

Siberian Energy Group Inc.  
Form 10-Q  
May 20, 2008

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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, 2008

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 (IRS  
other Employer  
jurisdiction of Identification  
No.)

incorporation  
or  
organization)

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

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

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 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.

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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, 2008, was 18,383,065 shares of common stock, par value \$0.001, and no shares of preferred stock, par value \$0.001.

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SIBERIAN ENERGY GROUP INC.  
(A Development Stage Company)

CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS

March 31, 2008

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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, 2008, and the related condensed consolidated statements of operations, stockholders' equity, and cash flows for the three months ended March 31, 2008 and 2007, and the cumulative period of development stage activity (January 1, 2003 through March 31, 2008). 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, 2007, 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 April 14, 2008, 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, 2007 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 19, 2008

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

Condensed Consolidated Balance Sheets	(Unaudited) March 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash	\$ 550	\$ 1,248
Prepaid expenses and other	4,449	4,285
	4,999	5,533
Investment in joint venture	-	-
Oil and gas properties, unproved	5,248,000	5,248,000
Property and equipment, net	3,663	3,943
	\$ 5,256,662	\$ 5,257,476
Liabilities and Stockholders' Equity		
Current liabilities:		
Demand loan from stockholder, interest at 9%	\$ 10,000	\$ 10,000
Accounts payable:		
Related party - stockholders	425,184	370,500
Related party - Baltic Petroleum, interest at 14%	58,208	56,693
Others	268,861	213,854
Accrued payroll	614,886	541,368
	1,377,139	1,192,415
Stockholders' equity:		
Common stock - authorized 100,000,000 shares, \$.001 par value,		
18,383,030 issued and outstanding	18,383	18,383
Additional paid-in capital	13,055,506	13,053,756
Accumulated deficit		
Pre-development stage	(449,785)	(449,785)
Development stage	(8,729,199)	(8,543,044)
Accumulated other comprehensive income (loss)	(15,382)	(14,249)
	3,879,523	4,065,061
	\$ 5,256,662	\$ 5,257,476

See accompanying notes.



## 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, 2008		
For the three months ended March 31,	2008	2007	2008
Revenues and other income:			
Management fees	\$ -	\$ 165,000	\$ 1,135,000
Gain from entrance into joint venture	-	-	364,479
Other	-	-	6,382
	-	165,000	1,505,861
Expenses:			
Salaries	80,410	83,643	3,171,305
Professional and consulting fees	75,425	202,388	4,622,251
Rent and occupancy	9,716	12,385	232,841
Depreciation and amortization	231	82	103,583
Finance charges and interest	2,038	1,499	105,962
Other	18,335	174,096	1,999,118
Total expenses	186,155	474,093	10,235,060
Loss before income taxes	186,155	309,093	8,729,199
Provision for income taxes (benefit)	-	-	-
Net loss (development stage)	\$ 186,155	\$ 309,093	\$ 8,729,199
Basic and diluted loss per common share	\$ (0.01)	\$ (0.02)	\$ (0.83)
Weighted average number of basic and diluted common shares outstanding	18,383,030	14,241,408	10,523,934

See accompanying notes.





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SIBERIAN ENERGY GROUP INC. (A  
Development Stage Company)

Condensed Consolidated Statements of  
Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1,  
2003 through March 31, 2008

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Loss
	Number of Shares	Par Value	Additional Paid-In Capital				
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)	
Loss for the year - 2005	-	-	-	(1,153,686)	-	(1,153,686)	

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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 (Restated)	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)

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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 (Restated)	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
Warrants granted for professional services	-	-	150,394	-	-	150,394

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Balance, December 31, 2007	18,383,030	\$ 18,383	\$ 13,053,756	\$ (8,992,829)	\$ (14,249)	\$ 4,065,061	
Loss for three months - 2008	-	-	-	(186,155)	-	(186,155)	
Foreign currency translation adjustment	-	-	-	-	(1,133)	(1,133)	\$ (187,288)
Warrants granted for professional services	-	-	1,750	-	-	1,750	
Balance, March 31, 2008	18,383,030	\$ 18,383	\$ 13,055,506	\$ (9,178,984)	\$ (15,382)	\$ 3,879,523	

See accompanying notes.

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## 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, 2008		
For the three months ended March 31,	2008	2007	
Cash flows from operating activities:			
Net loss (development stage)	\$ (186,155)	\$ (309,093)	\$ (8,729,199)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation and amortization	231	82	103,583
Common stock and warrants issued for professional services and salaries	1,750	1,367,398	7,136,178
Gain from entrance into joint venture	-	-	(364,479)
Changes in other current assets and current liabilities:			
Management fee receivable		-	110,000
Prepaid expenses and other assets	(115)	(111,015)	(267,792)
Accounts payable and accrued expenses	184,724	(937,854)	3,006,164
Net cash flows from operating activities	435	9,518	994,455
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)
Cash received in acquisition	-	-	6
Cash received from entrance into joint venture	-	-	175,000
Net cash flows for investing activities	-	-	(1,130,949)
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	(1,133)	(2,033)	(15,382)
Net increase (decrease) in cash	(698)	7,485	550

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Cash - beginning		1,248		1,435		-
Cash - ending	\$	550	\$	8,920	\$	550

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation:

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

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

On October 14, 2005, the Company entered into a joint venture agreement with a third party, Baltic Petroleum Limited (Baltic). The Company transferred 100% of its ownership interest in ZNG to the Joint Venture Zauralneftgaz Limited, UK (ZL) and transferred 50% of the Joint Venture interest to Baltic for \$175,000 and the agreement by Baltic to provide future funding to the Joint Venture as detailed in a Joint Venture Shareholder's Agreement. The Joint Venture will be engaged in the exploration for, development, production and sale of oil and gas assets in the Western Siberian region of the Russian Federation and the former Soviet Union.

Joint Venture operations are funded through loans to ZL and ZNG by a financing company wholly owned by Baltic. To support the current drilling program in ZNG's license blocks, funds are raised by Baltic's parent through the placement of shares. Loans are not dilutive to the Company's ownership in ZNG, but they are guaranteed by ZL's holdings in ZNG. In connection with funding provided by Baltic, ZNG entered into a gross override royalty agreement with Baltic.

As of March 31, 2008, the total amount of funds provided through such loans to ZL and ZNG were equal to \$23.5 million plus accrued interest of approximately \$3.9 million. The funds were used to perform extensive seismic and gas seismotomographic works on ZNG's licensed areas, prepare a comprehensive analysis of geological resources in the Kurgan region and drill 2 exploratory wells, both of which confirmed the presence of hydrocarbons, although these areas are not yet considered proven. Management considers the first months of 2008 a "transition period" in the Joint Venture's activities. It is awaiting the reports from a reputable international geological consulting firm regarding potential future exploration of the researched areas. In the case of further exploration the Joint Venture will seek to

“farm out” its interest in the acreage and a new exploration budget will be determined.

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

- Although the Company and Baltic each own 50% of the Joint Venture’s shares and each appoint 50% of the Directors to the Joint Venture, Baltic always has an additional casting vote on Board of Director related issues;
- Profits from the Joint Venture are allocated 50% to the Company only after all financing of ZNG are settled with Baltic and Baltic’s financing subsidiaries;
  - The Company has essentially no liability to guarantee the debts of the Joint Venture;
- The company generally received management fees in connection with the Joint Venture, which varied from \$25,000 to \$85,000 in 2005 through 2007. Due to the transition period in the Joint Venture activities no management fees were paid in 2008 and its future amount will only be determined after the approval of the new exploration stage budget.
- The Company recognized a settlement gain of \$364,479 as a result of the initial joint venture transaction. This resulted primarily to adjust the Company’s negative investment to zero as of the agreement date. All activity of ZNG before the agreement date is otherwise included in these financial statements.

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Activities of ZNG prior to October 14, 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 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 March 31, 2008.

As part of a planned separate oil and gas venture, on December 31, 2006, the Company acquired oil and gas related geological information on the Karabashski zone of Khanty-Mansiysk Autonomous district (Tuymen region of the Russian Federation) from Key Brokerage, LLC ("Seller"), a Delaware limited liability company, for the following negotiated consideration consisting of restricted common shares and stock warrants:

Restricted common shares issued to Seller	1,900,000
Restricted common shares issued to an adviser	200,000
Total restricted common shares issued	2,100,000

Stock warrants issued to Seller September 14, 2006 for purchase option	250,000
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As a result of the purchase, a calculated acquisition value of \$3,928,000 was assigned to the geological data assets that considered the approximate market value of the stock issued (\$1.75) on the transaction date. The total value of purchased assets consisted of \$3,675,000 assigned to the shares issued and \$253,000 assigned to stock warrants issued. Additionally, to facilitate the transaction, management and the Seller considered the results of a good faith valuation of assets prepared by a Russian consultant, who attempted to determine an "arms length fair value" price of such assets. However, management did not rely on this valuation, and assumes full responsibility for the value assigned in the acquisition.

In conjunction with the asset purchase, the Company was also assigned ownership of Kondaneftegaz, LLC ("Konda"), a Russian limited liability company wholly-owned by Seller. Since Konda had essentially no assets or liabilities at the purchase date, had no previous operating history, and was transferred only to facilitate the Company's potential future operations in Russia, no value was otherwise assigned to it in connection with the acquisition.

In October 2007, Konda obtained two 5 year oil and gas exploration licenses in the Khanty-Mansiysk region. In connection with the acquisition of the licenses the Company issued to Key Brokerage, LLC 2,000,000 of its restricted common shares with a total value of \$1,320,000 based on the current market prices of the shares at the date of issue. The Company actively seeks partners for the geological research and development of its new parcels.

On a moving forward basis, the Company anticipates further business expansion. It is constantly evaluating new mineral resource assets, both explored and unexplored, as part of its growth strategy.

The Company was incorporated in the State of Nevada on August 13, 1997, and previously provided comprehensive outpatient rehabilitation services to patients suffering from work, sports and accident related injuries. All activities related to the Company's previous business ventures were essentially discontinued prior to January 1, 2000. Predecessor names of the Company since its inception include Trans Energy Group Inc., 17388 Corporation Inc., Talking Cards Inc., Oyster King Incorporated and Advanced Rehab Technology Corporation.

### 3. Income Taxes:

At March 31, 2008, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately \$7,447,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2028. No tax benefit has been reported in the financial statements, however, because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the \$1,489,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

### 4. Loss Per Common Share:

Basic and diluted loss per common share is computed using the weighted average number of common shares outstanding during the period. Shares issuable for common stock options and warrants may have had a dilutive effect on earnings per share had the Company generated income during the periods through March 31, 2008.

### 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, 2008, 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.

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## 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, 2008.

### 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 (collectively the "Stock Splits"). All share amounts subsequently listed are retroactively adjusted to reflect these stock splits unless otherwise provided. All activities related to the Company's business were discontinued prior to January 1, 2000 and the Company began looking for opportunities to acquire an operating business.

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

On May 9, 2003, the Company entered into an Acquisition Agreement (the "Acquisition Agreement") by and among the Company, Zaural Neftgaz, 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.

On May 2, 2005, the Company effected a 1:2 reverse stock split and all share amounts listed throughout this Report retroactively reflect such split and the Stock Splits described above.

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



## BUSINESS OPERATIONS:

We are a development stage company, which is seeking opportunities for investment in and/or acquisition of small to medium companies in Russia, specifically in the oil and gas industry. We are currently evaluating investment and joint venture opportunities throughout Russia.

Until October 14, 2005, the Company's operations were conducted solely through its then wholly owned subsidiary, Zaural Neftegaz ("ZNG") a development stage oil and gas exploration company located in the Western Siberian Region of Russia. However, on October 14, 2005, the Company entered into a Joint Venture agreement, whereby the Company transferred 100% of the ownership of ZNG to a newly formed Joint Venture company, Zauralneftgaz Limited, a company organized under the laws of the United Kingdom ("ZNG, Ltd."), of which the Company owns 50% pursuant to the Joint Venture agreement entered into on October 14, 2005 (as described in greater detail below under "Joint Venture"). From October 14, 2005 to December 13, 2006, the Company had no oil and gas operations except through its ownership of 50% of ZNG, Ltd. On December 13, 2006, the Company entered into an Interest Purchase Agreement with Key Brokerage, whereby the Company purchased 100% of the issued and outstanding common stock of Kondaneftegaz, LLC ("KNG"), a Russian limited liability company, which was created in 2004 for the purpose of oil and gas exploration in the Khanty-Mansiysk district of Western Siberia, Russia. On October 22, 2007, KNG was awarded two oil and gas exploration licenses for the Karabashsky-61 and Karabashsky-67 blocks located in the Khanty-Mansiysk Autonomous Region. KNG also has eight more outstanding applications for exploration licenses filed with the Russian authorities, which auctions have not occurred to date.

Moving forward the Company plans to focus on the exploration and potential development of licenses acquired by KNG and to continue the oil and gas exploration activities in Kurgan and to work towards generating production activities from ZNG's licenses by possibly attracting interest from external parties, of which there can be no assurance. Additionally, the Company is currently contemplating entering into additional partnership agreements in connection with advanced stage exploration or production projects in Western Siberia, of which there can be no assurance.

### Description of KNG

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

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.

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).

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.

The right to use the subsurface resources can be cancelled by the Subsurface Resources Administrator based on the Russian Federation Law "On Subsurface Resources" in the event the owner of the license:

- 1) fails to pay the payments and duties;
- 2) does not start the seismic work 2D in 2008; or
- 3) does not start exploration drilling in 2011.

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The owner of the license is obliged to perform the following geological work on subsurface of the lease:

- to prepare and coordinate, and get approval in the prescribed manner of the “Program of exploration works on the Karabashsky-61 and Karabashsky-67 license areas” within 12 months from the date of the state registration of the license (October 22, 2007);
- to begin 2D seismic works during the 2008-2010 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
- No later than 2011, to start drilling an exploratory well and to complete not less than 2 exploratory wells by April 1, 2012.

Regular payments are due for the total area of the licenses according to the following rates (starting with the date of state registration of the license):

- 120 rubles (approximately \$5.25) for each 1 square kilometer – during the first three calendar years after the license is granted;
- 240 rubles (approximately \$10.50) for each 1 square kilometer – during the fourth calendar year after the license is granted; and
- 360 rubles (approximately \$15.75) for each 1 square kilometer – during the fifth calendar year after the license is granted.

The rates currently yield total annual payments for the two blocks of approximately \$3,300 in the first three years, \$6,600 in the fourth year and \$10,000 in the fifth year. Currently the Company is negotiating a joint venture with a local partner to perform prescribed geological research works on the two blocks, which agreement is anticipated to be finalized in June of 2008, of which there can be no assurance

### Description of ZNG

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

In March 2003, ZNG acquired four 5-year exploration licenses through a government tender. In June 2006, through participation in governmental auctions, ZNG successfully obtained three more oil and gas licenses in the Kurgan region of Siberia, Russia: the Yuzhno-Voskresensky, Petukhovsky and Lebyazhevsky parcels. The new licenses are for the period of 25 years and allow both exploration and production on the licensed areas. The total cost paid at the auctions for the three new licenses by ZNG was approximately \$425,000. All of the licensed areas are located in the Eastern part of Kurgan region, have well-developed infrastructure, including close proximity to the major oil pipeline, and have available existing prior geological data.

As of May 2008, ZNG had performed the following research and exploration works on its licensed areas:

- Obtained core samples from parametric wells drilled in prior years on the licensed areas and adjacent territories in the Eastern part of Kurgan region

during the initial search for oil and gas in the region, and performed analysis of the data provided by the samples;

- Completed a 2D seismic survey over 1,000 linear kilometers on the first license areas obtained in 2003, through an agreement with a Russian company, Bashneftegeofizika;



- Completed approximately 2,106 linear kilometers of gas seismotomographic and geochemical surveys performed by Exotrad. Gas seismotomography is an advanced technique of combining active gas geochemistry, passive seismic and electromagnetic methods. The surveys were performed by Exotrad, a world leader in this field. Exotrad has used this technology in more than 260 projects as well as “Caspian Pipeline Consortium”; “Sakhalin-2”; and “Blue Stream” in diverse locations across Asia, Eastern Europe and the Americas;
- Scientific and technical analysis was performed by the team of geologists, which included experts from Exploration Consultants Limited (“ECL”), a leading international oil and gas consulting firm (part of RPS Group);

Following interpretation of seismic, geochemical and geophysical data the first well location was chosen in the northern part of the Privolny license, which well was spudded in the Spring of 2007. Having drilled to 2,400 meters, the well was suspended, pending analysis and interpretation of the data, with a possible view to re-entry at a future date, of which there can be no assurance. Results of the seismic interpretation also showed that two of the licenses – West-Suersky and Orlovo-Pashkovsky did not have high potential and ZNG has voluntarily surrendered these licenses to the relevant authorities;

The Privolny-1 well provided crucial data to the determination of a second well location in the southern section of the Mokrousovsky block, a short distance to the north. The Mokrousovsky-1 well was spudded in September 2007 and also drilled to 2,400 meters. A modern, light-weight rig was contracted to drill this well, which proved to be extremely challenging from an engineering prospective. The drilling timeframe was extended, and hydrocarbons were identified with some being tested using Schlumberger’s MDTTM tool. RPS Energy has evaluated all of this data and, as of the date of this report, ZNG awaits their report and is considering options for further potential exploitation. Upon expiration of the license terms on the Mokrousovsky and Privolny parcels in March 2008, ZNG has the preferential right to re-apply for the licenses to continue exploration works. Should the results of the RPS report be affirmative and the Company and its current or prospective partners decide to commit to the advanced exploration, ZNG will re-apply for the licenses.

Additionally, the Company plans to focus on investigating the potential of its current 25-year licenses: Yuzhno-Voskresensky, Petukhovsky and Lebyazhevsky licenses.

#### Joint Venture

Currently, the operating activities of ZNG described above are carried out through the Joint Venture Shareholders' Agreement (“Joint Venture”) entered into on October 14, 2005 with Baltic Petroleum (E&P) Limited (“BP” or “Baltic”) and Zauralneftegaz Limited, the joint venture company (“ZNG, Ltd.”), as contemplated by the Option

Agreement, as amended (the "Option"). The Company closed the Joint Venture and transferred 100% of the outstanding stock of ZNG to ZNG, Ltd. in connection with the terms and conditions of the Joint Venture. As a result of such transfer, the Company holds 50% of the outstanding stock of ZNG, Ltd., which holds 100% of the outstanding stock of the Company's former wholly owned subsidiary, ZNG. ZNG, Ltd., will, operate through ZNG and be engaged in the exploration and development of, production and sale of, oil and gas assets in the Western Siberian region of the Russian Federation and the former Soviet Union and as a result of such transfer, the Company no longer has any separate oil and gas exploration activities in Kurgan, Russia, other than through its ownership of ZNG, Ltd.

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, 2008 the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to approximately \$23.5 million plus accrued interest of approximately \$3.9 million.

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To date, Caspian has provided ZNG various loans from 2005 through 2007, as described below:

- On November 9, 2005, ZNG entered into a New Loan with Caspian (the "New Loan"). Under the loan agreement, Caspian agreed to provide a loan of up to \$6,874,325 representing the assumed commitment under a prior loan equal to \$1,739,658, of which ZNG had received \$1,110,624 as of November 9, 2005, and a new commitment of up to \$5,134,667, to be used for operations in the Kurgan region in 2005 and through the first half of 2006. The New Loan is available to ZNG until the sixth anniversary of the date of the New Loan, or November 9, 2011 (the "Term");
- On January 16, 2007, ZNG and Caspian entered into a Deed of Variation of the Loan Agreement, whereby, inter alia, the Lender agreed to make available to ZNG an additional loan facility of US\$2,000,000;
- On April 23, 2007, ZNG and Caspian further entered into a Deed of Variation of the Loan Agreement whereby, inter alia, the Lender agreed to make available to ZNG an additional loan facility of US\$300,000; and
- On June 18, 2007, ZNG and Caspian entered into another Deed of Variation to the Loan Agreement, whereby Caspian agreed to make available to ZNG an additional loan facility of US\$7,359,190 (the "June 2007 Deed of Variation").

The total outstanding balance of the New Loan provided up to March 31, 2008, was \$15,239,000, including \$12,790,000 of principal and \$2,449,000 of interest accrued as of March 31, 2008.

Funding to ZNG, Ltd. is provided by Caspian on the same terms as to ZNG, through the mechanism of intercompany billing within Baltic and certain companies affiliated with Baltic. As of March 31, 2008, the total loan to ZNG, Ltd. from Caspian totaled \$10,566,000, including \$9,380,000 of principal and accrued interest of \$1,186,000. In addition, ZNG, Ltd. owes \$1,530,000 directly to Baltic for unpaid management fees and accrued interest through March 31, 2008.

The loans are not dilutive to the Company's ownership in ZNG. In connection with the funding provided by Baltic, ZNG entered into a gross override royalty agreement with Baltic, as described below under "Deed of Agreement," and "Gross Override Royalty Agreement."

Joint Venture activities are currently in the "transition period". The first stage of drilling has been completed and both wells confirmed the presence of hydrocarbons. As of the date of this filing, the Joint Venture is awaiting reports from RPS Energy regarding the potential for future exploitation. In the event the Joint Venture decides to explore further, the Joint Venture will seek to "farm out" its interest in the acreage. At that time, the new funding budget will be determined.

Terms of loans to ZNG, Ltd. and ZNG:

Interest on any amounts loaned under the New Loan bears interest at the following rates, calculated and compounded on a daily basis, 14% per annum during the first two years of the Term, 13% per annum during the third year of the Term; and 12% thereafter until the end of the Term.

Additionally, under the terms of the June 2007 Deed of Variation, interest on the loans made by Baltic to ZNG is payable on:

- a) the earlier of (i) the date on which ZNG's monthly turnover as shown by its monthly management accounts exceeds US \$200,000 and (ii) the fifth anniversary of the Deed of Variation dated June 18, 2007; and
- b) thereafter, on a monthly basis on the final day of each calendar month using all available turnover, provided that in the event the interest due thereafter exceeds the monthly turnover of ZNG then all of the turnover except for the direct budgeted operating expenses of ZNG and management fees agreed to be paid to Siberian Energy Group Inc. under the Joint Venture Agreement will be allocated prior to the payment of such interest and any interest not able to be paid will accrue and be payable as soon as the level of turnover (less the fees payable to us) permits (collectively the "Interest Payments").

In the event that ZNG does not make the Interest Payments when due, interest on the unpaid amounts shall be payable from the due date to the date paid at the rate of 6% per annum, calculated and accrued on a daily basis. The New Loan is unsecured by ZNG, but Caspian reserved the right to request security over all or some of the assets and/or undertaking of ZNG at any time prior to any drawdown of the New Loan, or while any money is outstanding under the New Loan.

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

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

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

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

#### Gross Overriding Royalty Agreement

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

Agreement With Alternative Energy Finance, Ltd.

We previously agreed to issue Alternative Energy Finance Ltd. ("AEF"), of which Tim Peara is the Managing Director as well as a Director of the Company, certain warrants in connection with Mr. Peara introducing the parties who formed the joint venture. Pursuant to an agreement between AEF and the Company, AEF will receive compensation based on the total investment made by Baltic Petroleum Ltd. in the Joint Venture. This compensation included a commission of approximately \$18,024 (1% of Baltic's first \$1,802,441 investment in the Joint Venture) and 50,068 options to purchase shares of our common stock at \$0.63 per share which were granted to Mr. Peara on March 6, 2006 and a commission of \$6,673 (1% of Baltic's \$667,313 investment in the Joint Venture in the first quarter of 2006), and 17,561 options to purchase shares of our common stock at \$0.67 per share for the first quarter of 2006, which were granted to Mr. Peara on March 31, 2006, which options contain a cashless exercise provision.

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

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

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

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

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

On June 30, 2007, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 55,233 shares of our common stock at an exercise price of \$1.14 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We were also obliged to pay AEF approximately \$35,938.00 during the three months ended June 30, 2007 (equal to 1% of Baltic's approximately \$3,593,848 investment in the Joint Venture in the second quarter of 2007); which amount has not been paid to date.

On September 30, 2007, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 51,352 shares of our common stock at an exercise price of \$0.74 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We were also obligated to pay AEF approximately \$21,568 during the three months ended September 30, 2007 (equal to 1% of Baltic's approximately \$2,156,790 investment in the Joint Venture in the third quarter of 2007); which amount has not been paid to date.



On December 31, 2007, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 78,130 shares of our common stock at an exercise price of \$0.46 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We were also obligated to pay AEF approximately \$20,626 during the three months ended December 31, 2007 (equal to 1% of Baltic's approximately \$2,062,635 investment in the Joint Venture in the fourth quarter of 2007); which amount has not been paid to date.

#### Global Consulting Group Agreement

With an effective date of April 10, 2007, we entered into an agreement with The Global Consulting Group ("Global"), whereby Global agreed to perform investor relations and medial communications services for us for the period of one (1) year, which agreement is automatically renewable for additional one (1) year periods if not terminated prior as described below. Pursuant to the Global agreement, we agreed to pay Global \$12,000 per month during the term of the agreement (subject to 3% yearly increases, if such agreement is not terminated prior to the one (1) year anniversary of the agreement), and pay Global one time bonuses of \$5,000 upon the achievement of any of the following goals: our common stock being listed on the AMEX; a valuation of our common stock of at least \$40 million for more than 30 days; and/or any feature story in a top tier media outlet (The Wall Street Journal, The New York Times or similar publication). We also agreed to pay Global's reasonable out of pocket expenses, subject to prior approval for any expense over \$300 and to indemnify Global against any losses they may incur as a result of the Global agreement up to a maximum of \$10,000. In November 2007, we terminated the Global agreement and entered into a Settlement Agreement (the "Global Settlement") with Global, pursuant to which we agreed to pay Global \$20,000 (payable in four installments of \$5,000, due December 5, 2007, January 5, 2008, February 5, 2008 and March 5, 2008) and 20,000 restricted shares in settlement of the termination of the Global agreement. In May 2008, we entered into a First Amendment to the Settlement Agreement (the "First Amendment") with Global. Pursuant to the First Amendment, we agreed to pay Global \$5,000 and 25,000 shares of common stock, along with the cash and stock consideration previously paid by us to Global pursuant to the Settlement Agreement, in full satisfaction of the Global Agreement. We agreed to pay Global the cash consideration on or prior to May 29, 2008, which amount of cash and stock as required by the First Amendment has not been paid to Global to date.

#### PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

The Company plans to focus on the exploration and potential development of licenses acquired by KNG in the Khanty-Mansiysk region and to continue oil and gas exploration activities in the Kurgan region to take ZNG's licenses into production either with its partner in the Joint Venture, Baltic Petroleum, or by attracting a third party interest, of which there can be no assurance. The Joint Venture is currently carrying on negotiations with potential farm-in partners regarding funding and further development of ZNG's licenses.

The Company also plans to put a large part of its resources into KNG, and the licenses which KNG has applied for. On October 22, 2007, KNG received 2 licenses of ten for which it had applied for between 2005 and 2006. If KNG is granted any or all of the 8 additional licenses it applied for in November 2005 and May 2006, the Company anticipates conducting oil and gas exploration surveys and studies on those licenses, as well as the two licenses granted in October 2007, funding permitting, of which there can be no assurance.

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



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

In connection with the Joint Venture (described under "Joint Venture Agreement," above), the Company generally received management fees in connection with the Joint Venture, 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 in the first quarter of 2008 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 \$425,184 and \$370,500 were payable to the stockholders as of March 31, 2008 and December 31, 2007, respectively. However, there can be no certainty as to the availability of continued financing in the future. Failure to obtain sufficient financing may require us to reduce our operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

#### COMPARISON OF OPERATING RESULTS

##### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008, COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2007

We had no revenues and other income for the three months ended March 31, 2008, compared with \$165,000 of revenue and other income for the three months ended March 31, 2007, due solely to \$165,000 of management fees received. During the three months ended March 31, 2007, the Company received monthly management fees of \$55,000 pursuant to our Joint Venture. However, the Company did not receive any management fees for the three months ended March 31, 2008, as a result of restructuring of Kurgan operations and negotiating of farming out 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 \$186,155 for the three months ended March 31, 2008, compared to total expenses for the three months ended March 31, 2007, of \$474,093, which represented a decrease in total expenses from the prior period of \$287,938 or 60.7%.

The main reason for the decrease in total expenses for the three months ended March 31, 2008, compared to the three months ended March 31, 2007, was a \$126,963 or 62.7% decrease in professional and consulting fees, to \$75,425 for the three months ended March 31, 2008, compared to \$202,388 for the three months ended March 31, 2007, 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, 2008, compared to the same period of 2007. Total expenses also decreased because of a \$155,761 or 89.5% decrease in other expenses, mainly attributable to the discontinuance of certain marketing contracts and less travel performed by management for marketing purposes for the three months ended March 31, 2008, compared to the three months ended March 31, 2007.

We had a net loss of \$186,155 for the three months ended March 31, 2008, compared to a net loss of \$309,093 for the three months ended March 31, 2007, a decrease in net loss of \$122,938 or 39.8% from the prior period. The decrease

in net loss was mainly attributable to the \$287,938 or 60.7% decrease in total expenses, offset by the \$165,000 decrease in revenues and other income for the three months ended March 31, 2008, compared to the three months ended March 31, 2007.

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## LIQUIDITY AND CAPITAL RESOURCES

We had current assets of \$4,999 as of March 31, 2008, which included cash of \$550; and prepaid expenses and other of \$4,449.

We had total assets of \$5,256,662 as of March 31, 2008, which included current assets of \$4,999 and non-current assets of \$5,251,663. Non-current assets included \$5,248,000 of oil and gas properties, unproved, representing two exploration licenses of KNG and also geological studies and data, which we received in connection with the purchase of KNG, and \$3,663 of property and equipment, net.

We had total liabilities of \$1,377,139 as of March 31, 2008, which were solely current liabilities and which included \$425,184 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, 2008; \$58,208 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; \$268,861 of accounts payable to others for advisory and professional services rendered; and \$614,886 of accrued payroll, which included \$337,500 payable to our Chief Executive Officer, David Zaikin, of which \$225,000 was accrued in 2007 and 2008, and \$112,500 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, \$108,332 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam.

We had negative working capital of \$1,372,140 and a total pre-development and development stage accumulated deficit of \$9,178,984 as of March 31, 2008.

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, 2008. 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.

We had \$435 of net cash flows from operating activities for the three months ended March 31, 2008, which is attributable to \$184,724 of increase in accounts payable and accrued expenses, \$1,750 of warrants granted for professional services and \$231 of depreciation and amortization, offset by \$186,155 of net loss and \$115 of prepaid expense and other assets.

We had \$0 of net cash flows for investing activities for the three months ended March 31, 2008.

We had \$0 of net cash flows from financing activities for the three months ended March 31, 2008.

Pursuant to the Deed of Agreement, whereby Baltic agreed to loan ZNG approximately \$12,000,000 to be used on seismic studies, the budget for the current program of seismic studies and drilling of the first four wells on ZNG's licenses in 2007 was adopted by ZNG, Ltd.'s Board. This budget amounted to US \$14,998,000, or approximately \$8 million British pounds. These funds were raised by Baltic's parent company through a placement of shares. Of the total budgeted amount of \$14,998,000, the sum of \$9,659,000 is being provided through the ZNG loans described earlier and the sum of \$5,339,000 is committed to be provided to ZNG, Ltd. The loans are not dilutive to the Company's ownership in ZNG. ZNG currently has approximately \$3,000,000 remaining from its 2007 budget, however funding of additional exploration works on the Mokrousovsky and Privolny areas and the 2008 exploration budget are not yet approved, pending on the report of RPS Energy regarding further potential exploitation of these areas. In the event ZNG decides to undertake further exploration of these areas, the Joint Venture will seek to "farm out" its interest in the acreage.

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As of March 31, 2008, ZNG had received \$12,790,000 pursuant to the New Loan, which amount includes \$6,874,325 assumed by ZNG in connection with a previous loan made to ZNG. Total interest accrued as of March 31, 2008 was \$2,558,000, including accrued interest on the previous loan. The total funding provided to ZNG, Ltd. and ZNG by Baltic including the delayed payment of Baltic management fees as of March 31, 2008 was equal to \$23,465,000 plus accrued interest of approximately \$3,979,000.

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Under the terms of the Joint Venture Agreement, we received \$25,000 per month as a management fee from ZNG, Ltd. This amount was increased to \$55,000 as per the 2007 operating budget and further increased to \$85,000 for the months of June through October 2007, after which date no management fees were paid in connection with the ‘transition period’ of Kurgan activities (described above under “Joint Venture”). Should Baltic decide not to further pursue the Kurgan project, the Joint Venture will be restructured and the management fees from Baltic will be discontinued and we will have to renegotiate management fees with the new partner or raise additional funding to support our operations, which may be on unfavorable terms, if at all.

Since our transfer of ZNG to the Joint Venture, our only oil and gas operations separate from our ownership of 50% of ZNG, Ltd. has been through KNG which was awarded two oil and gas exploration licenses in October 2007. Moving forward, we believe that in the long run a number of trends will favorably affect our liquidity. These trends include the steady trend of economic growth in Russia in the recent years which is improving the liquidity of our potential customers, and may favorably impact our debt management and the increasing overall credit rating in Russia, which we hope will lead to increased foreign investment in Russian companies and which will benefit us as well.

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

Additionally, 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

Our discussion and analysis of our financial condition and results of operations is based upon our unaudited financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to uncollectible receivable, investment values, income taxes, the recapitalization and contingencies. We base our estimates on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Recently issued accounting pronouncements. The Company does not expect the adoption of any recently issued accounting pronouncements to have a significant impact on the Company’s results of operations, financial position or cash flows.

### 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 4T. 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, 2008. 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, 2008, 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 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, 2007, 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-KSB, 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. This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

#### 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.

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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 through funding provided by existing stockholders and the requirements of the Joint Venture's Kurgan operations, if any, with amounts provided by the Joint Venture (described above). As of March 31, 2008, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$3.9 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. 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. In the event that our funding partner does not move forward with the joint venture and/or does 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.





**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 50/50 joint venture ownership of ZNG, Ltd., were forced to abandon its business plan, the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to become worthless.

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

The Company anticipates the need for approximately \$15,000,000 prior to KNG's expected generation of any revenues. Currently the Company has not raised any of this financing and the Company can make no assurances that this financing will ever be raised. The Company also does not expect to generate any revenues through the operations of KNG, until such financing can be raised, of which there can be no assurance. Therefore, investors should keep in mind that even if KNG is able to raise the substantial amounts of additional financing it requires for its operations, it could still be years before KNG generates any revenue, if ever. If KNG does not raise the \$15,000,000 which it anticipates needing to generate revenues, which, even if generated, will likely not be great enough to sustain KNG if no revenues are generated and hydrocarbon reserves are not discovered, KNG may be forced to abandon its business plan, and the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to become worthless.

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

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$186,155 for the three months ended March 31, 2008 and had a total accumulated deficit of \$9,178,984 as of March 31, 2008. These factors among others indicate that the Company may be unable to continue as a going concern, particularly in the event that it cannot generate sufficient cash flow to conduct its operations and/or obtain additional sources of capital and financing.

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

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

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

As a development stage company, we have no revenues or profits to date and our net cumulative deficit attributable to our development stage as of March 31, 2008, was \$8,729,199, and our total cumulative deficit was \$9,178,984 which included \$449,785 of pre-development stage deficit. We had \$614,886 in accrued and unpaid salaries and a working capital deficit of \$1,372,140 as of March 31, 2008. 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 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.

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**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 KNG, if ZNG, ZNG, Ltd. or KNG were to cease operations, your investment in our Company could become devalued or could become worthless.

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

The main factor determining success in the oil exploration and extraction industry is finding viable wells. If our Company, through ZNG, Ltd., KNG or other joint ventures we may enter into in the future, are unable to find producing wells and our competition is, it is likely that our Company will be driven out of business. Additionally, our industry is subject to significant capital requirements and as such, larger companies such as LUKoil, BP-TNK, Surgutneftegaz and Sibneft may have an advantage should they compete with us for exploration licenses, because they may have resources substantially greater than ours. Investors should take into account the above factors and understand that if we are unable to raise additional capital or generate the profits, the Company may be forced to liquidate its assets and an investment in our Company could become worthless.

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

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

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

We rely on the Company's Chief Executive Officer and Chief Financial Officer, David Zaikin and Elena Pochapski, for the success of our Company, both of whom are employed under contracts. Their experience and input create the foundation for our business and they are responsible for the directorship and control over the Company's development activities. The Company does not hold "key man" insurance on either member of management. Both Mr. Zaikin and Ms. Pochapski serve as Directors for RAM Resources, Ltd., and as such, the amount of time they are able to spend on Company matters may be limited. 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.

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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 KNG, which has been awarded two exploration oil & 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 JOINT VENTURE ARE CONDUCTED IN RUSSIA, AND THE LICENSES OWNED THROUGH OUR JOINT VENTURE ARE IN RUSSIA.

Zauralneftgaz, Ltd. which we own 50% of through our Joint Venture holds 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.

Moving forward, 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 will 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.

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 NASD Over The Counter Bulletin Board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock. Further, due to the limited volume of our shares which trade and our limited public float, we believe that our stock prices (bid, ask and closing prices) are entirely arbitrary, are not related to the actual value of the Company, and do not reflect the actual value of our common stock (and in fact reflect a value that is much higher than the actual value of our common stock). Shareholders and potential investors in our common stock should exercise caution before making an investment in the Company, and should not rely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine value of our common stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.





**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 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.

**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**

In June 2007, we issued 70,000 shares of restricted common stock to our President, Helen Teplitskaia, of which 50,000 shares were a sign-on bonus in connection with her agreeing to be an officer of the Company in May 2007, and 20,000 shares were part of her compensation package with the Company, whereby she is to be paid 10,000 shares per month for her service to the Company, which shares were issued for services rendered in May and June 2007. During the period July to December 2007 50,000 shares were issued for services rendered in July through November 2007. However, the 40,000 shares for four months from December 2007 to March 31, 2008 have not been issued as of the date of this report and the Company plans to issue such shares shortly after the filing of this Report. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuances did not involve a public offering, the recipient took the shares 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.

**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

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- 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
- 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.

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- (1) Filed as Exhibit 10.1, 10.2, 10.3, 10.4 and 10.5 to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.
- (2) Filed as Exhibits to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.
- (3) Filed as Exhibits to the Company's Report on Form 10-QSB, filed with the Commission on August 22, 2005, and incorporated herein by reference.
- (4) Filed as Exhibits to the Company's Report on Form 8-K, filed with the Commission on October 28, 2005, and incorporated herein by reference.
- (5) Filed as Exhibits to our Report on Form 10-QSB for the period ending September 31, 2005, which was filed with the Commission on November 21, 2005, and is incorporated herein by reference.
- (6) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on December 2, 2005, and incorporated herein by reference.
- (7) Filed as Exhibit 99.1 to our Report on Form 10-KSB for the year ended December 31, 2005, and incorporated herein by reference.
- (8) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on September 19, 2006, and incorporated herein by reference.
- (9) Filed as an Exhibit to our Report on Form 10-QSB, filed with the Commission on November 14, 2006, and incorporated herein by reference.
- (10) Filed as an Exhibit to our Form 8-K filed with the Commission on February 20, 2007, and incorporated herein by reference.
- (11) Filed as Exhibits to our Report on Form 10-KSB filed with the Commission on February 2, 2007, and incorporated herein by reference.
- (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-KSB filed with the Commission on April 15, 2008, and incorporated herein by reference.



SIGNATURES

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

SIBERIAN ENERGY GROUP INC.

DATED: May 20, 2008

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

DATED: May 20, 2008

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