

Siberian Energy Group Inc.
Form 10-Q
May 19, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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 registrant as specified in its charter)

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

275 Madison Ave, 6th Floor, New York, NY 10016
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of each of the issuer’s classes of equity as of May 12, 2009, was 18,645,585 shares of common stock, par value \$0.001, and no shares of preferred stock, par value \$0.001.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM

The Board of Directors and Stockholders
Siberian Energy Group Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Siberian Energy Group Inc. (a development stage company) as of March 31, 2009, and the related condensed consolidated statements of operations, stockholders' equity, and cash flows for the three months ended March 31, 2009 and 2008, and the cumulative period of development stage activity (January 1, 2003 through March 31, 2009). 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, 2008, 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 31, 2009, 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, 2008 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 12, 2009
F-1

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Condensed Consolidated Balance Sheets	(Unaudited)	
	March 31, 2008	December 31, 2008
Assets		
Current assets:		
Cash	\$ 1,322	\$ 739
Prepaid expenses and other	516	521
	1,838	1,260
Investment in joint venture, at equity	-	-
Investment in KNG, at equity	-	-
Loan receivable - affiliate	29,500	29,500
Property and equipment, net	1,623	1,783
	\$ 32,961	\$ 32,543
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable:		
Related party - stockholders	\$ 467,726	\$ 447,663
Related party - Baltic Petroleum, interest at 14%	64,286	62,771
Others	450,865	410,039
Accrued payroll	904,496	824,744
	1,887,373	1,745,217
Stockholders' equity:		
Common stock - authorized 100,000,000 shares, \$.001 par value, 18,645,550 issued and outstanding	18,646	18,646
Additional paid-in capital	13,112,299	13,112,299
Accumulated deficit		
Pre-development stage	(449,785)	(449,785)
Development stage	(14,550,255)	(14,406,604)
Accumulated other comprehensive income	14,683	12,770
	(1,854,412)	(1,712,674)
	\$ 32,961	\$ 32,543

See accompanying notes.

F-2

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Condensed Consolidated Statements of Operations	For the cumulative period of Development Stage Activity- January 1, 2003 through March 31, 2009		
For the three months ended March 31,	2009	2008	
Revenues and other income:			
Management fees	\$ -	\$ -	\$ 1,135,000
Gain from entrance into joint venture	-	-	364,479
Other	-	-	6,382
Total revenues and other income	-	-	1,505,861
Expenses:			
Salaries	80,600	80,410	3,518,205
Professional and consulting fees	53,351	75,425	4,916,160
Rent and occupancy	-	9,716	237,226
Depreciation and amortization	147	231	104,384
Finance charges and interest	1,998	2,038	114,061
Other	7,555	18,335	2,042,563
Total expenses	143,651	186,155	10,932,599
Loss from sale of investment	-	-	669,570
Loss on deemed disposition of oil and gas properties, unproved	-	-	3,928,000
Impairment charge on investment	-	-	525,947
Loss before income taxes	143,651	186,155	14,550,255
Provision for income taxes (benefit)	-	-	-
Net loss (development stage)	\$ 143,651	\$ 186,155	\$ 14,550,255
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (1.23)
Weighted average number of basic and diluted common shares outstanding	18,645,550	18,383,030	11,793,960

See accompanying notes.

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Condensed Consolidated Statements of Stockholders'
EquityFor the cumulative period of Development Stage Activity - January 1, 2003 through
March 31, 2009

	Common Stock		Additional	Accumulated	Accumulated	Comprehensive	Comprehensive
	Number of		Paid-In	Deficit	Other	Total	Loss
	Shares	Par Value	Capital	Deficit	Income (Loss)	Total	Loss
Balance, January 1, 2003 (pre-development stage)	4,902,886	\$ 4,903	\$ 430,195	\$ (449,785)	\$ -	\$ (14,687)	
Loss for the year - 2003	-	-	-	(422,516)	-	(422,516)	\$ (422,516)
Shares issued in acquisition (ZNG)	1,000,000	1,000	(1,000)	-	-	-	
Balance, December 31, 2003	5,902,886	\$ 5,903	\$ 429,195	\$ (872,301)	-	\$ (437,203)	
Loss for the year - 2004	-	-	-	(833,567)	-	(833,567)	
Foreign currency translation adjustment	-	-	-	-	(53,120)	(53,120)	\$ (886,687)
Shares issued in acquisition (ZNG)	3,450,000	3,450	746,550	-	-	750,000	
Shares issued for professional services	50,000	50	9,950	-	-	10,000	
Other	-	-	34,426	-	-	34,426	
Balance, December 31, 2004	9,402,886	\$ 9,403	\$ 1,220,121	\$ (1,705,868)	\$ (53,120)	\$ (529,464)	
	-	-	-	(1,153,686)	-	(1,153,686)	

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

Loss for the year - 2005								
Foreign currency translation adjustment	-	-	-	-	50,614	50,614	\$(1,103,072)	
Shares issued for professional services	385,000	385	197,829	-	-	198,214		
Shares issued for accrued salaries	1,700,000	1,700	301,871	-	-	303,571		
Warrants granted for professional services	-	-	310,000	-	-	310,000		
Balance, December 31, 2005	11,487,886	\$ 11,488	\$ 2,029,821	\$(2,859,554)	\$ (2,506)	\$ (820,751)		
Loss for the year - 2006	-	-	-	(4,072,788)	-	(4,072,788)		
Foreign currency translation adjustment	-	-	-	-	(1,939)	(1,939)	\$(4,074,727)	
Shares issued for employee stock option plan and warrants	195,000	195	45,305	-	-	45,500		
Shares issued for geological data	1,900,000	1,900	3,323,100	-	-	3,325,000		
Shares issued for professional services	1,139,499	1,140	2,120,320	-	-	2,121,460		
Warrants granted for professional services	-	-	1,201,960	-	-	1,201,960		
Shares cancelled	(609,424)	(610)	610	-	-	-		
Balance, December 31, 2006	14,112,961	\$ 14,113	\$ 8,721,116	\$(6,932,342)	\$ (4,445)	\$ 1,798,442		

See
accompanying
notes.

F-4

SIBERIAN ENERGY GROUP INC. (A
Development Stage Company)

Condensed Consolidated Statements of Stockholders' Equity
(continued)

For the cumulative period of Development Stage Activity - January 1, 2003 through
March 31, 2009

	Common Stock		Additional	Accumulated			Comprehensive
	Number of		Paid-In	Accumulated	Other		Comprehensive
	Shares	Par Value	Capital	Deficit	Income	Total	Loss
					(Loss)		
Balance, December 31, 2006	14,112,961	\$ 14,113	\$ 8,721,116	\$ (6,932,342)	\$ (4,445)	\$ 1,798,442	
Loss for the year - 2007	-	-	-	(2,060,487)	-	(2,060,487)	
Foreign currency translation adjustment	-	-	-	-	(9,804)	(9,804)	\$ (2,070,291)
Shares issued for employee stock option plan and warrants	566,935	567	(567)	-	-	-	
Shares issued for geological data	200,000	200	349,800	-	-	350,000	
Shares issued for accrued salaries	788,000	788	1,444,618	-	-	1,445,406	
Shares issued for licenses	2,000,000	2,000	1,318,000	-	-	1,320,000	
Shares issued for professional services	715,134	715	1,070,395	-	-	1,071,110	
See accompanying notes.							
Warrants granted for professional	-	-	150,394	-	-	150,394	

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

services

Balance, December 31, 2007	18,383,030	\$ 18,383	\$ 13,053,756	\$ (8,992,829)	\$ (14,249)	\$ 4,065,061
Loss for the year - 2008	-	-	-	(5,863,560)	-	(5,863,560)
Foreign currency translation adjustment	-	-	-	-	27,019	27,019 \$ (5,836,541)
Shares issued for professional services and accrued salaries	155,000	155	41,595	-	-	41,750
Warrants granted for professional services	-	-	6,303	-	-	6,303
Shares issued for loan repayment and related interest	107,520	108	10,645	-	-	10,753
Balance, December 31, 2008	18,645,550	\$ 18,646	\$ 13,112,299	\$ (14,856,389)	\$ 12,770	\$ (1,712,674)
Loss for three months - 2009	-	-	-	(143,651)	-	(143,651)
Foreign currency translation adjustment	-	-	-	-	1,913	1,913 \$ (141,738)
Balance, March 31, 2009	18,645,550	\$ 18,646	\$ 13,112,299	\$ (15,000,040)	\$ 14,683	\$ (1,854,412)

See
accompanying
notes.

F-5

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, 2009		
For the three months ended March 31,	2009	2008	
Cash flows from operating activities:			
Net loss (development stage)	\$ (143,651)	\$ (186,155)	\$ (14,550,255)
Depreciation and amortization	147	231	104,384
Common stock and warrants issued			
for professional services and salaries and geological data	-	1,750	7,182,481
Gain from entrance into joint venture	-	-	(364,479)
Loss on disposition of office furniture	-	-	1,029
Loss on sale of investment, including deconsolidation of subsidiary	-	-	794,192
Loss on deemed disposition of oil and gas properties, unproved	-	-	3,928,000
Impairment charge on investment	-	-	525,947
Changes in other current assets and current liabilities:			
Management fee receivable	-	-	110,000
Prepaid expenses and other assets	5	(115)	(263,908)
Accounts payable and accrued expenses	142,156	184,724	3,527,151
Net cash flows from (for) operating activities	(1,343)	435	994,542
Cash flows from investing activities:			
Expenditures for licenses and related	-	-	(528,961)
Expenditures for oil and gas properties	-	-	(770,750)
Expenditures for property and equipment	-	-	(6,244)
Proceeds of disposition of office furniture	-	-	107
Loan to affiliate	-	-	(29,500)
Cash received in acquisition	-	-	6
Cash received from entrance into joint venture	-	-	175,000
Net cash flows for investing activities	-	-	(1,160,342)
Cash flows from financing activities:			
Net proceeds from demand loans	-	-	72,500
Common stock issued for employee stock option plan	-	-	45,500
Additional paid-in capital	-	-	34,426
Net cash flows from financing activities	-	-	152,426
Effect of exchange rates on cash	1,926	(1,133)	14,696
Net increase (decrease) in cash	583	(698)	1,322
Cash - beginning	739	1,248	-

Cash - ending	\$	1,322	\$	550	\$	1,322
---------------	----	-------	----	-----	----	-------

See accompanying notes.

F-6

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation:

The accompanying unaudited consolidated financial statements of Siberian Energy Group Inc. (the Company) include the accounts of the Company and its 100% owned subsidiaries. These financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) interim reporting, and do not include all of the information and note disclosures required by generally accepted accounting principles. These consolidated financial statements and notes herein are unaudited, but in the opinion of management, include all the adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company's financial positions, results of operations, and cash flows for the periods presented. Accounting policies used in fiscal 2009 are consistent with those used in the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2008. 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:

Kondaneftegaz

The Company, through its subsidiary Kondaneftegaz, LLC (KNG), has been engaged in the business of exploiting and developing certain oil and gas and other petroleum products licenses issued for a period of five years by Russia's subsurface management authorities in October 2007. The two licensed areas lie in the Karabashsky zone in the Khanty-Mansiysk Autonomous area of the Russian Federation. KNG has its principal place of business in the city of Khanty-Mansiysk, Russia. KNG has prepared and coordinated with Russian authorities the Program of exploration works on the Karabashski 61 and Karabashski 67 license areas. KNG is evaluating the possibility of using prior seismic data in the current exploration program.

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

Restricted common shares issued for oil and gas properties, unproved in 2006	1,900,000
Restricted common shares issued in connection with license acquisition by KNG in 2007	2,000,000
Restricted common shares issued in 2006	200,000
Total restricted common shares issued	4,100,000

Stock warrants issued in 2006

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

for purchase option

250,000

As a result of the purchase, a calculated acquisition value of \$3,928,000 was assigned to the oil and gas properties, unproved that considered the approximate market value of the stock issued (\$1.75) on the transaction date including \$3,675,000 assigned to 2,100,000 shares issued in 2006 and \$253,000 assigned to 250,000 stock warrants issued. A value of \$1,320,000 was assigned to the acquisition of licenses by KNG based on the market value of the 2,000,000 shares on the date of issue.

F-7

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

Zauralneftegaz

Zauralneftegaz Limited (ZNG, Ltd) is the Company's 50% owned joint venture with Baltic Petroleum Limited, UK created in 2005, which operates through its Russian subsidiary Zaural Neftegaz (ZNG). ZNG has been involved in oil and gas research activities in the Kurgan region of the Russian Federation. During 2003 through March 31, 2009 it has completed seismic studies and drilling program in the Kurgan region. The Company believes ZNG, Ltd has created value through the geological results of the two exploratory wells and other data gathered in the area and ZNG, Ltd is considering its options with regard to realizing this value by either a farm out or a direct sale of geophysical and seismic data to a third party operating in the area.

Activities of ZNG for the period March 2003 through October 2005 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective October 14, 2005, the Company's investment in Joint Venture has been recorded on the equity method of accounting. Since the cumulative losses of the Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through March 31, 2009.

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

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

3. Income Taxes:

At March 31, 2009, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately \$13,268,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2029. 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 \$2,654,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

F-8

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 and warrants may have had a dilutive effect on earnings per share had the Company generated income during the periods through March 31, 2009.

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 its current and proposed oil and gas ventures will successfully generate allocable profits to the Company in the near term.

For the cumulative period ended March 31, 2009, the Company has obtained cash financing from organizing stockholders and employees in the form of loans, advances, and deferred salaries. However, there can be no certainty as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

F-9

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q (THIS "FORM 10-Q"), CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF SIBERIAN ENERGY GROUP INC. ("THE COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-Q, UNLESS ANOTHER DATE IS STATED, ARE TO MARCH 31, 2009.

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 and a further 1:2 reverse stock split was effected on May 2, 2005 (collectively the "Stock Splits"). All share amounts subsequently listed are retroactively adjusted to reflect these stock splits unless otherwise provided.

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

On May 9, 2003, the Company entered into an Acquisition Agreement (the "Acquisition Agreement") by and among the Company, Zaural Neftegaz, a Russian corporation ("ZNG"), the shareholders of ZNG and Oleg Zhuravlev, President of ZNG. 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. The Company had no affiliation with ZNG prior to the acquisition in May 2003.

Currently, the operating activities of ZNG 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 Zauralneftgaz Limited, the joint venture company ("ZNG, Ltd."), as contemplated by the Option Agreement, as amended (the "Option"). The Company closed the Joint Venture and transferred 100% of the outstanding stock of ZNG to ZNG, Ltd. in connection with the terms and conditions of the Joint Venture. As a result of such transfer, the Company holds 50% of the outstanding stock of ZNG, Ltd., which holds 100% of the outstanding stock of the Company's former wholly owned subsidiary, ZNG. ZNG, Ltd. operates through ZNG and is engaged in the

exploration and development of, production and sale of, oil and gas assets in the Western Siberian region of the Russian Federation and the former Soviet Union.

-2-

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

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

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 currently hold investments in ZNG, Ltd. and KNG. Both companies are operating in the Western Siberia region of Russia and are involved in oil and gas exploration.

Moving forward the Company plans to focus on those assets that involve less exploration risk and is also actively seeking and negotiating the acquisition of production or close-to-production assets in Russia and countries of the former Soviet Union; however, the Company has not entered into any definitive agreements to date, and there can be no assurance that any such agreements will be entered into on favorable terms, if at all.

Description of KNG

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

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

KNG has prepared and coordinated with the Russian authorities an exploration works program on the Karabashki 61 and Karabashki 67 license areas to stay in compliance with the license agreements requirements described below in further detail:

- o to begin 2D seismic works during the 2009-2010 fieldwork season and to perform not less than 176.26 linear kilometers of seismic profiles on Karabashky-61 and 158 linear km on Karabashky-67 (minimal density of the profile not less than 1 linear kilometer per 1 square kilometer of license area), and
- o No later than 2011, to start drilling an exploratory well and to complete not less than 2 exploratory wells by April 1, 2012.

KNG is currently re-interpreting the existing seismic data from prior studies and is evaluating the possibility of using this data in the current program of seismic studies.

On or about September 30, 2008, we entered into an Agreement of Purchase and Sale with Limited Liability Company Neftebitum, a Russian limited liability company (“Neftebitum”), Sergey V. Prokopiev, an individual and Russian citizen, and Oleg G. Shelepov, an individual and Russian citizen (collectively, the “Purchasers” and the “Sale Agreement”). The Company’s Board of Directors approved and ratified the Company’s entry into the Sale Agreement and the transactions contemplated therein on or about October 30, 2008. Pursuant to the Sale Agreement, the Company agreed to sell to the Purchasers an aggregate of fifty-six percent (56%) of the registered capital of KNG for aggregate consideration of 5,600 Russian Rubles (approximately \$223). Neftebitum agreed to purchase a 51% interest for total consideration of 5,100 Russian Rubles (approximately \$203) and Mr. Prokopiev and Mr. Shelepov agreed to each purchase a 2.5% interest for consideration of 250 Russian Rubles each (approximately \$10).

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

On or about November 5, 2008, and in connection with their entry into the Sale Agreement, Neftebitum, the Company and KNG entered into an Operating Agreement that defines the rights and responsibilities of the parties (the “Operating Agreement”). Pursuant to the Operating Agreement, Neftebitum is designated the exclusive Operator of KNG and all of its current and future mineral claims and has the right to appoint all members of KNG’s management. As Operator, Neftebitum has exclusive control of all technical, management, operational and associated matters involving KNG and the Blocks and any potential hydrocarbon exploration and production licenses (the “Operations”). Neftebitum must manage and conduct the Operations by itself, its agents, independent contractors and/or servants in general accordance with standard oil and gas field practices. Neftebitum must use all reasonable endeavors to:

- Prepare annual programs and budgets pursuant to the Operating Agreement and the licensing agreements for the Blocks;
- Begin 2D seismic works on the Blocks during the 2009-2010 fieldwork season and perform not less than 176.26 linear kilometers of seismic profiles on the Karabashky-61 Block and not less than 158 linear kilometers of seismic works on the Karabashky-67 Block;

- Start drilling an exploratory well no later than 2011, and complete no less than 2 exploratory wells by April 1, 2012;

-4-

- Provide adequate financing to carry out KNG's planned activities; and
- Supervise implementation of all programs and budgets and provide written progress reports on a quarterly basis relating to KNG's activities and programs.

Further, as Operator, Neftebitum may enter into and negotiate contracts on behalf of KNG and the Company and represent KNG or the Company in all dealings with governmental and regulatory bodies. Neftebitum must guarantee any financial obligations entered into on KNG's behalf. Neftebitum may be reimbursed for expenses incurred in its role as Operator, and if KNG has inadequate resources to reimburse such expenses, these unreimbursed expenses may be accounted for at the time of the distribution of profits from KNG's operations, if any. Neftebitum, however, will not charge operator's management fees in connection with its role as Operator. Additionally, the Company made available all geological data to the Operator to be used in the program of geological studies in the region and will not charge fees for the use of geological data it provides. Neftebitum must also use its best efforts to maintain insurance for the Company. Lastly, Neftebitum's responsibilities as Operator under the Operating Agreement may not be assigned or transferred.

As of March 31, 2009, the Company owned a 44% interest in KNG. Operating results of KNG were included in the consolidated financial statements contained herein for the three months ended March 31, 2008. After September 30, 2008, the Company's investment in KNG is accounted for on the equity method of accounting. Accordingly, the assets, liabilities and equity of KNG are no longer presented on the Company's balance sheet.

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

Description of ZNG

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

Between 2003 and 2007, ZNG carried out extensive seismic and gas seismotomographic studies on its 4 licensed blocks acquired in 2003 through a government tender: the Privolny, Mokrousovsky, West-Suersky and Orlovo-Pashkovsky blocks, and drilled 2 exploratory wells on the Privolny and Mokrousovsky blocks. Based on the interpretation of seismic and seismotomographic surveys and analysis of samples from the wells, ZNG prepared a comprehensive analysis of geological resources of the Kurgan region. Both the Privolny-1 and Mokrousovsky-1 studies confirmed the presence of hydrocarbons and contributed greatly to the understanding of geological resources in the region. However, a substantial amount of further exploration studies and work is required before a conclusion on the future potential of the blocks can be drawn. Decision on potential further exploration on these blocks has not been reached yet, as this decision has to take into account general market conditions and specifically the trend of oil prices. Upon the expiration of the license terms of these blocks in March 2008, ZNG kept the preferential right to re-apply for the licenses to continue exploration works on these blocks in the event it decides to continue exploration. In the case of further exploration on ZNG's licensed areas, the Joint Venture will seek to "farm out" its interest in the acreage.

The Company's investment in the Joint Venture is recorded on the equity method of accounting. Since cumulative losses of Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through December 31, 2008 and March 31, 2009.

Joint Venture

The operations of the Joint Venture are funded via loans provided to ZNG, Ltd. and ZNG by Caspian Finance Limited ("Caspian"), a financing company wholly-owned by Baltic. Loans are guaranteed by ZNG, Ltd.'s holdings in ZNG. As of March 31, 2009, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to approximately \$23.5 million plus accrued interest of approximately \$5 million. The loans are not dilutive to the Company's ownership in ZNG.

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.

In connection with that agreement, the following warrants were granted to AEF: warrants to purchase 17,561 shares of our common stock at \$0.67 per share, which were granted to Mr. Peara on March 31, 2006, and which expired unexercised on March 31, 2009; warrants to purchase 20,412 shares of our common stock at an exercise price of \$2.02 per share, granted effective June 30, 2006; warrants to purchase 20,952 shares of our common stock at an exercise price of \$1.53 per share effective September 30, 2006; and warrants to purchase 38,648 shares of our common stock at an exercise price of \$1.44 per share effective December 31, 2006. All of the warrants are exercisable for three years from the date of issuance and contain a cashless exercise provision.

From January 1, 2007 to December 31, 2007, we accrued approximately \$108,827 in fees payable to AEF in connection with the AEF agreement, which funds have not been paid to date, and we also issued AEF the following securities pursuant to the agreement: warrants to purchase 48,925 shares of our common stock at an exercise price of \$1.10 per share effective March 31, 2007; warrants to purchase 55,233 shares of our common stock at an exercise price of \$1.14 per share, effective June 30, 2007; warrants to purchase 51,352 shares of our common stock at an exercise price of \$0.74 per share, effective September 30, 2007; and warrants to purchase 78,130 shares of our common stock at an exercise price of \$0.46 per share, effective December 31, 2007. All of the warrants are exercisable for three years from the date of issuance and contain a cashless exercise provision.

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 Director's fees and accrued expenses and \$47,969 owed to AEF in connection with our agreement with AEF for fees due from the period from March 31, 2006 to December 31, 2006, which shares have been issued to date and which debt has been forgiven by Mr. Peara and AEF.

We have not been required to pay AEF any additional consideration and/or grant AEF any additional warrants since December 31, 2007, as Baltic has not invested any additional funds into the Joint Venture since the end of that period.

Recent Events:

On or around April 30, 2009, the Company entered into a "One Year Term Extension To The Employment Agreement of August 1, 2004" with David Zaikin, the Company's Chief Executive Officer and Elena Pochapski, the Company's Chief Financial Officer (the "Executives" and the "Employment Extension Agreements"). The Employment Extension Agreements extended the term of the Executives previous employment agreements entered into on August 1, 2004 and

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

September 1, 2003, respectively, for an additional year, such that the employment agreements now expire on December 31, 2009. The Executives salaries for the year ended December 31, 2009 will be \$180,000 and \$75,000 for Mr. Zaikin and Ms. Pochapski, respectively. Additionally, both of the Executives were granted additional stock options in the Company as described below.

-6-

On May 4, 2009, the Company's Board of Directors approved new Stock Option Agreements and a grant of stock options to purchase an aggregate of 1,340,000 shares of the Company's common stock to the officers and various Directors of the Company in consideration for their services to the Company for the year ending December 31, 2009. David Zaikin, the Company's Chief Executive Officer and Director was granted stock options to purchase 300,000 shares, Elena Pochapski, the Company's Chief Financial Officer and Director was granted stock options to purchase 300,000 shares, Helen Teplitskaia, the Company's President and Director was granted options to purchase 200,000 shares, Timothy Pearsa, the Company's Director was granted options to purchase 200,000 shares, Oleg Zhuravlev, the Company's Director was granted options to purchase 170,000 shares, and Sergey Potapov, the Company's Director was granted options to purchase 170,000 shares. All of the stock options have an exercise price of \$0.055 per share, the market price of the Company's common stock on the grant date. Additionally, all of the stock options have the same vesting terms, including the vesting of 1/4th of the stock options on the grant date, and 1/4th of the stock options vesting at the end of each of the Company's next three fiscal quarters. All of the stock options expire three years from the grant date and include a cashless exercise provision.

PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

In coordination with Neftebitum, the Company plans to focus on the exploration activities of KNG in the Khanty-Mansiysk region of Russia, to satisfy the requirements of the licensing agreements and to conduct preparatory work for the seismic surveys on these areas, funding permitting (which funding is the responsibility of Neftebitum), of which there can be no assurance.

The operations of ZNG in the Kurgan region of Russia, conducted through the Joint Venture, are currently in the "transition period" awaiting the decision on the feasibility of further exploration and potential steps moving forward for further exploration in the Kurgan region.

Moving forward, we anticipate targeting other potential long term investments in Russia and countries in the former Soviet Union, separate from our involvement in the Joint Venture and KNG, funding permitting, of which there can be no assurance. Additionally, the Company currently plans to change its business focus from targeting early stage exploration projects to acquiring assets in producing fields, funding permitting, of which there can be no assurance, in order to decrease its exploration risks.

Currently we are evaluating different business opportunities in the oil and gas industry, including advanced development stage and revenue-producing enterprises and are in preliminary discussions with a potential partner which owns several oil and gas producing properties in Western Siberia; however, as no definitive agreement has been reached, we can provide no assurances that the discussions will result in any definitive understandings or partnerships, and it is likely that any agreement would be conditioned on us raising substantial additional funding, which we can provide no assurances will be available on favorable terms, if at all.

Historically, we have obtained cash financing from organizing stockholders in the form of loans and advances. Additionally, during the fourth quarter of 2005, we restructured much of our debt through the issuance of shares of our common stock 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, the Company previously received monthly management fees, which varied from \$25,000 to \$85,000 per month. Due to the "transition period" of the Joint Venture's exploration activities, no management fees have been paid since October 2007, and there is no assurance that the Joint Venture will pay any management fees or that fees received will be adequate to pay its upcoming expenses and liabilities in the future. If the Company does not receive any management fees moving forward, 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 \$467,726 and \$447,663 were payable to the stockholders as of March 31, 2009 and December 31, 2008, 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.

-7-

COMPARISON OF OPERATING RESULTS

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2009, COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2008

We had no revenues and other income for the three months ended March 31, 2009 or 2008. Until October 2007, the Company received monthly management fees of between \$25,000 and \$85,000 pursuant to terms of the Joint Venture. However, the Company has not received any management fees since October 2007, as a result of restructuring of the Company's Kurgan operations and the negotiating of potential farm outs and further research works on ZNG's licensed areas.

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

We had total expenses of \$143,651 for the three months ended March 31, 2009, compared to total expenses for the three months ended March 31, 2008, of \$186,155, which represented a decrease in total expenses from the prior period of \$42,504 or 22.8%.

The main reasons for the decrease in total expenses for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, were a \$22,074 or 29.3% decrease in professional and consulting fees to \$53,351 for the three months ended March 31, 2009, compared to \$75,425 for the three months ended March 31, 2008, which decrease is largely attributable to the fact that the Company used less third party consultants and advisors during the three months ended March 31, 2009, compared to the same period of 2008; a \$10,780 or 58.8% decrease in other expenses, to \$7,555 for the three months ended March 31, 2009, compared to \$18,335 for the three months ended March 31, 2008; and a \$9,716 decrease in rent and occupancy expenses to no rent and occupancy expenses for the three months ended March 31, 2009, compared to \$9,716 for the three months ended March 31, 2008. The Company is currently taking steps to move its New York office space, and as such, the Chief Executive Officer has been personally paying the Company's office space rent and not billing the Company since approximately December 31, 2008, which resulted in the Company having no rent or occupancy expense for the three months ended March 31, 2009.

We had a net loss of \$143,651 for the three months ended March 31, 2009, which represented a decrease in net loss of \$42,504 or 22.8% from net loss of \$186,155 for the three months ended March 31, 2008. The main reason for the decrease in net loss was the \$42,504 or 22.8% decrease in expenses for the three months ended March 31, 2009, compared to the three months ended March 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

We had current assets of \$1,838 as of March 31, 2009, which included cash of \$1,322; and prepaid expenses and other current assets of \$516.

We had total assets of \$32,961 as of March 31, 2009, which included current assets of \$1,838 and non-current assets of \$31,123. Non-current assets included a \$29,500 loan receivable from affiliate in connection with amounts previously loaned to KNG, and \$1,623 of property and equipment, net.

We had total liabilities of \$1,887,373 as of March 31, 2009, which were solely current liabilities and which included \$467,726 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, 2009; \$64,286 of accounts payable to Baltic in connection with a \$29,000 loan advanced to the Company from Baltic and certain other expenses owed to Baltic; \$450,865 of accounts payable to others for advisory and professional services rendered; and \$904,496 of accrued payroll, which included \$517,500 payable to our Chief Executive Officer, David Zaikin, of which \$360,000 was accrued in 2007 and 2008, and \$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, \$173,921 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam.

-8-

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

We had negative working capital of \$1,885,535 and a total pre-development and development stage accumulated deficit of \$15,000,040 as of March 31, 2009.

Because our cumulative losses associated with the operations of ZNG exceeded our investment as of the date of the Joint Venture, ZNG, Ltd. is carried on our balance sheet at \$-0- as of March 31, 2009. Our investment in ZNG, Ltd. will exceed \$-0- at such time as ZNG, Ltd. has cumulative earnings sufficient to repay all loans to Baltic as provided in the Joint Venture, if ever.

As of March 31, 2009, the Company owns a 44% interest in KNG. The Company's investment in KNG is recorded on the equity method of accounting effective October 1, 2008. After careful consideration of the current financial position of KNG, the Company applied an impairment charge to the value of the investment in KNG which resulted in carrying it at zero value.

We had \$1,343 of net negative cash flows for operating activities for the three months ended March 31, 2009, which was attributable to adjustments to reconcile \$143,651 of net loss, offset by \$142,156 of accounts payable and accrued expenses, \$147 of depreciation and amortization and \$5 of prepaid expenses and other assets.

In connection with the Joint Venture (described under "Joint Venture Agreement," above), the Company historically received management fees, which varied from \$25,000 to \$85,000 per month. Due to the "transition period" of the Joint Venture's exploration activities, no management fees were paid during the year ended December 31, 2008 or the three months ended March 31, 2009, and there is no assurance that the Joint Venture will pay any management fees or that fees received will be adequate to pay our upcoming expenses and liabilities in the future. If the Company does not receive any management fees moving forward, the Company anticipates that its stockholders and management will continue to provide financing for the Company, of which there can be no assurance.

In connection with the activities of KNG, we are not currently receiving compensation for the use of the Company's geological data. According to the Operating agreement with Neftebitum, such fees may be paid to us in future years depending on the financial position of KNG, of which there can be no assurance.

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.

Further, we are currently reviewing our status as a U.S. reporting company, and our management may decide it is more advantageous for us to go private, cease our public reporting in the future, and/or trade our common stock on alternative markets or exchanges in Europe in the future (or to dual list our stock on multiple exchanges), which could cause any investment in the Company to become illiquid or worthless if such transaction were to occur (see also "Risk Factors" below").

Critical Accounting Policies

Use of Estimates:

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

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its then wholly-owned subsidiaries, ZNG (through October 14, 2005), Siberian Energy Group (Canada) and KNG (December 31, 2006 through September 30, 2008). All intercompany transactions and balances have been eliminated. After October 14, 2005, the Company's investment in ZNG is accounted for on the equity method of accounting. After September 30, 2008, the Company's investment in KNG is accounted for on the equity method of accounting. Accordingly, the assets, liabilities and equity are no longer presented on the Company's balance sheet.

Foreign Currency Translation:

The Russian subsidiaries ZNG and KNG use the Ruble as their functional currency; Siberian Energy Group (Canada) uses the Canadian dollar as its functional currency. The books and records of ZNG, KNG and Siberian Energy Group (Canada) are kept in their functional currencies. The Company translates to U.S. dollars the assets and liabilities of ZNG, KNG, and Siberian Energy Group (Canada) at the year-end exchange rates; and income statement amounts are converted at the average rates of exchange for the year. Translation gains and losses are included within other comprehensive income (loss).

Oil and Gas Properties:

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, will be amortized on the unit-of production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. When applicable, if the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

Property and Equipment:

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method.

Long-Lived Assets:

Long lived assets to be held and used or disposed of other than by sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used or disposed of other than by sale are recognized based on the fair value of the asset. Long-lived assets to be disposed of by sale are reported at the lower of its carrying amount or fair value less cost to sell.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Control and Procedures

We conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of March 31, 2009. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2009, our disclosure controls and procedures are not effective as a result of the material weakness in internal control over financial reporting discussed below.

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

As of December 31, 2008, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and SEC guidance on conducting such assessments. Based on that evaluation, management concluded that, during the period covered by our Annual Report on Form 10-K, such internal controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our internal controls and that taken together may be considered to be a material weakness.

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

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

Changes in internal control over financial reporting

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

-11-

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

ITEM 1A. RISK FACTORS

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

RISK OF CONTINUING OUR BUSINESS PLAN WITHOUT ADDITIONAL FINANCING.

We depend to a great degree on the ability to attract external financing in order to conduct future exploratory and development activities. The Company believes it can satisfy its cash requirements during the next twelve months, estimated at approximately \$300,000, through funding provided by existing stockholders. As of March 31, 2009, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$5 million, which has been spent on various purposes, including seismic and gas seismotomography surveys, drilling of two exploratory wells, and paying consultants for services performed in connection with surveys performed on the licensed area. The Joint Venture is responsible for the funding of the operations of ZNG. However, if the Joint Venture is unable to raise the additional funds required for the planned activities of ZNG or attract interest from external parties and we are unable to raise financing for additional activities, separate from the Joint Venture, our Company may be forced to abandon its current business plan.

The Company's partner in KNG, Neftebitum, is responsible for financing the research work of KNG. Neftebitum is currently attempting to raise external funds; however, no significant amounts have been raised to date. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

RISK OF FUNDING PARTNER NOT MOVING FORWARD WITH JOINT VENTURE

Our revenues have been generated from a monthly management fee received from ZNG, which management fees have not been received since October 2007, in connection with the "transition period" of Kurgan activities. In the event that our funding partner does not move forward with the joint venture and/or continues to not pay us management fees, this will hurt our financial condition and the Company may be forced to abandon or curtail its business plan which

could cause the value of the Company's common stock to decline in value or become worthless.

-12-

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. 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's 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 substantially decline or become worthless.

KNG 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. In connection with the Agreement of Purchase and Sale, as described in more detail above, the Company sold a 56% interest in KNG to Neftebitum and various individuals in September 2008. Pursuant to this agreement and the related Operating Agreement, Neftebitum is responsible for providing financing for the operations of KNG. Currently, the Company is not aware of Neftebitum raising 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 Neftebitum is able to raise the substantial amounts of additional financing that KNG requires for its operations, it could still be years before KNG generates any revenue, if ever. If Neftebitum does not raise the \$15,000,000 which the Company anticipates KNG needs 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 substantially decline or become worthless.

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

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$143,651 for the three months ended March 31, 2009, a net loss of \$5,863,560 for the year ended December 31, 2008, and had a total accumulated deficit of \$15,000,040 as of March 31, 2009. 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 had limited revenues and no profits to date and our net cumulative deficit attributable to our development stage as of March 31, 2009, was \$14,550,255, and our total cumulative deficit was \$15,000,040 which included \$449,785 of pre-development stage deficit. We had \$904,496 in accrued and unpaid salaries and a working capital deficit of \$1,885,535 as of March 31, 2009. The Company is currently being funded by existing shareholders, 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 50% of ZNG, Ltd. If throughout ZNG's and KNG's oil exploration 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.

LICENSES TO A TOTAL OF FOUR OF ZNG'S LICENSED BLOCKS EXPIRED IN MARCH 2008 AND THREE ADDITIONAL LICENSES HAVE SINCE EXPIRED, AND THERE IS A RISK THAT THE RIGHTS TO SUCH LICENSED BLOCKS MAY NOT BE RENEWED.

In or around March 2008, ZNG's rights to four licensed blocks acquired in 2003, the Privolny, Mokrousovsky, West-Suersky and Orlovo-Pashkovsky blocks, expired and since that time, additional rights to three license blocks have expired. Between 2003 and 2007, ZNG carried out extensive seismic and gas seismotomographic studies on the four licensed blocks, and drilled 2 exploratory wells on the Privolny and Mokrousovsky blocks. Based on the interpretation of seismic and seismotomographic surveys and analysis of samples from the wells, ZNG prepared a comprehensive analysis of geological resources of the Kurgan region. Both the Privolny and Mokrousovsky studies confirmed the presence of hydrocarbons; however, a substantial amount of further exploration studies and work is required before a conclusion on the future potential of the blocks can be drawn. The licenses to four of the blocks expired in March 2008 and an additional three licenses have expired since then, and although ZNG kept the preferential right to re-apply for the licenses to continue exploration works on these blocks in the event it decides to continue exploration, there can be no assurance that such blocks will be able to be re-licensed by ZNG and/or that they will not be re-auctioned and awarded to alternative parties. If ZNG were to decide to re-license the blocks and they had already been auctioned off to other parties and/or were not eligible to be re-licensed, all of ZNG's exploration work and studies performed on the licensed areas may become worthless and any exploration expenditures made by ZNG for exploration wells and other expenditures will likely not be able to be recouped by ZNG. Additionally, if ZNG were unable to re-license the blocks, the value of the Company's securities could decline in value and/or become worthless.

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

Our Company currently has a poor financial position. We have generated only minimal revenues to date, and we have not discovered any 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 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 our 44% ownership of KNG, if ZNG, ZNG, Ltd. or KNG were to cease operations, your investment in our Company could become devalued or could become worthless.

-14-

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 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, who are currently employed under extended employment agreements described above. 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, or if Mr. Zaikin or Ms. Pochapski are unable to spend a sufficient amount of time on Company matters, the Company may be forced to scale back or curtail its business plan. As a result of this, any securities you hold in our Company could become devalued.

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.

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 our 44% ownership of KNG, which has been awarded two exploration oil and gas licenses to date.

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

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

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

Zauralneftegaz, Ltd. which we own 50% of through our Joint Venture, and KNG, which we own 44% of, hold certain licenses and rights to reapply for licenses to certain oil and gas properties in the Kurgan Region of Russia. As a result, we are subject to various risks associated with doing business in Russia relating to Russia's economic and political environment. As is typical of an emerging market, Russia does not possess a well-developed business, legal and regulatory infrastructure that would generally exist in a more mature free market economy and, in recent years, Russia has undergone substantial political, economic and social change. Furthermore, in recent years the Russian government has unilaterally annexed certain oil and gas properties and companies for the government, and there can be no assurance that if commercially exploitable oil and gas reserves are found on our properties, that such properties will not be annexed or otherwise claimed by the Russian government. Our failure to manage the risks associated with doing business in Russia could have a material adverse effect upon our results of operations.

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 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-Q's or 10-K's) by the due date of such report (not withstanding 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.

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

We anticipate incurring significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and new rules subsequently implemented by the SEC have imposed various new requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, for fiscal year 2009, Section 404 will require us to obtain a report from our independent registered public accounting firm attesting to the assessment made by management. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our

internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

-16-

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

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

- (1) actual or anticipated variations in our results of operations;
- (2) our ability or inability to generate new revenues;
- (3) the number of shares in our public float;
- (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 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.

INVESTORS FACE A RISK THAT THE COMPANY WILL NOT BE SUBJECT TO THE REPORTING REQUIREMENTS OR WILL ENTER INTO A TRANSACTION THAT RESULTS IN NEW MANAGEMENT AND A NEW OPERATING BUSINESS OF THE COMPANY.

Management of the Company is analyzing steps to no longer be subject to the reporting requirements of the Securities and Exchange Commission (the "SEC") and/or considering entering into a reverse merger transaction. In the event that the Company is no longer subject to the reporting requirements of the SEC, the Company's stock would likely trade on the Pinksheets and would likely have less liquidity on such market and may trade at a lower share price than it currently trades. In the event that the Company enters into a reverse merger transaction, new management would run the Company and would likely operate a new business which may result in a loss on your investment.

-17-

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

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

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

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

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

On May 4, 2009, the Company's Board of Directors approved new Stock Option Agreements and a grant of stock options to purchase an aggregate of 1,340,000 shares of the Company's common stock to the officers and various Directors of the Company in consideration for their services to the Company for the year ending December 31, 2009. David Zaikin, the Company's Chief Executive Officer and Director was granted stock options to purchase 300,000 shares, Elena Pochapski, the Company's Chief Financial Officer and Director was granted stock options to purchase 300,000 shares, Helen Teplitskaia, the Company's President and Director was granted stock options to purchase 200,000 shares, Timothy Pears, the Company's Director was granted stock options to purchase 200,000 shares, Oleg Zhuravlev, the Company's Director was granted stock options, to purchase 170,000 shares, and Sergey Potapov, the Company's Director was granted stock options to purchase 170,000 shares. All of the stock options have an exercise price of \$0.055 per share, the market price of the Company's common stock on the grant date. Additionally, all of the stock options have the same vesting terms, including the vesting of 1/4th of the stock options on the grant date, and 1/4th of the stock options vesting at the end of each of the Company's next three fiscal quarters. All of the stock options expire three years from the grant date and include a cashless exercise provision.

The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, since the foregoing grants did not involve a public offering, the recipients took the stock options for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by the Company.

The Company has also agreed to pay its President, Helen Teplitskaia 10,000 shares of common stock per month for her service to the Company, and as such, the Company owes Ms. Teplitskaia an aggregate of 40,000 shares, 10,000 shares per month from January 2009 to April 2009, which shares have not been issued to date and have not been included in the number of issued and outstanding shares disclosed throughout this report. The Company plans to issue the shares during the second quarter of 2009. The Company will claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, since the issuance will not involve a public offering, the recipient will take the securities for investment and not resale and the Company will take appropriate measures to restrict transfer.

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

Exhibit Description of Exhibit
No.

10.1(1) Option Agreement with Baltic Petroleum Limited dated April 28, 2005

10.2(1) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005

10.3(1) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005

10.4(1) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005

10.5(1) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005

10.6(2) Option Agreement with Baltic Petroleum Limited dated April 28, 2005

10.7(2) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005

10.8(2) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005

10.9(2) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005

10.10(2) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005

10.11(3) Clarification to the Contract of Purchase and Sale of the Share in Charter Capital of LLC "Zauralneftegaz" dated 15 May 2004

10.12(3) Agreement with Business - Standard (translated from Russian version)

10.13(3) Supplementary Agreement to Business - Standard Agreement (translated from Russian version)

- 10.14(3) Supplementary Agreement No. 2 to Business - Standard Agreement
(translated from Russian version)
 - 10.15(3) Deed of Amendment between ZNG and BP
 - 10.16(3) Deed of Amendment between the Company and BP
 - 10.17(4) Joint Venture Shareholders' Agreement with Baltic Petroleum (E&P)
Limited and Zauralneftegaz Limited dated October 14, 2005
 - 10.18(5) Amendment to the Employment Agreement Dated August 1, 2003, with
Elena Pochapski
 - 10.19(5) Form of Waiver Agreement
 - 10.20(6) Loan Agreement between OOO Zauralneftegaz and Caspian Finance
Limited
 - 10.21(6) Deed of Novation between Baltic Petroleum Limited, Caspian Finance
Limited and OOO Zauralneftegaz
 - 10.22(6) Deed of Release
 - 10.23(6) Release of Pledge
 - 10.24(6) Guarantee
 - 10.25(6) Debenture
 - 10.26(6) Agreement for the Pledge of the Participatory Interest in OOO
Zauralneftegaz (Russian translation removed)
 - 10.27(6) Sale and Purchase Agreement
-

- 10.28(8) Option Agreement with Key Brokerage
- 10.29(8) Warrant Agreement with Key Brokerage
- 10.30(9) July 26, 2006 Deed of Agreement
- 10.31(10) Consulting Agreement with Business Standard
- 10.32(11) Addition to the Loan Agreement of November 9, 2005
- 10.33(11) Gross Overriding Royalty Agreement
- 10.34(12) Amendment No. 2 to the Employment Agreement Dated August 1, 2003
with Elena Pochapski
- 10.35(13) Deed of Variation to the Loan Agreement Dated 9th of November 2005,
Entered into in June 2007
- 10.36(15) Agreement of Purchase and Sale with Limited Liability Company
Neftebitum, Sergey V. Prokopiev, and Oleg G. Shelepov
- 10.37(15) Operating Agreement with Limited Liability Company Neftebitum
- 10.38* One Year Extension to the Employment Agreement of August 1, 2004 with
David Zaikin
- 10.39* One Year Extension to the Employment Agreement of August 1, 2004 with
Elena Pochapski
- 10.40* Stock Option Agreement for David Zaikin
- 10.41* Stock Option Agreement for Elena Pochapski
- 21.1(14) Subsidiaries
- 31.1* Certificate of the Chief Executive Officer pursuant Section 302 of the
Sarbanes-Oxley Act of 2002
- 31.2* Certificate of the Chief Financial Officer pursuant Section 302 of the
Sarbanes-Oxley Act of 2002
- 32.1* Certificate of the Chief Executive Officer pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002
- 32.2* Certificate of the Chief Financial Officer pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002
- 99.1(7) Glossary

* Filed herein.

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

- (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.

-20-

Edgar Filing: Siberian Energy Group Inc. - Form 10-Q

(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.

(12) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on May 15, 2007, and incorporated herein by reference.

(13) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on August 14, 2007, and incorporated herein by reference.

(14) Filed as an Exhibit to our Report on Form 10-K filed with the Commission on April 14, 2009, and incorporated herein by reference.

(15) Filed as an Exhibit to our Report on Form 8-K filed with the Commission on November 14, 2008, and incorporated herein by reference.

-21-

SIGNATURES

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

SIBERIAN ENERGY GROUP INC.

DATED: May 19, 2009

By: /s/ David Zaikin
David Zaikin
Chief Executive Officer
(Principal Executive Officer)

DATED: May 19, 2009

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

-22-
