on the New Loan compounds or is only payable upon maturity and as such, the amount of accrued interest on the loan is subject to change.

Additionally, in July 2006, we entered into a Deed of Agreement, whereby Baltic agreed (funding permitting) to loan ZNG approximately \$12,000,000 to be used on seismic studies, drilling and a work program, which funds have not been loaned to date.

Under the Joint Venture, we will receive \$55,000 per month as a management fee from ZNG, Ltd. In addition to the monthly management fee, ZNG Ltd. agreed to lend \$78,000 to us to pay for legal and consulting services in connection with establishing the Joint Venture. We received \$29,000 of this amount in November 2005; and will receive the additional \$49,000 if all five of the new licenses are awarded to ZNG, of which three have been awarded to date, and ZNG submits a letter from the relevant license authority of the Ministry of Natural Resources of the Russian Federation confirming such awards, of which there can be no assurance.

Since our transfer of ZNG to the Joint Venture, we have no oil and gas operations separate from the Joint Venture, which has not started production and is not currently generating any cash from production, which makes it difficult for us to pay our maturing obligations. However, during the three months ended March 31, 2007, we did purchase KNG, and hope to be awarded oil and gas exploration licenses in connection with KNG during 2007. Moving forward, we believe that in the long run a number of trends will favorably affect our liquidity. These trends include the steady trend of economic growth in Russia in the recent years which is improving the liquidity of our potential customers, and may favorably impact our debt management and the increasing overall credit rating in Russia, which we hope will lead to increased foreign investment in Russian companies and which will benefit us as well.

We are taking steps in an attempt 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.



## **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 through funding provided by existing stockholders and with amounts received from the Joint Venture (described above), including \$55,000 a month which the Company is to receive from ZNG, Ltd., pursuant to the Joint Venture. Additionally, ZNG has received approximately \$1,110,624 from BP pursuant to a prior loan and another \$7,216,074 pursuant to the New Loan, which had a total outstanding balance, including the assumed balance of the prior loan and accrued and unpaid interest on the prior loan and the New Loan as of April 27, 2007, of \$9,289,953, which has been spent on various purposes, including paying consultants for services performed in connection with surveys previously performed on the licensed area. As the Joint Venture is now responsible for the funding of the operations of ZNG, we believe our expenditures in connection with ZNG will decrease in the upcoming periods. If we are unable to raise the additional funds required for the planned activities of the Joint Venture and for additional activities, separate from the Joint Venture, our Company may be forced to abandon its current business plan. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

### **WE WILL NEED SUBSTANTIAL FINANCING AND SUBSTANTIAL TIME BEFORE WE ANTICIPATE GENERATING REVENUES THROUGH OUR OWNERSHIP OF ZNG, LTD., IF ANY.**

The Company does not expect to generate any revenues through the operations of ZNG, other than the \$55,000 a month that it will receive from ZNG, Ltd., of which there can be no assurance. Therefore, investors should keep in mind that even if ZNG is able to raise the substantial amounts of additional financing it requires for its operations, it could still be years before ZNG generates any revenue, if ever. Even if generated such revenues will likely not be great enough to sustain ZNG. If no revenues are generated and hydrocarbon reserves are not located, we may be forced to abandon or curtail our current business plan. If ZNG, which is 100% owned by the Company 50/50 joint venture ownership of ZNG, Ltd., were forced to abandon its business plan, 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 become worthless.

### **WE WILL NEED SUBSTANTIAL FINANCING AND SUBSTANTIAL TIME BEFORE WE ANTICIPATE GENERATING REVENUES THROUGH KNG, IF ANY.**

The Company anticipates the need for approximately \$15,000,000 prior to KNG's expected generation of any revenues. Currently the Company has not raised any of this financing and the Company can make no assurances that this financing will ever be raised. The Company also does not expect to generate any revenues through the operations of KNG, until such financing can be raised, of which there can be no assurance. Therefore, investors should keep in mind that even if KNG is able to raise the substantial amounts of additional financing it requires for its operations, it could still be years before KNG generates any revenue, if ever. If KNG does not raise the \$15,000,000 which it anticipates needing to generate revenues, which, even if generated, will likely not be great enough to sustain KNG if no revenues are generated and hydrocarbon reserves are not discovered, KNG 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 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 \$3,080,336 for the year ended December 31, 2006, a net loss of \$309,093 for the three months ended March 31, 2007 and a total accumulated deficit of \$5,977,448 as of March 31, 2007. 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 previous earnings. 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 no revenues or profits to date and our net cumulative deficit attributable to our development stage as of March 31, 2007, was \$5,527,663, and our total cumulative deficit was \$5,977,448 which included \$449,785 of pre-development stage deficit. We had \$357,698 in accrued and unpaid salaries and a working capital deficit of \$711,075 as of March 31, 2007. The Company is currently being funded by existing shareholders and the \$55,000 monthly payments, which the Company receives from the Joint Venture in connection with management fees, 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. There is a risk that ZNG will never begin production and our Company will never generate any revenues through our ownership of ZNG, Ltd. There is also a risk that KNG will not be awarded the licenses for which it has applied. If throughout ZNG's oil exploration (and KNG's assuming it is awarded the licenses for which it has applied, of which there can be no assurance), no viable wells are found, and consequently, we generate only minimal revenues through ZNG, Ltd. (and/or through KNG), 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, nor have we discovered any hydrocarbon reserves or begun production on any wells. There is a risk that we will not find enough, or even any, viable wells which we require to generate enough profits 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 ZNG OR KNG DOES NOT FIND HYDROCARBON RESERVES, WE MAY BE FORCED TO CURTAIL OUR BUSINESS PLAN.**

There is a risk that ZNG and KNG, assuming it is awarded the licenses for which it has applied, of which there can be no assurance, will not find any hydrocarbon reserves and the cost of exploration will become too high for ZNG, Ltd.

to continue ZNG's business plan and/or us to continue KNG's business plan. As our only current operations are through our 50% ownership of ZNG, Ltd. which in turn owns 100% of ZNG, and through KNG, if ZNG, ZNG, Ltd. or KNG were to cease operations, your investment in our Company could become devalued or could become worthless.

-25-

---

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

The main factor determining success in the oil exploration and extraction industry is finding viable wells. If our Company, through ZNG, Ltd., KNG or other joint ventures we may enter into in the future, are unable to find producing wells 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 such as LUKoil, BP-TNK, Surgutneftegaz and Sibneft may have an advantage should they compete with us for exploration licenses, 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 the 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 and Chief Financial Officer, David Zaikin and Elena Pochapski, for the success of our Company, both of whom are employed under contracts. 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 either member 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 Mr. Zaikin and/or Ms. Pochapski, 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.

**ZNG'S OR KNG'S PROJECTIONS, ESTIMATES AND STATISTICAL ANALYSIS MAY BE INACCURATE OR SUBSTANTIALLY WRONG, WHICH MAY PREVENT ZNG AND/OR KNG FROM EXECUTING THEIR BUSINESS PLANS.**

Risks from these factors are intertwined with the risky nature inherent in the oil and gas industry. Projections on future revenues as well as costs and required capital expenditures are based on estimates. Business statistical analysis is used in projection of drilling success ratios, average production costs, world oil price fluctuations and their correspondence to Russian domestic market. If ZNG's or KNG's projections or estimates are wrong or our statistical analysis faulty, ZNG's or KNG's revenues may be adversely affected which could prevent ZNG and/or KNG from executing their 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 due to the fact that our only current oil and gas operations are through our 50% ownership of ZNG, Ltd., which in turn owns 100% of ZNG and through KNG, which has applied for, but not been awarded any licenses to date.

**IF WE ARE LATE IN FILING OUR QUARTERLY OR ANNUAL REPORTS WITH THE SEC, WE MAY BE DE-LISTED FROM THE OVER-THE-COUNTER BULLETIN BOARD.**

Under new Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the SEC, any OTCBB issuer who fails to file a periodic report (Form 10-QSB's or 10-KSB's) by the due date of such report (notwithstanding any extension granted to the issuer by the filing of a Form 12b-25), three (3) times during any twenty-four (24) month period are 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. Therefore, if we are late in filing a periodic report three times in any twenty-four (24) month period and are de-listed from the OTCBB, our securities may become worthless and we may be forced to curtail or abandon our business plan.

**AS THERE IS CURRENTLY ONLY A LIMITED MARKET FOR OUR COMMON STOCK, THE MARKET FOR OUR COMMON STOCK PRICE MAY 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;
- (4) increased competition;
- (5) the political atmosphere in Russia; and
- (6) conditions and trends in the oil, gas, and energy industries in general.

Furthermore, because our common stock is traded on the NASD 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. Further, due to the limited volume of our shares which trade and our limited public float, we believe that our stock prices (bid, ask and closing prices) are entirely arbitrary, are not related to the actual value of the Company, and do not reflect the actual value of our common stock (and in fact reflect a value that is much higher than the actual value of our common stock). Shareholders and potential investors in our common stock should exercise caution before making an investment in the Company, and should not rely on the publicly quoted or

traded stock prices in determining our common stock value, but should instead determine value of our common stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.

-27-

---

**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 \$4.00 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 \$4.00 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 3. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Principal Financial Officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-QSB (the "Evaluation Date"), have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) 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 2. UNREGISTERED SALES OF EQUITY SECURITIES**

On December 31, 2006, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 38,648 shares of our common stock at an exercise price of \$1.44 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We were also obligated to pay AEF \$31,794 during the three months ended December 31, 2006 (equal to 1% of Baltic's approximately \$3,197,400 investment in the Joint Venture in the fourth quarter of 2006); which amount has not been paid to date. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of warrants did not involve a public offering, the recipient took the warrants for investment and we took steps to restrict the transfer of the warrants. No underwriters or agents were involved in the foregoing grant and no underwriting discounts or commissions were paid by us.

On January 25, 2007, our Board of Directors approved the issuance of an aggregate of 465,000 shares of our restricted common stock to our current officers and Directors in consideration for services rendered to the Company during the year ended December 31, 2006, as follows:

- o 350,000 shares of our restricted common stock to David Zaikin, our Chief Executive Officer and Director in consideration for compensation for the year ended December 31, 2006, which compensation was granted by our Board of Directors in its sole discretion, even though Mr. Zaikin had previously agreed not to be paid or accrue any salary for fiscal 2006;
- o 50,000 shares of our restricted common stock to Elena Pochapski, our Chief Financial Officer and Director as a bonus for her services rendered during the year ended December 31, 2006;
- o 20,000 shares of our restricted common stock to Timothy Pears, our Director, as a bonus for his services rendered during the year ended December 31, 2006;

Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

- o 25,000 shares of our restricted common stock to Oleg Zhuravlev, our Director, as a bonus for his services rendered during the year ended December 31, 2006;
- o 10,000 shares of our restricted common stock to Vladimir Eret, our Director, as a bonus for his services rendered during the year ended December 31, 2006; and

-30-

---

- o 10,000 shares of our restricted common stock to Sergei Potapov, our Director, as a bonus for his services rendered during the year ended December 31, 2006.

We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuances of shares did not involve a public offering, the recipients took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts or commissions were paid by us.

On January 25, 2007, in connection with our ratification of the Business Standard Consulting Agreement, we approved the issuance of an aggregate of 400,000 shares of our restricted common stock to Business Standard in consideration for Business Standard's entry into the Consulting Agreement and in consideration for Business Standard's services rendered to us in connection with our acquisition of Kondaneftegaz. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of shares did not involve a public offering, the recipient took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by us.

Also on January 25, 2007, we approved the issuance of 20,000 shares of our restricted common stock to Lyudmila Shirko, in consideration for services rendered to us in connection with our operations during the year ended December 31, 2006. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of shares did not involve a public offering, the recipient took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by us.

On January 31, 2007, we issued 20,000 shares of our restricted common stock to Investor Relations Group Inc., in consideration for investor relations services rendered. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of shares did not involve a public offering, the recipient took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by us.

On February 15, 2007, the Board of Directors agreed to issue 4,000 restricted shares of the Company's common stock to Ann L. Stephenson Group, in consideration of investor relations services rendered to the Company in January 2007, and 3,000 restricted shares of common stock to Friedland Capital, in connection with the Company's participation at Friedland's New York investment conference in 2007. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuances of shares did not involve a public offering, the recipients took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuances and no underwriting discounts or commissions were paid by us.

In March 2007, we issued 10,000 shares of our restricted common stock to Investor Relations Group Inc., in consideration for investor relations services rendered. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of shares did not involve a public offering, the recipient took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by us.

On March 13, 2007, Mr. Peara personally, and on behalf of AEF agreed to accept 58,134 shares of our restricted common stock in consideration for the forgiveness of \$45,626 owed personally to Mr. Peara in Directors fees and accrued expenses and \$47,969 owed to AEF in connection with our agreement with AEF, which shares have been issued to date and which debt has been forgiven by Mr. Peara and AEF. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of shares did not involve a public

offering, the recipient took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by us.

-31-

---

On March 31, 2007, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 48,925 shares of our common stock at an exercise price of \$1.10 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of warrants did not involve a public offering, the recipient took the warrants for investment and we took steps to restrict the transfer of the warrants. No underwriters or agents were involved in the foregoing grant and no underwriting discounts or commissions were paid by us.

In April 2007, we issued 35,000 restricted shares of common stock to Uptick Capital in connection with the agreement with Uptick Capital entered into in January 2007 (as described above) for services rendered during the months of February, March, April and half of May 2007. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of shares did not involve a public offering, the recipient took the shares for investment and we took steps to restrict the transfer of the shares. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by us.

On May 1, 2007 at 9:00 a.m., Tim Peara, our Director, exercised 50,000 of the options he held to purchase shares of our common stock at an exercise price of \$0.30 per share, which options would have expired on May 1, 2007 at 5:00 p.m. if not previously exercised by Mr. Peara. Mr. Peara used the cashless exercise provision of the options and will receive 41,925 shares of our common stock in connection with the exercise of the options, based on the fair market value of the common stock on the date he exercised of \$1.86. The 41,925 shares of common stock had not been issued as of May 10, 2007, and as such have not been included in the number of issued and outstanding shares disclosed throughout this report. We will claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of shares will not involve a public offering, the recipient will take the shares for investment and we will take steps to restrict the transfer of the shares. No underwriters or agents will be involved in the foregoing issuance and no underwriting discounts or commissions will be paid by us.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

a) Exhibits

<b><u>Exhibit</u></b>	<b><u>Description of Exhibit</u></b>
<b><u>No.</u></b>	

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

-32-

---

Edgar Filing: Siberian Energy Group Inc. - Form 10QSB/A

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

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

-33-

---

- 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\* Amendment No. 2 to the Employment Agreement Dated August 1, 2003 with Elena Pochapski
- 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

\* Filed herein.

(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, and incorporated herein by reference.

(7) Filed as Exhibit 99.1 to our Report on Form 10-KSB for the year ended December 31, 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 February 2, 2007, and incorporated herein by reference.

**b) Reports on Form 8-K:**

We filed the following reports on Form 8-K during the period covered by this report:

- o February 20, 2007 - To report that the Company's Board of Directors agreed to seek a listing on the Frankfurt Exchange.
- o February 20, 2007 - To report the Company's entry into a Consulting Agreement with Business Standard, and the issuance of various shares of restricted common stock to officers, directors and consultants of the Company.

-35-

---

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SIBERIAN ENERGY GROUP INC.**

DATED: May 15, By: */s/ David Zaikin*  
2007

David Zaikin  
Chief Executive  
Officer