

Siberian Energy Group Inc.
Form 10-K
April 14, 2009

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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

For the transition period from _____ to _____

Commission file number: 333-118902

SIBERIAN ENERGY GROUP INC.
(Exact name of small business issuer as specified in its charter)

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

incorporation
or
organization)

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

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

Securities registered under Section 12(b) of the Exchange Act:

NONE

Securities registered under Section 12(g) of the Exchange Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

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

Large accelerated filer [] Accelerated filer []
Non-accelerated filer [] Smaller reporting company [X]
(Do not check if a smaller reporting company)

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

The issuer's revenues for the most recent fiscal year ended December 31, 2008 were \$0.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing value of the Registrant's common stock on June 30, 2008, was approximately \$4,374,198.

As of March 31, 2009, the issuer had 18,645,585 shares of common stock, \$.001 par value per share outstanding.

Documents Incorporated by Reference: NONE

Transitional Small Business Disclosure Format: Yes [] No [X]

SIBERIAN ENERGY GROUP INC.
FORM 10-K
YEAR ENDED DECEMBER 31, 2008
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PART I

ITEM 1. BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K (THIS "FORM 10-K"), INCLUDING STATEMENTS UNDER "ITEM 1. BUSINESS," AND "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS", CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF SIBERIAN ENERGY GROUP INC. AND KONDANEFTEGAZ, LLC, A RUSSIAN LIMITED LIABILITY, THE REGISTRANT'S 44% OWNED SUBSIDIARY, AND ZAURALNEFTEGAZ LIMITED, A COMPANY ORGANIZED UNDER THE LAWS OF THE COUNTRY OF ENGLAND, WHICH THE REGISTRANT OWNS 50% OF (COLLECTIVELY "SIBERIAN", THE "COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-K, UNLESS ANOTHER DATE IS STATED, ARE TO DECEMBER 31, 2008.

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

BUSINESS DEVELOPMENT:

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

On September 17, 1999, the Company affected a 1-for-30 reverse stock split. A subsequent 3-for-1 forward split was consummated on October 2, 2000 and a further 1:2 reverse stock split was affected on May 2, 2005 (collectively the "Stock Splits"). All share amounts subsequently listed are retroactively adjusted to reflect these stock splits unless otherwise provided.

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

On May 9, 2003, the Company entered into an Acquisition Agreement (the "Acquisition Agreement") by and among the Company, Zaural Neftegaz, a Russian corporation ("ZNG"), the shareholders of ZNG and Oleg Zhuravlev, President of ZNG. Pursuant to the Acquisition Agreement, the Company acquired a 51% interest in ZNG by issuing to ZNG 2,000,000 shares of the Company's common stock. In June 2004, the Company purchased the remaining 49% of ZNG in exchange for 6,900,000 shares of the Company's common stock, making ZNG a wholly owned subsidiary of the Company. The Company had no affiliation with ZNG prior to the acquisition in May 2003.

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

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

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

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

BUSINESS OPERATIONS:

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

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

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

Description of KNG

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

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

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

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

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

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

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

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

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- Prepare annual programs and budgets pursuant to the Operating Agreement and the licensing agreements for the Blocks;
- Begin 2D seismic works on the Blocks during the 2009-2010 fieldwork season and perform not less than 176.26 linear kilometers of seismic profiles on the Karabashky-61 Block and not less than 158 linear kilometers of seismic works on the Karabashky-67 Block;
- Start drilling an exploratory well no later than 2011, and complete no less than 2 exploratory wells by April 1, 2012;
- Provide adequate financing to carry out KNG's planned activities; and
- Supervise implementation of all programs and budgets and provide written progress reports on a quarterly basis relating to KNG's activities and programs.

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

As of December 31, 2008, the Company owned a 44% interest in KNG. Operating results of KNG were included in the consolidated financial statements contained herein for the year ended December 31, 2007, and the nine months ended September 30, 2008. After September 30, 2008, the Company's investment in KNG is accounted for on the equity method of accounting. Accordingly, the assets, liabilities and equity of KNG are no longer presented on the Company's balance sheet.

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

Description of ZNG

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

Between 2003 and 2007, ZNG carried out extensive seismic and gas seismotomographic studies on its 4 licensed blocks acquired in 2003 through a government tender: the Privolny, Mokrousovsky, West-Suersky and Orlovo-Pashkovsky blocks, and drilled 2 exploratory wells on the Privolny and Mokrousovsky blocks. Based on the interpretation of seismic and seismotomographic surveys and analysis of samples from the wells, ZNG prepared a comprehensive analysis of geological resources of the Kurgan region. Both the Privolny-1 and Mokrousovsky-1 studies confirmed the presence of hydrocarbons and contributed greatly to the understanding of geological resources

in the region. However, a substantial amount of further exploration studies and work is required before a conclusion on the future potential of the blocks can be drawn. Decision on potential further exploration on these blocks has not been reached yet, as this decision has to take into account general market conditions and specifically the trend of oil prices. Upon the expiration of the license terms of these blocks in March 2008, ZNG kept the preferential right to re-apply for the licenses to continue exploration works on these blocks in the event it decides to continue exploration. In the case of further exploration on ZNG's licensed areas, the Joint Venture will seek to "farm out" its interest in the acreage.

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

Joint Venture

The operations of the Joint Venture are funded via loans provided to ZNG, Ltd. and ZNG by Caspian Finance Limited ("Caspian"), a financing company wholly owned by Baltic. Loans are guaranteed by ZNG, Ltd.'s holdings in ZNG. As of December 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 \$5 million. The loans are not dilutive to the Company's ownership in ZNG.

Agreement With Alternative Energy Finance, Ltd.

We previously agreed to issue Alternative Energy Finance Ltd. ("AEF"), of which Tim Peara is the Managing Director as well as a Director of the Company, certain warrants in connection with Mr. Peara introducing the parties who formed the joint venture. Pursuant to an agreement between AEF and the Company, AEF will receive compensation based on the total investment made by Baltic Petroleum Ltd. in the Joint Venture.

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

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

On March 13, 2007, Mr. Peara personally, and on behalf of AEF agreed to accept 58,134 shares of our restricted common stock in consideration for the forgiveness of \$45,626 owed personally to Mr. Peara in Director's fees and accrued expenses and \$47,969 owed to AEF in connection with our agreement with AEF for fees due from the period from March 31, 2006 to December 31, 2006, which shares have been issued to date and which debt has been forgiven by Mr. Peara and AEF.

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

ZNG Loans

To date, Caspian has provided ZNG various loans, 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 and a new commitment, 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").

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 December 31, 2008, the total loan to ZNG, Ltd. from Caspian totaled \$10,235,000, including \$9,380,000 of principal and accrued interest of \$855,000. In addition, ZNG, Ltd. owes \$1,482,000 directly to Baltic for unpaid management fees and accrued interest through December 31, 2008.

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

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").

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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.

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.

Estimate of Amount of Time Spent On Research and Development

An initial business plan was developed over the course of three months in 2003. During that time period, market research was conducted. Research and development activities on the licensed blocks in the Kurgan Region were directly borne by the Company up to the time the Joint Venture was closed in October 2005. As a result of the closing of the Joint Venture, these research and development costs are now paid by both by ZNG, Ltd. (as described above)

and ZNG. Research activities include gravimetric, seismic works and seismotomography studies on the previously licensed areas. Costs incurred by ZNG and ZNG Ltd. in connection with these studies as of December 31, 2008 totaled approximately \$18 million.

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Moving forward we expect additional research and development costs will be paid by Neftebitum in connection with KNG's exploration of KNG's blocks and any of the blocks that KNG may obtain at auction in the future, of which there can be no assurance.

Employees

Siberian Energy Group Inc. currently employs two (2) employees in management. KNG, which we own a 44% interest in, has two (2) part-time employees. Zauralneftegaz ("ZNG"), which is 50% owned by the Company through its joint venture ZNG, Ltd., employs nineteen (19) full-time employees and one (1) part-time employee; however, ZNG has suspended its employment contracts with its employees until such time as the decision on further exploration is reached.

Critical Accounting Policies and Estimates

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

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

Going Concern

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

Competition

Competition among Russian producers occurs in two distinct tiers. The first tier includes large corporations such as Surgutneftegaz, LUKoil, Sibneft, Tatneft, Slaveft, YUKOS, TNK, Bashneft, Rosneft and Sidanco which together control more than 90% of the Russian oil and gas market. These companies operate large-scale fields and are primarily oriented towards exportation. The second tier, so called junior players, includes a large number of smaller companies that operate small and medium sized oil and gas fields. These companies enjoy a limited but stable range of customers within Russia's domestic market, and their customers include the larger companies which purchase this product for export. Like other junior players, the Company believes it has potential to succeed given the continued high demand for oil both domestically and internationally.

A healthy level of competition currently exists among local oil service companies and recent reductions in demand for their services are leading to a surplus of supply. The Company believes that having the wide range of service companies within such close proximity creates an opportunity for ZNG and KNG to choose the best combination of price and quality while signing the service contract, due to the fact that service companies may compete with each other for providing exploration, drilling and other services to ZNG and/or KNG.

Additionally, the Company believes ZNG's geographic location presents a significant competitive advantage that should provide for cost reductions in the development of its fields and the necessary support infrastructure. The specific factors contributing to this competitive advantage include:

- The relatively flat topography which is dry and bog free;
- Non permafrost lands which reduce drilling costs;
- Significantly short distances to major pipelines which reduce the time and cost of installing the collector infrastructure from the wells to the main pipelines; and
- Proximity to main railroads and highways which allow for greater and easier access to the producing site as well as for initial delivery of product.

We believe that KNG's license areas, and those which KNG has applied for, have the following advantages:

- the licenses are within existing oil deposits;
- the licenses are close to a previously developed river transportation system on the Ob river and the North Sosva river, close to the river port of Igrim, through which KNG will be able to deliver equipment for the wells;
- the licensed blocks for which KNG applied are close to other developed deposits; and
- the blocks are close to major oil and gas pipelines.

Another type of competition, which ZNG and KNG expect to face is competition in the process of acquisition of new licenses. The Company expects that competitive pressures will further increase if hydrocarbon reservoirs are found in the Kurgan province and/or Khanty-Mansiysk district of Western Siberia, Russia. However, the Company believes that by the time new parcels become available for distribution in this region, the Company will have an advantage over companies with less experience in the region. The Company believes this will be due to its acquired experience and through the expertise of its employees, of which there can be no assurance. Many of the Company's directors and officers have many years of experience in the oil and gas industry, specifically in the West-Siberian Basin. Additionally, the Company feels that it will have a competitive advantage because many of its Directors and employees reside in the West-Siberian Basin and are dedicated to developing the local infrastructure.

Dependence on One or A Few Major Customers

The nature of the oil industry is not based on individual customers. Crude and refined products are sold to local and international brokers as well as to refineries.

Patents, Trademarks and Licenses

KNG currently holds two five-year oil and gas exploration licenses, awarded in October 2007. KNG has also applied for 8 other licenses in Western Siberia, Russia, with no date currently planned for the remaining auctions as of the date of this filing.

Need For Government Approval

Federal and local government approval will not be required for conversion of exploration licenses to production licenses and for extension of licenses beyond their initial term. The Company has already received approval for its exploration licenses, however, additional approval is required if the Company is to deliver its crude or refined products on the national pipeline system. These approvals can only be guaranteed once the Company has proved reserves. Alternatively, the Company has also developed plans to deliver crude and product by truck and via rail transport for the early years if there are any delays in gaining pipeline approval, and the Company finds hydrocarbon reserves, of which there can be no assurance.

Additionally, under new federal laws the Company does not require the approval of state and/or federal agencies for conversion of the Company's exploration licenses to production licenses and extension of production licenses beyond their initial term as they automatically convert to 25 year production licenses upon the discovery of oil and gas, of which the Company provides no assurance.

Costs and Effects of Compliance with Environmental Laws

According to the laws and regulations of the Russian Federation, organizations are permitted to carry out seismic and other development activities on licensed fields, provided the companies conform to ecological standards. Accordingly, ZNG and KNG have encountered two costs associated with environmental law compliance: costs associated with obtaining licenses and costs associated with obtaining permission from the Russian Ministry of Natural Resources (the "Ministry"). ZNG's costs have totaled approximately \$186,900, which includes \$2,000 relating to the ecological review by the Ministry and \$184,900 in legal costs and fees to obtain the Company's licenses. ZNG has also previously successfully passed a review by the Ministry and KNG will need to pass an ecological review at the drilling stage of activities, which has not yet started.

The Company will face additional costs to comply with environmental laws, which may be significant. In addition, the Ministry imposes certain environmental obligations on the Company, such as clean-up procedures.

ITEM 1A. RISK FACTORS

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

RISK OF CONTINUING OUR BUSINESS PLAN WITHOUT ADDITIONAL FINANCING.

We depend to a great degree on the ability to attract external financing in order to conduct future exploratory and development activities. The Company believes it can satisfy its cash requirements during the next twelve months,

estimated at approximately \$300,000, through funding provided by existing stockholders. As of December 31, 2008, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$5 million, which has been spent on various purposes, including seismic and gas seismotomography surveys, drilling of two exploratory wells, and paying consultants for services performed in connection with surveys performed on the licensed area. The Joint Venture is responsible for the funding of the operations of ZNG. However, if the Joint Venture is unable to raise the additional funds required for the planned activities of ZNG or attract interest from external parties and we are unable to raise financing for additional activities, separate from the Joint Venture, our Company may be forced to abandon its current business plan.

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

RISK OF FUNDING PARTNER NOT MOVING FORWARD WITH JOINT VENTURE

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

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

The Company does not expect to generate any revenues through the operations of ZNG. Therefore, investors should keep in mind that even if ZNG is able to raise the substantial amounts of additional financing it requires for its operations, it could still be years before ZNG generates any revenue, if ever. Even if generated, such revenues will likely not be great enough to sustain ZNG. If no revenues are generated and hydrocarbon reserves are not located, we may be forced to abandon or curtail our current business plan. If ZNG, which is 100% owned by the Company's 50/50 joint venture ownership of ZNG, Ltd., were forced to abandon its business plan, the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to substantially decline or become worthless.

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

The Company anticipates the need for approximately \$15,000,000 prior to KNG's expected generation of any revenues. In connection with the Agreement of Purchase and Sale, as described in more detail above, the Company sold a 56% interest in KNG to Neftebitum and various individuals in September 2008. Pursuant to this agreement and the related Operating Agreement, Neftebitum is responsible for providing financing for the operations of KNG. Currently, the Company is not aware of Neftebitum raising any of this financing and the Company can make no assurances that this financing will ever be raised. The Company also does not expect to generate any revenues through the operations of KNG, until such financing can be raised, of which there can be no assurance. Therefore, investors should keep in mind that even if Neftebitum is able to raise the substantial amounts of additional financing that KNG requires for its operations, it could still be years before KNG generates any revenue, if ever. If Neftebitum does not raise the \$15,000,000 which the Company anticipates KNG needs to generate revenues, which, even if generated, will likely not be great enough to sustain KNG if no revenues are generated and hydrocarbon reserves are not discovered, KNG may be forced to abandon its business plan, and the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to substantially decline or become worthless.

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

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$5,863,560 for the year ended December 31, 2008, and had a total accumulated deficit of \$14,856,389 as of December 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 had limited revenues and no profits to date and our net cumulative deficit attributable to our development stage as of December 31, 2008, was \$14,406,604, and our total cumulative deficit was \$14,856,389 which included \$449,785 of pre-development stage deficit. We had \$824,744 in accrued and unpaid salaries and a working capital deficit of \$1,743,957 as of December 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 50% of ZNG, Ltd. If throughout ZNG's and KNG's oil exploration no viable wells are found, and consequently, we generate only minimal revenues through ZNG, Ltd. (and/or through KNG), we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in our Company. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.

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

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

ZNG were unable to re-license the blocks, the value of the Company's securities could decline in value and/or become worthless.

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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 our 44% ownership of KNG, if ZNG, ZNG, Ltd. or KNG were to cease operations, your investment in our Company could become devalued or could become worthless.

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

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

OUR GROWTH WILL PLACE SIGNIFICANT STRAINS ON OUR RESOURCES.

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

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

We rely on the Company's Chief Executive Officer and Chief Financial Officer, David Zaikin and Elena Pochapski, for the success of our Company, who are performing their duties, but did not finalize new employment agreements after expiration of their previous agreements on December 31, 2008, and are therefore not bound to the Company by employment agreements. Their experience and input create the foundation for our business and they are responsible for the directorship and control over the Company's development activities. The Company does not hold "key man" insurance on either member of management. Moving forward, should they be lost for any reason, the Company will

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

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

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

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

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

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

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

Under Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the SEC, any OTCBB issuer who fails to file a periodic report (Form 10-Q's or 10-K's) by the due date of such report (not withstanding any extension granted to the issuer by the filing of a Form 12b-25), three (3) times during any twenty-four (24) month period are de-listed from the OTCBB. Such removed issuer would not be re-eligible to be listed on the OTCBB for a period of one-year, during which time any subsequent late filing would reset the one-year period of de-listing. Therefore, if we are late in filing a periodic report three times in any twenty-four (24) month period and are de-listed from the OTCBB, our securities may become worthless and we may be forced to curtail or abandon our business plan.

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

We anticipate incurring significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and new rules subsequently implemented by the SEC have imposed various new requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, for fiscal year 2009, Section 404 will require us to obtain a report from our independent registered public accounting firm attesting to the assessment made by management. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

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

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

- (1) actual or anticipated variations in our results of operations;
- (2) our ability or inability to generate new revenues;
- (3) the number of shares in our public float;
- (4) increased competition;
- (5) the political atmosphere in Russia; and
- (6) conditions and trends in the oil, gas, and energy industries in general.

Furthermore, because our common stock is traded on the Over-The-Counter Bulletin Board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock. Further, due to the limited volume of our shares which trade and our limited public float, we believe that our stock prices (bid, ask and closing prices) are entirely arbitrary, are not related to the actual value of the Company, and do not reflect the actual value of our common stock (and in fact reflect a value that is much higher than the actual value of our common stock). Shareholders and potential investors in our common stock should exercise caution before

making an investment in the Company, and should not rely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine value of our common stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.

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

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

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. PROPERTIES

The Company's United States office is located at 275 Madison Avenue, 6th Floor, New York, New York 10016, USA. The lease is at a monthly rate of \$250 and is on a month to month basis. This space is leased from Office Escape, an operator of business centers in New York and other United States cities. The Company is not the sole occupant of the space and consequently the cost of the rental is shared with other occupants. The Company does not use the office for any purposes falling outside of its business needs.

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KNG currently rents office space in Khanty-Mansiysk City, Russia, under a one year lease expiring in December 2009, at a monthly rental cost of approximately \$650 per month.

ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company had no matters submitted to a vote of security holders during the fiscal quarter ended December 31, 2008.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On March 22, 2005, the Company's common stock began trading on the OTC Bulletin Board under the symbol "SIBE." Effective May 2, 2005, in connection with the Company's 1:2 reverse stock split, the Company's common stock began trading under the symbol "SIBN." We had 2,600,781 shares of common stock subject to outstanding options and warrants to purchase, or securities convertible into, the Company's common stock as of December 31, 2008. We have no outstanding shares of preferred stock. As of March 31, 2009, there were 18,645,585 shares of common stock outstanding, held by approximately 125 shareholders of record.

The following table sets forth the high and low closing prices for the Company's common stock for the periods indicated as reported by the NASDAQ OTC-Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

| Closing Prices | | |
|-----------------------|--------|--------|
| Quarter Ended | High | Low |
| March 31, 2009 | \$0.07 | \$0.03 |
| December 31, 2008 | \$0.19 | \$0.04 |
| September 30, 2008 | \$0.39 | \$0.10 |
| June 30, 2008 | \$0.50 | \$0.25 |
| March 31, 2008 | \$0.61 | \$0.25 |
| December 31, 2007 | \$0.84 | \$0.36 |
| September 30, 2007 | \$1.65 | \$0.65 |
| June 30, 2007 | \$2.00 | \$1.26 |
| March 31, 2007 | \$1.90 | \$1.25 |

RECENT SALES OF UNREGISTERED SECURITIES

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 from July to December 2007, 50,000 shares were issued for services rendered in July through November 2007. In June 2008, we issued an aggregate of 70,000 restricted shares of common stock to Ms. Teplitskaia in

consideration for services rendered during the months of December 2007, and January through June 2008. Ms. Teplitskaia was subsequently issued the shares she was due for the months ended July 2008 through December 2008 in November 2008. The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended (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.

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In November 2008, the Company agreed to issue 107,520 shares of restricted common stock to a related party of Amir Rosenfeld, an individual, which shares were agreed to be issued to Mr. Rosenfeld in lieu of repayment of a \$10,753 debt owed by the Company to Mr. Rosenfeld. The debt was in connection with a \$10,000 loan Mr. Rosenfeld provided to the Company in November 2007, which loan had accrued \$753 of interest as of September 30, 2008. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuance 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 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

THIS REPORT CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. THESE FORWARD LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM HISTORICAL RESULTS OR ANTICIPATED RESULTS, INCLUDING THOSE SET FORTH UNDER "RISK FACTORS" IN THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND ELSEWHERE IN THIS REPORT. THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH "SELECTED FINANCIAL DATA" AND THE COMPANY'S FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS REPORT.

PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

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

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

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

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

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

In connection with the Joint Venture, the Company previously received monthly management fees, which varied from \$25,000 to \$85,000 per month. Due to the "transition period" of the Joint Venture's exploration activities, no management fees have been paid since October 2007, and there is no assurance that the Joint Venture will pay any management fees or that fees received will be adequate to pay its upcoming expenses and liabilities in the future. If the Company does not receive any management fees moving forward, the Company plans that its organizing stockholders will continue to provide financing for the Company, of which there can be no assurance.

In the past, we have obtained cash financing from organizing stockholders in the form of loans and advances, as a result, amounts totaling \$447,663 and \$370,500 were payable to the stockholders as of December 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 YEAR ENDED DECEMBER 31, 2008, COMPARED TO THE YEAR ENDED DECEMBER 31, 2007

We had no management fees from joint venture for the year ended December 31, 2008, compared to management fees from joint venture of \$700,000 for the year ended December 31, 2007, a decrease of \$700,000 from the prior period. During year ended December 31, 2007, the Company received monthly management fees of \$55,000 during the three months ended March 31, 2007, \$65,000 during the three months ended June 30, 2007, and \$85,000 during the three months ended September 30, 2007 and for the month ended October 30, 2007, pursuant to our Joint Venture. However, the Company has not received any monthly management fees since October 2007, as a result of the restructuring of the Company's Kurgan operations.

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

We had total expenses of \$740,043 for the year ended December 31, 2008, compared to total expenses of \$2,760,487 for the year ended December 31, 2007, a decrease of \$2,020,444 or 73.2% from the prior period.

The main reason for the decrease in expenses for the year ended December 31, 2008, compared to the year ended December 31, 2007, was a decrease of \$486,747 or 58.4% in salaries to \$346,710 for the year ended December 31, 2008, compared to salaries of \$833,457 for the year ended December 31, 2007, which decrease is largely attributable to the fact that the Company issued a significant amount of shares to its officers and Directors during the year ended December 31, 2007, which issuances were not represented in such significant amounts, and which shares had a lower fair market value due to decreases in the trading prices of the Company's common stock, for the year ended December 31, 2008, compared to the year ended December 31, 2007; a decrease of \$913,610 or 74.3% in professional and consulting fees, to \$315,983 for the year ended December 31, 2008, compared to professional and consulting fees of \$1,229,593 for the year ended December 31, 2007, which decrease is largely attributable to the fact that the Company used less third party consultants and advisors and used less stock based compensation during the year ended December 31, 2008, compared to the same period of 2007; a decrease of \$32,781 or 69.9% in rent and occupancy to \$14,101 for the year ended December 31, 2008, compared to rent and occupancy of \$46,882 for the year ended December 31, 2007, mainly due to the fact that the Company discontinued its office space lease in Toronto (Canada)

and Moscow (Russia); and a decrease of \$588,747 or 91.6% in marketing and other expenses, to \$54,225 for the year ended December 31, 2008, compared to marketing and other expenses of \$642,972 for the year ended December 31, 2007, mainly attributable to the discontinuance of certain marketing contracts and less travel performed by management for marketing purposes for the year ended December 31, 2008, compared to the year ended December 31, 2007.

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We had loss from sale of investment of \$669,570 for the year ended December 31, 2008, compared to no loss from sale of investment for the year ended December 31, 2007, an increase of \$669,570 from the prior period. The \$669,570 of loss from sale of investment can be attributed to our sale of a controlling interest in KNG, as described above.

We had loss on deemed disposition of oil and gas properties, unproved of \$3,928,000 for the year ended December 31, 2008, which was not present during the year ended December 31, 2007. The \$3,928,000 loss on deemed disposition of oil and gas properties, unproved, for the year ended December 31, 2008, can be attributed to the fact that the Company no longer has any plans to utilize the geological data, valued at \$3,928,000, other than through KNG's activities, and no consideration was received for the use of such geological data in connection with the sale of the controlling interest in KNG, although the Company has committed to providing such information to Neftebitum.

We had impairment charge on investment of \$525,947 for the year ended December 31, 2008, which was not present during the year ended December 31, 2007. Since 56% of KNG was sold for a nominal amount, a non-cash impairment charge of \$525,947 was recorded to reduce the carrying value of the 44% investment in KNG to zero. The sale of KNG is described in greater detail above..

We had net loss of \$5,863,560 for the year ended December 31, 2008, compared to net loss of \$2,060,487 for the year ended December 31, 2007, an increase of \$3,803,073 or 184.6% from the prior period. The increase in net loss was mainly attributable to the \$3,928,000 increase in loss on deemed disposition of oil and gas properties, unproved, the \$669,570 increase in loss from sale of investment, the \$525,947 increase in impairment charge on investment and the \$700,000 decrease in management fees received, offset by the \$2,020,444 or 73.2% decrease in total expenses for the year ended December 31, 2008, compared to the year ended December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

We had current assets of \$1,260 as of December 31, 2008, which included cash of \$739; and prepaid expenses and other current assets of \$521.

We had total assets of \$32,543 as of December 31, 2008, which included current assets of \$1,260 and non-current assets of \$31,283. Non-current assets included a \$29,500 loan receivable from affiliate in connection with amounts previously loaned to KNG, which, because of the sale of majority control of KNG, it is no longer eliminated in consolidation and has been presented separately in our financial statements, and \$1,783 of property and equipment, net. Total assets of \$32,543 as of December 31, 2008, were \$5,224,933 or 99.4% less than total assets of \$5,257,476 as of December 31, 2007. Total assets decreased mainly due to a \$5,248,000 decrease in oil and gas properties, unproved, due to our sale of 56% of KNG as described above.

We had total liabilities of \$1,745,217 as of December 31, 2008, which were solely current liabilities and which included \$447,663 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 December 31, 2008; \$62,771 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; \$410,039 of accounts payable to others for advisory and professional services rendered; and \$824,744 of accrued payroll, which included \$472,500 payable to our Chief Executive Officer, David Zaikin, of which \$360,000 was accrued in 2007 and 2008, and \$112,500 which was owed to Mr. Zaikin for services rendered prior to September 2005, at which time he agreed to stop accruing salary until January 2007, when he provided us notice of his intent to once again begin accruing salary until such time as we have sufficient funds to pay such accrued salary, \$156,019 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam. Total liabilities increased \$552,802 or 46.4% to \$1,745,217 as of December 31, 2008, from \$1,192,415 as of December 31, 2007, which increase was mainly due to increased accounts payable and additional accrued payroll from the period from December 31, 2007 to December 31, 2008.

We had negative working capital of \$1,743,957 and a total pre-development and development stage accumulated deficit of \$14,856,389 as of December 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 December 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.

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

We had \$1,865 of net cash flows from operating activities for the year ended December 31, 2008, which is attributable to adjustments to reconcile \$3,928,000 of loss on deemed disposition of oil and gas properties, unproved, \$794,192 of loss on sale of investment, \$525,947 impairment charge on investment, \$563,555 of increase in accounts payable and accrued expenses, \$48,053 of common stock and warrants granted for professional services and in connection with the issuance of shares and options to employees for salaries, \$3,764 of prepaid expenses and other assets and \$885 of depreciation and amortization, offset by \$5,863,560 of net loss.

For the year ended December 31, 2008, we had net cash flows for investing activities of \$29,393, primarily due to loan to an affiliate in connection with amounts previously loaned to KNG, which, because of the sale of majority control of KNG, is required to be unconsolidated in our financial statements.

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

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

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

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

Critical Accounting Policies

Use of Estimates:

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

Principles of Consolidation:

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

Foreign Currency Translation:

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

Oil and Gas Properties:

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

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

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

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

accounted for as adjustments of capitalized costs with no loss recognized.

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Property and Equipment:

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

Long-Lived Assets:

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM

The Board of Directors and Stockholders
Siberian Energy Group Inc.

We have audited the accompanying consolidated balance sheets of Siberian Energy Group Inc. (a development stage company) as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Siberian Energy Group Inc. as of December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended and the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Siberian Energy Group Inc. will continue as a going concern. As discussed in Note 11 to the financial statements, Siberian Energy Group Inc. has not earned significant revenue since inception of its current endeavor, and is considered to be in the development stage which raises substantial doubt about its ability to continue as a going concern. Management's plans relative to these matters are also described in Note 11 and throughout the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Lumsden & McCormick, LLP
Buffalo, New York
March 31, 2009
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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Consolidated Balance Sheets

| | December 31, 2008 | December 31, 2007 |
|---|-------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 739 | \$ 1,248 |
| Prepaid expenses and other | 521 | 4,285 |
| | 1,260 | 5,533 |
| Investment in joint venture, at equity | - | - |
| Investment in KNG, at equity | - | - |
| Oil and gas properties, unproved | - | 5,248,000 |
| Loan receivable - affiliate | 29,500 | - |
| Property and equipment, net | 1,783 | 3,943 |
| | \$ 32,543 | \$ 5,257,476 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Demand loan from stockholder, interest at 9% | \$ - | \$ 10,000 |
| Accounts payable: | | |
| Related party - stockholders | 447,663 | 370,500 |
| Related party - Baltic Petroleum, interest at 14% | 62,771 | 56,693 |
| Others | 410,039 | 213,854 |
| Accrued payroll | 824,744 | 541,368 |
| | 1,745,217 | 1,192,415 |
| Stockholders' equity: | | |
| Common stock - authorized 100,000,000 shares, \$.001 par value, 18,645,550 and 18,383,030 issued and outstanding | 18,646 | 18,383 |
| Additional paid-in capital | 13,112,299 | 13,053,756 |
| Accumulated deficit: | | |
| Pre-development stage | (449,785) | (449,785) |
| Development stage | (14,406,604) | (8,543,044) |
| Accumulated other comprehensive income (loss) | 12,770 | (14,249) |
| | (1,712,674) | 4,065,061 |
| | \$ 32,543 | \$ 5,257,476 |

See accompanying notes.

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

| Consolidated Statements of Operations | For the cumulative period of Development Stage Activity- January 1, 2003 through December 31, 2008 | | |
|---|---|--------------|---------------|
| For the years ended December 31, | 2008 | 2007 | 2008 |
| Revenues and other income: | | | |
| Management fees from joint venture | \$ - | \$ 700,000 | \$ 1,135,000 |
| Gain from entrance into joint venture | - | - | 364,479 |
| Other | - | - | 6,382 |
| Total revenues and other income | - | 700,000 | 1,505,861 |
| Expenses: | | | |
| Salaries | 346,710 | 833,457 | 3,437,605 |
| Professional and consulting fees | 315,983 | 1,229,593 | 4,862,809 |
| Rent and occupancy | 14,101 | 46,882 | 237,226 |
| Depreciation and amortization | 885 | 635 | 104,237 |
| Finance charges and interest | 8,139 | 6,948 | 112,063 |
| Marketing and other | 54,225 | 642,972 | 2,035,008 |
| Total expenses | 740,043 | 2,760,487 | 10,788,948 |
| Loss from sale of investment | 669,570 | - | 669,570 |
| Loss on deemed disposition of oil and gas properties, unproved | 3,928,000 | - | 3,928,000 |
| Impairment charge on investment | 525,947 | - | 525,947 |
| Loss before income taxes | 5,863,560 | 2,060,487 | 14,406,604 |
| Provision for income taxes (benefit) | - | - | - |
| Net loss (development stage) | \$ 5,863,560 | \$ 2,060,487 | \$ 14,406,604 |
| Basic and diluted loss per common share | \$ (0.32) | \$ (0.13) | \$ (1.25) |
| Weighted average number of basic and diluted common shares outstanding | 18,437,156 | 15,766,523 | 11,519,398 |

See accompanying notes.
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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Consolidated Statements of Stockholders' Equity

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

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

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| | Common Stock | | | | Accumulated Other Comprehensive Income (Loss) | Total | Comprehensive Loss |
|--|---------------------|--------------|-----------------------------------|------------------------|--|--------------|-----------------------|
| | Number of Shares | Par Value | Additional Paid -In Capital | Accumulated Deficit | | | |
| Loss for the year - 2005 | - | - | - | (1,153,686) | - | (1,153,686) | |
| Foreign currency translation adjustment | - | - | - | - | 50,614 | 50,614 | \$ (1,103,072) |
| Shares issued for professional services | 385,000 | 385 | 197,829 | - | - | 198,214 | |
| Shares issued for accrued salaries | 1,700,000 | 1,700 | 301,871 | - | - | 303,571 | |
| Warrants granted for professional services | - | - | 310,000 | - | - | 310,000 | |
| Balance, December 31, 2005 | 11,487,886 | \$ 11,488 | \$ 2,029,821 | \$ (2,859,554) | \$ (2,506) | \$ (820,751) | |
| Loss for the year - 2006 | - | - | - | (4,072,788) | - | (4,072,788) | |
| Foreign currency translation adjustment | - | - | - | - | (1,939) | (1,939) | \$ (4,074,727) |
| Shares issued for employee stock option plan and warrants | 195,000 | 195 | 45,305 | - | - | 45,500 | |

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| | | | | | | |
|--|------------|-----------|--------------|----------------|------------|--------------|
| Shares issued for geological data | 1,900,000 | 1,900 | 3,323,100 | - | - | 3,325,000 |
| Shares issued for professional services | 1,139,499 | 1,140 | 2,120,320 | - | - | 2,121,460 |
| Warrants granted for professional services | - | - | 1,201,960 | - | - | 1,201,960 |
| Shares cancelled | (609,424) | (610) | 610 | - | - | - |
| Balance, December 31, 2006 | 14,112,961 | \$ 14,113 | \$ 8,721,116 | \$ (6,932,342) | \$ (4,445) | \$ 1,798,442 |

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| Common Stock | | | | | | | |
|--|---------------------|--------------|-----------------------------------|------------------------|--|--------------|-----------------------|
| | Number of Shares | Par Value | Additional Paid -In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total | Comprehensive Loss |
| 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 |
| Balance, December 31, 2007 | 18,383,030 | \$ 18,383 | \$ 13,053,756 | \$ (8,992,829) | \$ (14,249) | \$ 4,065,061 | |
| Loss for the year - 2008 | | - | - | - | (5,863,560) | - | (5,863,560) |
| Foreign currency translation adjustment | | - | - | - | - | 27,019 | 27,019 \$(5,836,541) |
| Shares issued for professional services and | 155,000 | | 155 | 41,595 | - | - | 41,750 |

accrued salaries

Warrants granted
for professional
services

| | | | | | |
|---|---|-------|---|---|-------|
| - | - | 6,303 | - | - | 6,303 |
|---|---|-------|---|---|-------|

Shares issued for
loan repayment
and related
interest

| | | | | | |
|---------|-----|--------|---|---|--------|
| 107,520 | 108 | 10,645 | - | - | 10,753 |
|---------|-----|--------|---|---|--------|

Balance,
December 31,
2008

| | | | | | |
|------------|-----------|---------------|-----------------|-----------|----------------|
| 18,645,550 | \$ 18,646 | \$ 13,112,299 | \$ (14,856,389) | \$ 12,770 | \$ (1,712,674) |
|------------|-----------|---------------|-----------------|-----------|----------------|

See
accompanying
notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

| Consolidated Statements of Cash Flows | For the cumulative period of Development Stage Activity- January 1, 2003 through December 31, 2008 | | |
|--|---|----------------|-----------------|
| For the years ended December 31, | 2008 | 2007 | 2008 |
| Cash flows from operating activities: | | | |
| Net loss (development stage) | \$ (5,863,560) | \$ (2,060,487) | \$ (14,406,604) |
| Depreciation and amortization | 885 | 635 | 104,237 |
| Common stock and warrants issued for professional services and salaries and geological data | 48,053 | 3,016,910 | 7,182,481 |
| Gain from entrance into joint venture | - | - | (364,479) |
| Loss on disposition of office furniture | 1,029 | - | 1,029 |
| Loss on sale of investment, including deconsolidation of subsidiary | 794,192 | - | 794,192 |
| Loss on deemed disposition of oil and gas properties, unproved | 3,928,000 | - | 3,928,000 |
| Impairment charge on investment | 525,947 | - | 525,947 |
| Changes in other current assets and current liabilities: | | | |
| Management fee receivable | - | 110,000 | 110,000 |
| Prepaid expenses and other assets | 3,764 | 987 | (263,913) |
| Accounts payable and accrued expenses | 563,555 | (1,066,415) | 3,384,995 |
| Net cash flows from operating activities | 1,865 | 1,630 | 995,885 |
| 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 | - | (2,013) | (6,244) |
| Proceeds of disposition of office furniture | 107 | - | 107 |
| Loan to affiliate | (29,500) | - | (29,500) |
| Cash received in acquisition | - | - | 6 |
| Cash received from entrance into joint venture | - | - | 175,000 |
| Net cash flows for investing activities | (29,393) | (2,013) | (1,160,342) |
| Cash flows from financing activities: | | | |
| Net proceeds from demand loans | - | 10,000 | 72,500 |
| Common stock issued for employee stock option plan | - | - | 45,500 |
| Additional paid-in capital | - | - | 34,426 |
| Net cash flows from financing activities | - | 10,000 | 152,426 |
| Effect of exchange rates on cash | 27,019 | (9,804) | 12,770 |
| Net increase (decrease) in cash | (509) | (187) | 739 |

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| | | | |
|------------------|--------|----------|--------|
| Cash - beginning | 1,248 | 1,435 | - |
| Cash - ending | \$ 739 | \$ 1,248 | \$ 739 |

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

The Company and Description of Business:

Kondaneftegaz

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

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

| | |
|---|-----------|
| Restricted common shares issued for oil and gas properties, unproved in 2006 | 1,900,000 |
| Restricted common shares issued in connection with license acquisition by KNG in 2007 | 2,000,000 |
| Restricted common shares issued in 2006 | 200,000 |
| Total restricted common shares issued | 4,100,000 |
| Stock warrants issued in 2006 for purchase option | 250,000 |

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

On September 30, 2008 the Company sold a 51% interest in KNG to a Russian oil and gas company, and a 5% interest to two Russian individuals for \$223. This Russian company has committed to lead the exploration works on the licensed areas by accepting the operator's role and agreeing to provide funding for KNG's activities. Simultaneously with the sale of 56% of KNG, the Company made available all geological data to the operator to be used in the program of geological studies in the region. Since no consideration was received and the Company has no intent to

further utilize this geological data, a loss on the deemed disposition of these unproven oil and gas properties of \$3,928,000 has been recorded. Operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective September 30, 2008, the Company's 44% investment in KNG is recorded on the equity method of accounting. At September 30, 2008, KNG's assets were \$13,572 and liabilities were \$135,740. Since 56% of the Company was sold for a nominal amount, a non-cash impairment charge of \$525,947 has been recorded to reduce the carrying value of the 44% investment in KNG to zero.

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Zauralneftegaz

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

Activities of ZNG for the period March 2003 through October 2005 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective October 14, 2005, the Company's investment in Joint Venture has been recorded on the equity method of accounting. Since the cumulative losses of the Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through December 31, 2008.

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

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

Use of Estimates:

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

Principles of Consolidation:

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

Foreign Currency Translation:

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

Cash:

Cash in financial institutions may exceed insured limits at various times throughout the year, and subject the Company to concentrations of credit risk.

Oil and Gas Properties:

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

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

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

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

Licenses:

Costs incurred during 2003 to register and formalize ZNG’s exploration licenses with the Russian Ministry of Natural Resources were amortized over the terms of the licenses. Amortization expense for 2005 and 2004 was \$27,124 and \$36,160. All licenses became the responsibility of the Joint Venture effective October 14, 2005 and expired in 2008.

Licenses of KNG granted for oil and gas exploration in the Khanty-Mansiysk Autonomous area of the Russian Federation are the responsibility of the new operator of KNG following the sale of 56% interest in September 2008.

Property and Equipment:

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

Long-Lived Assets:

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

Income Taxes:

The provision for income taxes is based on pretax financial accounting income. There are no significant differences between financial and tax accounting that would otherwise give rise to deferred income taxes on the accompanying financial statements. The Company, however, recognizes future tax benefits of net operating loss carryforwards to the extent that realization of such benefits is more likely than not.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 “Fair Value Measurement” (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The Company adopted the provisions of SFAS 157 during 2008 which did not have an impact on the Company’s consolidated financial statements or disclosures. In February of 2008, the FASB issued FASB Staff Position 157-2 which delays the

effective date of SFAS 157 for non-financial assets and liabilities which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact, if any, of adopting the provisions of SFAS 157 for the non-financial assets and liabilities on the Company's consolidated financial statements.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company elected not to apply the fair value measurement option for any of their financial assets or liabilities.

Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying consolidated financial statements.

2. Investments:

Investment in KNG:

Following is a summary of KNG's unaudited financial position at December 31, 2008 and results of development stage activity for the year ended December 31, 2008:

| | 2008 |
|--|-------------|
| Current assets | \$ 16,755 |
| Oil and gas property, unproved | 96,068 |
| | \$ 112,823 |
| Current liabilities | \$ 122,001 |
| Long-term debt and other noncurrent liabilities | 54,047 |
| | 176,048 |
| Stockholders' equity (deficit) | (63,225) |
| | \$ 112,823 |
| Revenues | \$ - |
| Net loss (development stage) | \$ (18,805) |
| Cumulative net loss | \$ (69,346) |

The Company's investment asset will begin to exceed zero if KNG starts generating income.

There is no market for the common stock of KNG and accordingly, no quoted market price is available.

Investment in Joint Venture:

As of December 31, 2008, the Joint venture generated an unaudited cumulative loss of over \$22 million as a result of exploration activities in the Kurgan region during 2003-2008. Since cumulative losses of Joint Venture exceed the Company's investment, the investment is carried at zero value. The Company has no liability to guarantee the debts of the Joint Venture.

3. Income Taxes:

At December 31, 2008, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately \$13,125,000. 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 \$2,625,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

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4. Leases:

Office rent expense for the years ended December 31, 2008 and 2007 was \$14,101 and \$46,882. There currently are no long-term lease arrangements that the Company is committed to.

5. Related Party Transactions:

During the development stage period from January 1, 2003 through December 31, 2008, a variety of expenses were paid for by organizing stockholders. As a result, amounts totaling \$447,663 and \$370,500 are payable to stockholders from the Company as of December 31, 2008 and 2007.

6. Employment Contracts:

The Company had entered into employment contracts with certain senior management employees that provided for minimum annual salary, adjusted for capital levels raised by the Company. These agreements have expired as of December 31, 2008.

At December 31, 2008, accrued and unpaid salaries for all employees totaled \$824,744. These amounts are expected to be paid when sufficient cash flows are generated by the Company or by the issuance of restricted stock of the Company.

7. Stock Option Plan:

In 2003, the Company granted stock options under a plan for the benefit of employees and directors of the Company. All granted stock options are for acquisition of restricted shares, meaning that there are substantial restrictions on the transferability and sale of such shares. Pursuant to plan terms and related employment agreements, shares of common stock granted vest as follows:

| | Shares Reserved | | Exercise Price |
|-----------|-------------------|-------------------|--|
| | December 31, 2008 | December 31, 2007 | |
| Vest Year | | | |
| 2003 | 200,000 | 200,000 | \$0.14 |
| 2004 | 468,000 | 468,000 | \$0.20 |
| 2004 | 75,000 | 75,000 | \$0.32 |
| 2005 | 468,000 | 468,000 | \$0.60 |
| 2006 | 468,000 | 468,000 | \$0.60 |
| 2007 | 468,000 | 468,000 | 110% of the average closing stock price for the three months prior to grant date |
| 2008 | 468,000 | | |

The options generally expire four years from the date of vesting.

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The following summarizes stock option activity:

| | Number of Shares | Exercise Price |
|---|---------------------|-------------------|
| Outstanding and exercisable at January 1, 2003 | - | \$ - |
| Vested - 2003 | 300,000 | 0.14 |
| Outstanding and exercisable at December 31, 2003 | 300,000 | |
| Vested - 2004 | 518,000 | 0.20 |
| Vested - 2004 | 75,000 | 0.32 |
| Expired - 2004 | (100,000) | 0.14 |
| Expired - 2004 | (50,000) | 0.20 |
| Outstanding and exercisable at December 31, 2004 | 743,000 | |
| Vested - 2005 | 468,000 | 0.60 |
| Outstanding and exercisable at December 31, 2005 | 1,211,000 | |
| Vested - 2006 | 468,000 | 0.60 |
| Exercised - 2006 | (152,500) | |
| Outstanding and exercisable at December 31, 2006 | 1,526,500 | |
| Cancelled - 2007 | (75,000) | |
| Vested - 2007 | 468,000 | various |
| Outstanding and exercisable at December 31, 2007 | 1,919,500 | |
| Expired - 2008 | (568,000) | |
| Vested - 2008 | 468,000 | various |
| Outstanding and exercisable at December 31, 2008 | 1,819,500 | |

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The following tables summarize information about stock options outstanding and exercisable:

December 31, 2008

| Exercise Price | Number of Options | Weighted Average Remaining Years of Contractual Life |
|----------------|-------------------|--|
| \$ 0.60 | 415,500 | 1 |
| 0.60 | 468,000 | 2 |
| 2.26 | 66,500 | 3 |
| 2.14 | 36,500 | 3 |
| 1.94 | 36,500 | 3 |
| 1.62 | 36,500 | 3 |
| 1.69 | 36,500 | 3 |
| 1.82 | 36,500 | 3 |
| 1.79 | 36,500 | 3 |
| 1.77 | 36,500 | 3 |
| 1.46 | 36,500 | 3 |
| 1.16 | 36,500 | 3 |
| 0.86 | 36,500 | 3 |
| 0.76 | 36,500 | 3 |
| 0.72 | 66,500 | 4 |
| 0.63 | 36,500 | 4 |
| 0.49 | 36,500 | 4 |
| 0.38 | 36,500 | 4 |
| 0.31 | 73,000 | 4 |
| 0.34 | 36,500 | 4 |
| 0.32 | 36,500 | 4 |
| 0.33 | 36,500 | 4 |
| 0.26 | 36,500 | 4 |
| 0.21 | 36,500 | 4 |
| 0.14 | 36,500 | 4 |
| | 1,819,500 | |

December 31, 2007

| Exercise Price | Number of Options | Weighted Average Remaining Years of Contractual Life |
|----------------|-------------------|--|
| \$ 0.14 | 100,000 | 0 |
| 0.20 | 468,000 | 1 |
| 0.60 | 415,500 | 2 |
| 0.60 | 468,000 | 3 |
| 2.26 | 66,500 | 4 |
| 2.14 | 36,500 | 4 |
| 1.94 | 36,500 | 4 |
| 1.62 | 36,500 | 4 |

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| | | |
|------|-----------|---|
| 1.69 | 36,500 | 4 |
| 1.82 | 36,500 | 4 |
| 1.79 | 36,500 | 4 |
| 1.77 | 36,500 | 4 |
| 1.46 | 36,500 | 4 |
| 1.16 | 36,500 | 4 |
| 0.86 | 36,500 | 4 |
| 0.76 | 36,500 | 4 |
| | 1,919,500 | |

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The Company recognizes compensation based on the fair value method prescribed by Financial Accounting Standards Board Statement No. 123R, "Accounting for Stock Based Compensation." No compensation expense has been recognized through December 31, 2008 because management had determined the initial fair value of its stock options granted were minimal in light of the startup nature of the organization.

8. Stock Warrants:

In 2005, 2006, 2007, and 2008, the Company granted warrants to purchase restricted common shares to certain consultants and non-employees for services rendered to the Company as follows:

| 2008 | | | |
|-------------------|------------------|----------------|------------------------|
| Grant Date | Number of Shares | Exercise Price | Original Exercise Term |
| January 1, 2008 | 17,500 | \$ 0.72 | 4 years |
| February 1, 2008 | 7,500 | 0.63 | 4 years |
| March 1, 2008 | 7,500 | 0.49 | 4 years |
| April 1, 2008 | 7,500 | 0.38 | 4 years |
| May 1, 2008 | 7,500 | 0.31 | 4 years |
| June 1, 2008 | 7,500 | 0.31 | 4 years |
| July 1, 2008 | 7,500 | 0.34 | 4 years |
| August 1, 2008 | 7,500 | 0.33 | 4 years |
| September 1, 2008 | 7,500 | 0.32 | 4 years |
| October 1, 2008 | 7,500 | 0.26 | 4 years |
| November 1, 2008 | 7,500 | 0.21 | 4 years |
| December 1, 2008 | 7,500 | 0.14 | 4 years |
| | 100,000 | | |

| 2007 | | | |
|--------------------|------------------|----------------|------------------------|
| Grant Date | Number of Shares | Exercise Price | Original Exercise Term |
| January 1, 2007 | 17,500 | \$ 2.26 | 4 years |
| February 1, 2007 | 7,500 | 2.14 | 4 years |
| March 1, 2007 | 7,500 | 1.94 | 4 years |
| March 31, 2007 | 48,925 | 1.10 | 3 years |
| April 1, 2007 | 17,500 | 1.72 | 4 years |
| May 1, 2007 | 7,500 | 1.69 | 4 years |
| June 1, 2007 | 7,500 | 1.82 | 4 years |
| June 30, 2007 | 55,233 | 1.14 | 3 years |
| July 1, 2007 | 7,500 | 1.79 | 4 years |
| August 1, 2007 | 7,500 | 1.77 | 4 years |
| September 1, 2007 | 7,500 | 1.46 | 4 years |
| September 30, 2007 | 51,352 | 0.74 | 3 years |
| October 1, 2007 | 7,500 | 1.16 | 4 years |
| November 1, 2007 | 7,500 | 0.87 | 4 years |
| December 1, 2007 | 7,500 | 0.76 | 4 years |
| December 31, 2007 | 78,130 | 0.46 | 3 years |
| | 343,640 | | |

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| 2006 | | | | Original |
|--------------------|----|-----------|----------|----------|
| Grant | | Number of | Exercise | Exercise |
| Date | | Shares | Price | Term |
| March 31, 2006 | * | 800,000 | \$ 1.05 | 4 years |
| April 1, 2006 | * | 400,000 | 1.05 | 4 years |
| March 6, 2006 | | 50,068 | 0.63 | 3 years |
| March 31, 2006 | | 17,561 | 0.67 | 3 years |
| June 30, 2006 | | 20,412 | 2.02 | 3 years |
| September 14, 2006 | ** | 250,000 | 2.20 | 2 years |
| September 30, 2006 | | 20,952 | 1.53 | 3 years |
| December 31, 2006 | | 38,648 | 1.44 | 3 years |
| December 31, 2006 | | 100,000 | 0.60 | 4 years |
| | | 1,697,641 | | |

| 2005 | | | | Original |
|--------------------|----|-----------|----------|----------|
| Grant | | Number of | Exercise | Exercise |
| Date | | Shares | Price | Term |
| April 1, 2005 | * | 100,000 | \$ 0.30 | 2 years |
| September 13, 2005 | ** | 15,000 | 0.30 | 3 years |
| December 22, 2005 | ** | 100,000 | 1.00 | 3 years |
| December 22, 2005 | * | 300,000 | 1.00 | 2 years |
| December 22, 2005 | ** | 150,000 | 2.00 | 3 years |
| December 22, 2005 | ** | 150,000 | 2.50 | 3 years |
| December 22, 2005 | | 100,000 | 0.60 | 4 years |
| | | 915,000 | | |

* Warrants exercised through June 2007.

** Warrants expired as of December 31, 2008.

The fair values of each warrant granted is estimated on the grant date using the Black-Scholes option valuation model. The following general assumptions were made in estimating fair value:

| | 2008 | 2007 |
|-------------------------|--------|-------|
| Dividend yield | 0% | 0% |
| | | 2.50% |
| | 2.50% | - |
| Risk free interest rate | -4.50% | 4.75% |
| Expected volatility | 100% | 100% |

Amounts charged to expense in 2008 and 2007 totaled \$6,303 and \$150,394.

9. Fair Value of Financial Instruments:

The carrying values of cash, loan receivable - affiliate, accounts payable, accrued expenses and demand loans approximates fair value due to their short-term maturity.

10. 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 December 31, 2008.

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11. 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 December 31, 2008, the Company obtained cash financing from organizing stockholders and employees in the form of loans, advances, and deferred salaries. However, there can be no certainty as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities be reflected on a liquidation basis which could differ from the going concern basis.

12. Cash Flows Information:

Net cash flows from operating activities include cash payments for interest and income taxes as follows:

| | 2008 | 2007 |
|-------------------|------|------|
| Interest paid | \$ - | \$ - |
| Income taxes paid | \$ - | \$ - |

Noncash investing and financing activities excluded from the statements of cash flows includes:

| | 2008 | 2007 |
|---|-----------|--------------|
| Demand loan payable and related accrued interest settled through the issuance of common stock | \$ 10,753 | \$ - |
| Geological data acquired through the issuance of common stock | \$ - | \$ 350,000 |
| Licenses acquired through the issuance of common stock | \$ - | \$ 1,320,000 |
| Salaries and professional services settled through the issuance of common stock and warrants | \$ 48,053 | \$ 2,666,910 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 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 December 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 our Annual Report on form 10-K for the fiscal year ended December 31, 2008 fairly present our financial position, results of operations and cash flows for the years covered thereby in all material respects. To address the material weaknesses in our internal control over financial reporting described below, we performed additional analysis and other post-closing procedures in order to prepare the consolidated financial statements included in this Annual Report on form 10-K.

Management's Annual Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (US GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that the transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect of financial statement preparation and may not prevent or detect misstatements. In addition, effective internal control at a point in time may become ineffective in future periods because of changes in conditions or due to deterioration in the degree of compliance with our established policies and procedures.

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As of December 31, 2008, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments.

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Based on that evaluation, management concluded that, during the period covered by this report, 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.

A material weakness is a deficiency, or combination of deficiencies, that results more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. In connection with the assessment described above, management identified the following control deficiencies that represent material weaknesses at December 31, 2008:

- (1) lack of a functioning audit committee and lack of a majority of outside directors on the Company's board of directors capable to perform audit function;
- (2) inadequate segregation of duties due to limited number of personnel, which makes the reporting process susceptible to management override; and
- (3) insufficient use of the third party specialists and independent valuers in the areas which involve a significant level of judgment and in complicated areas of accounting.

Management believes that the material weaknesses set forth in items (1) and (2) above did not have an affect on the Company's financial reporting in 2008. However, management believes that the lack of a functioning audit committee and lack of a majority of outside directors on the Company's board of directors can adversely affect reporting in the future years, when our operations become more complex and less transparent and require higher level of financial expertise from the overseeing body of the Company.

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.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS AND OFFICERS

The following table sets forth the name, age and position of each director and executive officer of the Company. There are no other persons who can be classified as a promoter or controlling person of the Company. The officers and directors of the Company are as follows:

| Name | Age | Position |
|-------------------|-----|--|
| David Zaikin | 41 | Chairman of the Board of Directors and Chief Executive Officer |
| Helen Teplitskaia | 54 | President and Director |
| Elena Pochapski | 43 | Chief Financial Officer and Director |
| Oleg V. Zhuravlev | 48 | Director |
| Sergey Potapov | 45 | Director |
| Vladimir V. Eret | 64 | Director |
| Timothy Pears | 48 | Director |

David Zaikin

Chairman of the Board of Directors and Chief Executive Officer

David Zaikin has served as Chairman of the Board of Directors since December 2002 and as Chief Executive Officer of the Company since August 2004. Since September 1998, Mr. Zaikin has worked as Vice President of Harvey Kalles R.E. LTD, a Real Estate Company. Since August 2006, Mr. Zaikin has served as Chief Executive Officer and Director of ECM Asset Management, Inc. and since January 2008 as Executive Chairman of its parent company, RAM Resources Ltd. In 2003, Mr. Zaikin was recognized by "Who's Who" as one of the three Canadian businessmen for his extraordinary achievements. Mr. Zaikin also has a diverse background that includes experience in sales, marketing, channels, finance and operation. Mr. Zaikin is currently a member of TREB (the Toronto Real Estate Board) and OREA (the Ontario Real Estate Association). He specializes in both Financial Analysis and Market Analysis for Commercial Real Estate.

Mr. Zaikin also has a Bachelors Degree from Kharkov Government Pharmaceutical Institute.

Helen Teplitskaia

President and Director

Helen Teplitskaia has served as the Company's President and Director since May 2007. Since January 2008 Mrs. Teplitskaya serves as President and a member of the board of directors of RAM Resources Ltd. Ms. Teplitskaia also currently is an Adjunct Associate Professor of International Business and Markets - Global Initiatives in Management at Northwestern University, where she has taught since January 1998, and she has served as Executive Vice President and Head of Eurasia Practice at Innex International, Inc. since April 1991. Mr. Teplitskaia serves as President of the American-Russian Chamber of Commerce & Industry, President of the American-Eurasian Chamber of Commerce

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

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

Elena Pochapski
Chief Financial Officer and Director

Elena Pochapski has served as Chief Financial Officer and Director of the Company since August 1, 2003. Since August 2006, Mrs. Pochapski has served as Chief Financial Officer and Director of ECM Asset Management, Inc. Between January 2008 and July 2008, Ms. Pochapski served as a member of the board of directors of ECM Asset Management, Inc.'s parent company RAM Resources Ltd. ("RAM). She currently serves as an independent contractor with RAM. Before her employment at the Company, Mrs. Pochapski served as a Senior Accountant at Silver Gold Glatt & Grosman, LLP., from January 2002 to May 2004. Previous to that, Mrs. Pochapski was employed as an accountant at Cunningham & Associates, LLP., from September 1999 to December 2001. Previous to that, Mrs. Pochapski worked as an accountant at Price Waterhouse Coopers in Moscow Russia from 1997 to April 1999. Mrs. Pochapski has extensive experience in public accounting, audits and corporate finance. She is also familiar with Russian accounting procedures and has experience with translating Russian financial statements into US GAAP and International Accounting Standards (IAS). Ms. Pochapski received a Bachelor of Economics degree from Moscow State University. She is also certified as a Certified General Accountant (CGA) in Canada and as a Certified Public Accountant (CPA) in the State of Maine, U.S. Additionally, Mrs. Pochapski is a member of the Certified General Accountants Association of Ontario.

Sergey Potapov
Director

Sergey Potapov has served as Director of the Company since January 1, 2003, where he works in management and acquisition of assets in the Russian oil and gas industry. Additionally Mr. Potapov has worked as Vice President of ZNG, a Russian oil and gas exploration company, which is owned by ZNG, Ltd., which we currently own 50% of, since October 2002. From January 2000 through October 2002. Mr. Potapov worked as Vice General Director at Siburalresource Ltd., which provides gas distribution throughout Kurgan Province, Russia. Previous to his employ at Siburalresource, Mr. Potapov worked from May 1996 to January 2000, as the Head of Sales Department of OAO Ikar. Mr. Potapov has an Engineering Degree from The Engineering Institute of Kurgan.

Oleg V. Zhuravlev
Director

Oleg V. Zhuravlev has served as a Director of the Company since January 1, 2003. In addition, since January 1, 2003, Mr. Zhuravlev has served as President and Chief Executive Officer of ZNG, which is owned by ZNG, Ltd., which we currently own 50% of. Since October 15, 2002, Mr. Zhuravlev has worked as a general director of ZNG. Prior to being employed by ZNG, Mr. Zhuravlev was employed as Vice Director General in Finance in Kurganselectro Ltd, from May 31, 2002 to October 14, 2002. Before that, Mr. Zhuravlev was Vice Director General in finance and economics at LLC Kurgan Neftegazodobivaushaya Company, from December 18, 2001 through May 30, 2002. From June 13, 2001 to December 17, 2001, Mr. Zhuravlev was Chairman of the Board of Directors of NCO Gorodskoy Rashetny Centre. From August 1, 1998 to June 8, 2001, Mr. Zhuravlev was Director of the Kurgan branch of Sibcontact Bank Ltd. In August 1997, Mr. Zhuravlev became Chief of the Department of Investments and Securities Market for the Committee on Economic Policy (Khanty-Mansysk Autonomous Area Administration), where he worked until May 1998. From October 10, 1993 to March 11, 1997, Mr. Zhuravlev held various positions at Sibcontact, a commercial bank, ultimately achieving the position of Vice Chairman of the Board of Directors. Mr. Zhuravlev was professionally trained as an engineer at the Kurgan Institute of Engineering, Motor Transport Economics and Management Department in Kurgan, Russia.

Vladimir V. Eret
Director

Vladimir V. Eret has served as Technical Director and Chief Geologist of ZNG since January 1, 2003 and as Director of the Company since July 5, 2004. Before that time Mr. Eret was the Director General of Bentonite Inc. in Kurgan City, Russia, from February 1, 1996 to January 31, 2002. Prior to his employment at Bentonite Inc., Mr. Eret worked as the expert of geology at Regional Investment Corporation, in Kurgan City, Russia, from December 1, 1994 to January 31, 1996. From March 1985 to February 1993, Mr. Eret worked as a director of Souzgiptovodhoz, in connection with their geological expedition of Kurgan. Prior to that time Mr. Eret worked at various jobs as a geologist and from April 1976 to July 1978, as the chief geologist of the People's Democratic Republic of Algeria. Mr. Eret obtained his Bachelors degree from Tomsk Government University in Geology and Engineering in 1968. He obtained a Doctorate degree from Kurgan University in 1990 in Economics.

Timothy Peara
Director

Timothy Peara has served as a Director of the Company since April 12, 2005. Since October 2002, he has served as a Director of Emerging Markets Finance International in London, England. From December 2001 to April 2003, he served as Finance Director of TNG Energy AG, in Frankfurt, Germany. From August 2000 to October 2001, he served as Vice President of UT Energy Holdings, in London, England and Hartford, Connecticut. From December 1998 to June 2000, he served as Vice President of PSG International, in London, England. From August 1997 to June 1998 he served as a Senior Trader with Koch Supply & Trading, in London, England. From June 1991 to July 1997, he served as a Director with Lehman Brother, in London, England. From January 1989 to May 1991, he served as Vice President of Prudential Securities, Inc. in London, England. Mr. Peara obtained a Bachelors degree from Wesleyan University in Latin American Studies in 1983 and a Masters degree in Business Administration from the University of Chicago in 1988. Mr. Peara holds a Series 3 and Series 7 brokers license. Mr. Peara is also a member of the Association of International Petroleum Negotiators, and a member of the Oil Club in London, England.

Directors of the Company are elected annually and hold office until the annual meeting of the shareholders of the Company and until their successors are elected and qualified. Officers will hold their positions at the pleasure of the Board of Directors, absent any employment agreement. There are no family relationships among the Company's officers and directors. Officers and directors of the Company may receive compensation as determined by the Company from time to time by vote of the Board of Directors. Vacancies in the Board are filled by majority vote of the remaining directors. Such compensation might be in the form of stock options. Directors may be reimbursed by the Company for expenses incurred in attending meetings of the Board of Directors.

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EMPLOYMENT AND OPTION AGREEMENTS

David Zaikin, Chief Executive Officer and Director

David Zaikin, the Company's Chief Executive Officer, signed an employment agreement effective as of August 1, 2004, which expired as of December 31, 2008. Under the agreement, Mr. Zaikin is obligated to perform at least 40 hours per week of work on behalf of the Company. Unless terminated earlier, Mr. Zaikin's employment agreement shall be effective until December 31, 2008. Mr. Zaikin is to be paid an annual salary of US \$180,000, subject to periodic review by the Board. At the Board's discretion, it is possible for Mr. Zaikin to receive a performance based bonus.

Mr. Zaikin is provided eight (8) weeks of vacation leave per year. Additionally, Mr. Zaikin also has the right under his employment agreement to purchase stock options in the Company. Under the 2003 plan, Mr. Zaikin had the right to purchase 100,000 shares of the authorized and unissued \$0.001 par value restricted stock, at an exercise price of \$0.14 per share, which options expired unexercised on January 1, 2008. Under the 2004 plan, Mr. Zaikin had the right to purchase 100,000 shares of the Company's common stock, at an exercise price of \$0.20 per share, which options expired unexercised on January 1, 2009. Under the 2005 plan, Mr. Zaikin has the right to purchase 100,000 shares of the Company's common stock, at an exercise price of \$0.60 per share. Mr. Zaikin's stock option plan continues until his employment contract ends, giving him the right to purchase 10,000 shares of common stock as of January 1, of each year, and 7,500 shares on the first date of each month thereafter, up to a maximum of 100,000 shares per year, with the exercise prices as follows: for the year beginning January 1, 2007 and any subsequent year, the exercise price will be 110% of the average closing prices for the three months prior to each grant date. All stock options received by Mr. Zaikin will terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Mr. Zaikin are non-transferable, except by will or the laws of decent and distribution, and any attempt to do so shall void the option.

Under Mr. Zaikin's employment agreement, if he is terminated without cause by the Company or if Mr. Zaikin himself terminates his employment for a reasonable basis, defined as: (A) a material breach of the agreement by the Company, provided that he gives written notice of such default to the Company and if within thirty days after receipt of such notice, the Company has not cured such default; or (B) termination of his employment by the Company without cause during the term of the agreement; or (C) a reduction in his salary, except to the extent that a majority of the other executive officers of the Company incur reductions of salary that average no less than the percentage reduction incurred by him; or (E) his termination of the his employment within 12 months after a "Change in Control," of the Company, as defined in the employment agreement; the Company shall, in exchange for an execution and general release and waiver of claims against the Company by Mr. Zaikin, continue to pay as severance Mr. Zaikin's salary for twelve (12) months or one half (1/2) of the remaining term of the agreement whichever is greater.

Helen Teplitskaia, President and Director

Helen Teplitskaia is the Company's President and Director. She has not signed a formal employment agreement with the Company. However, through a letter agreement, the Company agreed to provide her compensation by issuing her 10,000 shares of restricted common stock per month, beginning May 2007 and for each month thereafter for the years ended December 31, 2007 and 2008. The Company also issued her 50,000 shares of restricted common stock as a signing bonus. Continuing throughout 2009, the Company plans to issue Ms. Teplitskaia 10,000 shares of common stock per month for her service to the Company, however the Company has not issued any shares to date, and as such, the 30,000 shares of common stock due to Ms. Teplitskaia as of March 31, 2009, are not included in the number of issued and outstanding shares disclosed throughout this report.

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Elena Pochapski, Chief Financial Officer and Director

Elena Pochapski is employed as the Company's Chief Financial Officer. She signed an employment contract with the Company on August 1, 2003, which is effective until December 31, 2008. Ms. Pochapski is to be paid an annual salary of US \$75,000 subject to periodic review by the Board. Ms. Pochapski is entitled to six (6) weeks of vacation time per year.

Additionally, Ms. Pochapski has the right under her employment agreement to receive stock options in the Company. Under the 2003 plan, Ms. Pochapski had the right to purchase 100,000 shares of the authorized and unissued \$0.001 par value restricted stock of the Company for an exercise price of \$0.14, which options were exercised by Ms. Pochapski in February 2006. Under the 2004 plan Ms. Pochapski had the right to purchase 100,000 shares at an exercise price of \$0.20 per share, which options expired unexercised on December 31, 2008, under the 2005 plan, Ms. Pochapski has the right to purchase 100,000 shares at an exercise price of \$0.60 per share and under the 2006 plan, Ms. Pochapski has the right to purchase 100,000 shares at an exercise price of \$0.60 per share. Ms. Pochapski's stock option plan continues until her employment contract ends, giving her the right to purchase 10,000 shares of common stock as of January 1, of each year, and 7,500 shares on the first date of each month thereafter, up to a maximum of 100,000 shares per year, with exercise prices as follows: for 2007 and each subsequent year the exercise price is 110% of the average closing prices for the three months prior to the grant date. All stock options received by Ms. Pochapski will terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Ms. Pochapski are non-transferable except by will or the laws of decent and distribution and any attempt to do so shall void the option.

Under Ms. Pochapski's employment agreement, if she is terminated without cause by the Company or if Ms. Pochapski herself terminates her employment for a reasonable basis, defined as: (A) a material breach of the agreement by the Company, provided that she gives written notice of such default to the Company and if within thirty days after receipt of such notice, the Company has not cured such default; or (B) termination of her employment by the Company without cause during the term of the agreement; or (C) a reduction in her salary, except to the extent that a majority of the other executive officers of the Company incur reductions of salary that average no less than the percentage reduction incurred by her; or (E) her termination of the her employment within 12 months after a "Change in Control," of the Company, as defined in the employment agreement; the Company shall, in exchange for an execution and general release and waiver of claims against the Company by Ms. Pochapski, continue to pay as severance Ms. Pochapski's salary for twelve (12) months or one half (1/2) of the remaining term of the agreement whichever is greater.

On September 1, 2005, the Company entered into an "Amendment to the Employment Agreement Dated August 1, 2003" ("Amended Employment Agreement") with Elena Pochapski. Pursuant to the terms of the Amended Employment Agreement, Ms. Pochapski agreed to forgive \$50,000 of salary which she was owed for services rendered under her employment agreement, in return for the Company issuing her 400,000 shares of the Company's restricted common stock. Additionally, Ms. Pochapski agreed to postpone the payment of the remaining \$84,707 which she was owed in connection with her employment agreement from the period from August 1, 2003 to August 30, 2005, until such time as the Company has sufficient profits to pay the amount in cash either partially or in full. The Amended Employment Agreement also set Ms. Pochapski's annual salary for the period from September 1, 2005 until August 30, 2006 at CDN \$75,000, after which time her salary returned to the amounts listed in her August 1, 2003 employment agreement. The Amended Employment Agreement also provided for the Company to pay Ms. Pochapski a monthly allowance of CDN \$500 in consideration for her using her personal automobile for Company related services.

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Oleg V. Zhuravlev, Director

Oleg V. Zhuravlev, the President and Chief Executive Officer of ZNG, the Company's subsidiary, and a Director of the Company has the right to receive stock options in the Company pursuant to a Stock Option Agreement, which grants him options to purchase shares of the Company's common stock under stock plans relating to various years of his employment. Under the 2003 stock option plan, Mr. Zhuravlev had the right to purchase all or any part of 200,000 shares of the authorized and unissued \$.001 par value restricted common stock of the Company at an exercise price of \$0.14 per share, which options expired unexercised on December 31, 2007. Additionally under the 2004 and 2005 plans, Mr. Zhuravlev had the right to purchase 200,000 shares of the Company's common stock at the exercise prices of \$0.20 per share and \$0.60 per share, respectively. The options granted in 2004 expired unexercised on December 31, 2008. Under the 2006 plan, Mr. Zhuravlev has the right to purchase 200,000 shares of common stock at an exercise price of \$0.60 per share. Mr. Zhuravlev's stock option plan continues until his employment with the Company ends, giving him the right to purchase 20,000 shares of common stock as of January 1, of each year, and 15,000 shares on the first date of each month thereafter, up to a maximum of 200,000 shares, with exercise prices as follows: for 2007 and every subsequent year the exercise price is 110% of the average closing prices for the three months prior to each grant. All stock options received by Mr. Zhuravlev will terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Mr. Zhuravlev are non-transferable except by will or the laws of decent and distribution and any attempt to do so shall void the option.

Vladimir V. Eret, Director

Vladimir V. Eret is employed as the Chief Operating Officer of ZNG, and a Director of the Company. Mr. Eret has the right to receive stock options in the Company pursuant to a Stock Option Agreement, which grants him options to purchase shares of the Company's common stock under stock plans relating to various years of his employment. Under the 2004 plan, Mr. Eret had the right to purchase 84,000 shares of common stock at \$0.60 per share, which options expired unexercised on December 31, 2008. Under the 2005 plan, Mr. Eret has the right to purchase 84,000 shares of common stock at \$0.60 per share. Under the 2006 plan, Mr. Eret has the right to purchase 84,000 shares of common stock at an exercise price of \$0.60 per share. Mr. Eret's stock option plan continues until his employment with the Company ends, giving him the right to purchase 7,000 shares of common stock as of January 1, of each year, and 7,000 shares on the first date of each month thereafter, up to a maximum of 84,000 options per year, with exercise prices as follows: for 2007 and every subsequent year the exercise price is 110% of the average closing prices for the three months prior to each grant. All stock options received by Mr. Eret will terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Mr. Eret are non-transferable except by will or the laws of decent and distribution and any attempt to do so shall void the option.

Sergey Potapov, Director

Sergey Potapov, the Vice President of ZNG and a Director of the Company has the right to purchase stock options in the Company pursuant to a Stock Option Agreement, which grants him options to purchase shares of the Company's common stock under stock plans relating to various years of his employment. Under the 2004 plan, Mr. Eret had the right to purchase 84,000 shares of common stock at \$0.60 per share, which options expired unexercised on December 31, 2008. Under the 2005 plan, Mr. Eret has the right to purchase 84,000 shares of common stock at \$0.60 per share. Under the 2006 plan, Mr. Potapov has the right to purchase 84,000 shares of common stock at an exercise price of \$0.60 per share. Mr. Potapov's stock option plan continues until his employment ends, giving him the right to purchase 7,000 shares of common stock as of January 1, of each year, and 7,000 shares on the first date of each month thereafter, up to a maximum of 84,000 options per year, with exercise prices as follows: for 2007 and every subsequent year the exercise price is 110% of the average closing prices for the three months prior to each grant. All stock options received by Mr. Potapov will terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Mr. Potapov are

non-transferable except by will or the laws of decent and distribution and any attempt to do so shall void the option.
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Tim Peara, Director

Tim Peara, a Director of the Company has the right to purchase stock options in the Company pursuant to a Stock Option Agreement. Under his Stock Option Agreement, Mr. Peara has the right to purchase 100,000 shares of the Company's common stock at an exercise price of \$0.60 per share during the year ended December 31, 2005. Mr. Peara has the right to purchase 100,000 shares of the Company's common stock at an exercise price of \$0.60 per share during the year ended December 31, 2006. Mr. Peara's stock option plan continues until his employment is terminated or ends, giving him the right to purchase 10,000 shares of common stock as of January 1, of each year, and 7,500 shares on the first date of each month thereafter, up to a maximum of 100,000 shares per year, with exercise prices as follows: for 2007 and each subsequent year the exercise price is 110% of the average closing prices for the three months prior to the grant date. All stock options received by Mr. Peara according to the above will terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Mr. Peara are non-transferable except by will or the laws of decent and distribution and any attempt to do so shall void the option.

Additionally, Mr. Peara was granted 100,000 options to purchase shares of the Company's common stock at \$0.30 per share in consideration for consulting services provided to the Company prior to his election as a Director of the Company (the "Consulting Options"). One half or 50,000 shares of the Consulting Options were to expire at 5:00 p.m. (Eastern Standard Time) on May 1, 2006, however those options were exercised by Mr. Peara prior to expiring, and one half or 50,000 of the Consulting Options were to expire at 5:00 p.m. (Eastern Standard Time) on May 1, 2007, but were exercised by Mr. Peara prior to their expiration date.

Additionally, pursuant to an agreement between Alternative Energy Finance and the Company, Timothy Peara, our Director and the managing Director of Alternative Energy Finance, receives compensation based on the total investment made by Baltic in the Joint Venture described in greater detail below under "Certain Relationships and Related Transactions."

ITEM 11. EXECUTIVE COMPENSATION

Compensation paid (or payable) to Officers and Directors is set forth in the Summary Compensation Table below. The Company may reimburse its Officers and Directors for any and all out-of-pocket expenses incurred relating to the business of the Company.

| Name And Principal Position (1) | Fiscal Year | Salary | Bonus (\$) | All Other Compen- sation | Stock Awards | Option Awards | Total Compen- sation |
|---------------------------------------|----------------|------------|------------|--------------------------------|-----------------|------------------|----------------------------|
| David Zaikin | 2008 | \$180,000* | -- | -- | -- | (2) | 180,000 |
| CEO and Chairman | 2007 | \$180,000 | -- | -- | \$309,700 | (2) | \$489,700 |
| Helen Teplitskaia | 2008 | -- | -- | -- | \$27,400 | -- | \$27,400 |
| President and Director | 2007 | -- | -- | -- | \$110,900 | -- | \$110,900 |
| Elena Pochapski | 2008 | \$62,126* | -- | -- | - | (3) | \$62,126 |

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|----------------------------------|--------------|------------|----------|----------|----------|------------------------|------------|
| CFO and Director | 2007 | \$86,625 | -- | -- | - | (3) | \$86,625 |
| Oleg V. Zhuravlev Director | 2008 2007 | \$0 \$0 | -- -- | -- -- | - - | (4) (4) | \$0 \$0 |
| Vladimir Eret Director | 2008 2007 | \$0 \$0 | -- -- | -- -- | - - | (5) (5) | \$0 \$0 |
| Sergei Potapov Director | 2008 2007 | \$0 \$0 | -- -- | -- -- | -- -- | (6) (6) | \$0 \$0 |
| Timothy | 2008 | \$35,000* | -- | -- | -- | | \$41,304 |
| Peara Director (7) | 2007 | \$35,000 | -- | -- | - | \$6,304(8) \$867(8) | \$35,867 |

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Salaries above do not include perquisites and other personal benefits in amounts less than an aggregate of 10% of the individuals salaries listed above.

* All salaries listed above for fiscal 2008 were accrued and remain unpaid as of the filing of this report.

(1) Other than the individuals listed above, the Company has no other executive employees who have received more than \$100,000 in compensation, including bonuses and options, during each of the last two (2) fiscal years. No executive employee listed above received any Non-Equity Incentive Plan Compensation or Nonqualified Deferred Compensation Earnings over the past two (2) years.

(2) Mr. Zaikin was granted 100,000 options to purchase shares of our common during each of the fiscal years ended 2008, 2007, 2006, 2005 and 2004, pursuant to a Stock Option Agreement he entered into with us in 2003. The exercise price of those options for the years ended December 31, 2006, 2005 and 2004, were \$0.60, \$0.20 and \$0.14 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." All unexercised options expire on December 31st of the fourth year after they were granted. We previously determined the initial fair value of our stock options was minimal at the time of our entry into the Stock Option Agreement with Mr. Zaikin, as we were only a start-up company, which did not publicly trade its stock, and as such, the options granted to Mr. Zaikin during the periods disclosed above did not represent any expense on the Company's financial statements and therefore have no value in the table above. The value of the options were calculated pursuant to FAS 123R.

(3) Ms. Pochapski was granted 100,000 options to purchase shares of our common during each of the fiscal years ended 2008, 2007, 2006, 2005 and 2004, pursuant to a Stock Option Agreement she entered into with us in 2003. The exercise price of those options for the years ended December 31, 2006, 2005 and 2004, were \$0.60, \$0.20 and \$0.14 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." All unexercised options expire on December 31st of the fourth year after they were granted. We previously determined the initial fair value of our stock options was minimal at the time of our entry into the Stock Option Agreement with Ms. Pochapski, as we were only a start-up company, which did not publicly trade its stock, and as such, the options granted to Ms. Pochapski during the periods disclosed above did not represent any expense on the Company's financial statements and therefore have no value in the table above. The value of the options were calculated pursuant to FAS 123R.

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(4) Mr. Zhuravlev was granted 100,000 options to purchase shares of our common during each of the fiscal years ended 2008, 2007, 2006, 2005 and 2004, pursuant to a Stock Option Agreement he entered into with us in 2004. The exercise price of those options for the years ended December 31, 2006, 2005 and 2004, were \$0.60, \$0.20 and \$0.14 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." All unexercised options expire on December 31st of the fourth year after they were granted. We previously determined the initial fair value of our stock options was minimal at the time of our entry into the Stock Option Agreement with Mr. Zhuravlev, as we were only a start-up company, which did not publicly trade its stock, and as such, the options granted to Mr. Zhuravlev during the periods disclosed above did not represent any expense on the Company's financial statements and therefore have no value in the table above. The value of the options were calculated pursuant to FAS 123R.

(5) Mr. Eret was granted 84,000 options to purchase shares of our common stock during each of the fiscal years ended 2008, 2007, 2006, 2005 and 2004, pursuant to a Stock Option Agreement he entered into with us in 2004. The exercise price of those options for the years ended December 31, 2006, 2005 and 2004, were \$0.60, \$0.20 and \$0.14 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." All unexercised options expire on December 31st of the fourth year after they were granted. We previously determined the initial fair value of our stock options was minimal at the time of our entry into the Stock Option Agreement with Mr. Eret, as we were only a start-up company, which did not publicly trade its stock, and as such, the options granted to Mr. Eret during the periods disclosed above did not represent any expense on the Company's financial statements and therefore have no value in the table above. The value of the options were calculated pursuant to FAS 123R.

(6) Mr. Potapov was granted 84,000 options to purchase shares of our common stock during each of the fiscal years ended 2008, 2007, 2006, 2005 and 2004, pursuant to a Stock Option Agreement he entered into with us in 2004. The exercise price of those options for the years ended December 31, 2006, 2005 and 2004, were \$0.60, \$0.20 and \$0.14 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." All unexercised options expire on December 31st of the fourth year after they were granted. We previously determined the initial fair value of our stock options was minimal at the time of our entry into the Stock Option Agreement with Mr. Potapov, as we were only a start-up company, which did not publicly trade its stock, and as such, the options granted to Mr. Potapov during the periods disclosed above did not represent any expense on the Company's financial statements and therefore have no value in the table above. The value of the options were calculated pursuant to FAS 123R.

(7) Mr. Peara's salary and option awards in the table above, do not include amounts paid by us to Alternative Energy Finance Ltd., which Mr. Peara is the Managing Director of, which amounts are described in greater detail herein, as those fees and options were not paid to Mr. Peara in consideration for his services to the Company as a Director.

(8) Mr. Peara was granted 100,000 options to purchase shares of our common stock during each of the fiscal years ended 2008, 2007, 2006 and 2005, pursuant to a Stock Option Agreement he entered into with us in 2004. The exercise price of those options for the years ended December 31, 2006 and 2005, were \$0.60 and \$0.20 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." The value of the options granted in 2005, which vested during 2008 and 2007 was approximately \$6,304 and \$867, respectively. All unexercised options expire on December 31st of the fourth year after they were granted. The value of the options were calculated pursuant to FAS 123R.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

OPTION AWARDS

STOCK AWARDS

| Name (a) | Number of Securities Underlying Unexercised Options (#) (b) | Number of Securities Underlying Unexercised Options (#) (c) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d) | Option Exercise Price (\$) (e) | Option Expiration Date (f) | Equity Incentive Plan Awards: Market Value of Shares or Units of Stock That Have Not Vested | | | |
|--------------|---|---|--|--|-------------------------------------|---|---|--|--|
| | | | | | | Number of Shares or Units of Stock That Have Not Vested (#) (g) | Market Value of Shares or Units of Stock That Have Not Vested (\$) (h) | Number of Shares, Units or Other Rights That Have Not Vested (#) (i) | Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j) |
| David Zaikin | 17,500 | - | - | \$0.72 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.63 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.49 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.38 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.31 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.31 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.34 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.33 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.32 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.26 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.21 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.14 | December 31, 2012 | | | | |
| | 17,500 | - | - | \$2.26 | December 31, 2011 | | | | |
| | 7,500 | - | - | \$2.14 | December 31, 2011 | | | | |
| | 7,500 | - | - | \$1.94 | December 31, 2011 | | | | |

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| | | | | |
|---------|---|---|--------|----------------------|
| 7,500 | - | - | \$1.62 | December 31, 2011 |
| 7,500 | - | - | \$1.69 | December 31, 2011 |
| 7,500 | - | - | \$1.82 | December 31, 2011 |
| 7,500 | - | - | \$1.79 | December 31, 2011 |
| 7,500 | - | - | \$1.77 | December 31, 2011 |
| 7,500 | - | - | \$1.46 | December 31, 2011 |
| 7,500 | - | - | \$1.16 | December 31, 2011 |
| 7,500 | - | - | \$0.86 | December 31, 2011 |
| 7,500 | - | - | \$0.76 | December 31, 2011 |
| 47,500 | - | - | \$0.60 | December 31, 2010 |
| 100,000 | - | - | \$0.60 | December 31, 2009 |

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| | | | | |
|-----------|---------|---|---|-----------------|
| Elena | | | | December |
| Pochapski | 17,500 | - | - | \$0.72 31, 2012 |
| | 7,500 | - | - | \$0.63 31, 2012 |
| | 7,500 | - | - | \$0.49 31, 2012 |
| | 7,500 | - | - | \$0.38 31, 2012 |
| | 7,500 | - | - | \$0.31 31, 2012 |
| | 7,500 | - | - | \$0.31 31, 2012 |
| | 7,500 | - | - | \$0.34 31, 2012 |
| | 7,500 | - | - | \$0.33 31, 2012 |
| | 7,500 | - | - | \$0.32 31, 2012 |
| | 7,500 | - | - | \$0.26 31, 2012 |
| | 7,500 | - | - | \$0.21 31, 2012 |
| | 7,500 | - | - | \$0.14 31, 2012 |
| | 17,500 | - | - | \$2.26 31, 2011 |
| | 7,500 | - | - | \$2.14 31, 2011 |
| | 7,500 | - | - | \$1.94 31, 2011 |
| | 7,500 | - | - | \$1.62 31, 2011 |
| | 7,500 | - | - | \$1.69 31, 2011 |
| | 7,500 | - | - | \$1.82 31, 2011 |
| | 7,500 | - | - | \$1.79 31, 2011 |
| | 7,500 | - | - | \$1.77 31, 2011 |
| | 7,500 | - | - | \$1.46 31, 2011 |
| | 7,500 | - | - | \$1.16 31, 2011 |
| | 7,500 | - | - | \$0.86 31, 2011 |
| | 7,500 | - | - | \$0.76 31, 2011 |
| | 100,000 | - | - | \$0.60 31, 2010 |

| | | | |
|---------|---|---|-----------------|
| | | | December |
| 100,000 | - | - | \$0.60 31, 2009 |

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| | | | | | |
|----------------------|---------|---|---|--------|----------------------|
| Oleg V. Zhuravlev | 17,500 | - | - | \$0.72 | December 31, 2012 |
| | 7,500 | - | - | \$0.63 | December 31, 2012 |
| | 7,500 | - | - | \$0.49 | December 31, 2012 |
| | 7,500 | - | - | \$0.38 | December 31, 2012 |
| | 7,500 | - | - | \$0.31 | December 31, 2012 |
| | 7,500 | - | - | \$0.31 | December 31, 2012 |
| | 7,500 | - | - | \$0.34 | December 31, 2012 |
| | 7,500 | - | - | \$0.33 | December 31, 2012 |
| | 7,500 | - | - | \$0.32 | December 31, 2012 |
| | 7,500 | - | - | \$0.26 | December 31, 2012 |
| | 7,500 | - | - | \$0.21 | December 31, 2012 |
| | 7,500 | - | - | \$0.14 | December 31, 2012 |
| | 17,500 | - | - | \$2.26 | December 31, 2011 |
| | 7,500 | - | - | \$2.14 | December 31, 2011 |
| | 7,500 | - | - | \$1.94 | December 31, 2011 |
| | 7,500 | - | - | \$1.62 | December 31, 2011 |
| | 7,500 | - | - | \$1.69 | December 31, 2011 |
| | 7,500 | - | - | \$1.82 | December 31, 2011 |
| | 7,500 | - | - | \$1.79 | December 31, 2011 |
| | 7,500 | - | - | \$1.77 | December 31, 2011 |
| | 7,500 | - | - | \$1.46 | December 31, 2011 |
| | 7,500 | - | - | \$1.16 | December 31, 2011 |
| | 7,500 | - | - | \$0.86 | December 31, 2011 |
| | 7,500 | - | - | \$0.76 | December 31, 2011 |
| | 100,000 | - | - | \$0.60 | December 31, 2010 |

100,000 - - \$0.60 December
31, 2009

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| | | | | | |
|----------------|-------|---|---|--------|-------------------|
| Sergey Potapov | 7,000 | - | - | \$0.72 | December 31, 2012 |
| | 7,000 | - | - | \$0.63 | December 31, 2012 |
| | 7,000 | - | - | \$0.49 | December 31, 2012 |
| | 7,000 | - | - | \$0.38 | December 31, 2012 |
| | 7,000 | - | - | \$0.31 | December 31, 2012 |
| | 7,000 | - | - | \$0.31 | December 31, 2012 |
| | 7,000 | - | - | \$0.34 | December 31, 2012 |
| | 7,000 | - | - | \$0.33 | December 31, 2012 |
| | 7,000 | - | - | \$0.32 | December 31, 2012 |
| | 7,000 | - | - | \$0.26 | December 31, 2012 |
| | 7,000 | - | - | \$0.21 | December 31, 2012 |
| | 7,000 | - | - | \$0.14 | December 31, 2012 |
| | 7,000 | - | - | \$2.26 | December 31, 2011 |
| | 7,000 | - | - | \$2.14 | December 31, 2011 |
| | 7,000 | - | - | \$1.94 | December 31, 2011 |
| | 7,000 | - | - | \$1.62 | December 31, 2011 |

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| | | | | |
|--------|---|---|--------|----------|
| | | | | December |
| 7,000 | - | - | \$1.69 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.82 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.79 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.77 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.46 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.16 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$0.86 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$0.76 | 31, 2011 |
| | | | | December |
| 84,000 | - | - | \$0.60 | 31, 2010 |
| | | | | December |
| 84,000 | - | - | \$0.60 | 31, 2009 |

| | | | | |
|----------|-------|---|---|-----------------|
| Vladimir | | | | December |
| Eret | 7,000 | - | - | \$0.72 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.63 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.49 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.38 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.31 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.31 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.34 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.33 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.32 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.26 31, 2012 |
| | | | | December |
| | 7,000 | - | - | \$0.21 31, 2012 |

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| | | | | |
|--------|---|---|--------|----------|
| | | | | December |
| 7,000 | - | - | \$0.14 | 31, 2012 |
| | | | | December |
| 7,000 | - | - | \$2.26 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$2.14 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.94 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.62 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.69 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.82 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.79 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.77 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.46 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$1.16 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$0.86 | 31, 2011 |
| | | | | December |
| 7,000 | - | - | \$0.76 | 31, 2011 |
| | | | | December |
| 84,000 | - | - | \$0.60 | 31, 2010 |
| | | | | December |
| 84,000 | - | - | \$0.60 | 31, 2009 |

| | | | | |
|-----------|--------|---|---|-----------------|
| Tim | | | | December |
| Peara (1) | 17,500 | - | - | \$0.72 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.63 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.49 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.38 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.31 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.31 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.34 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.33 31, 2012 |
| | | | | December |
| | 7,500 | - | - | \$0.32 31, 2012 |

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| | | | | |
|--------|---|---|--------|----------------------|
| 7,500 | - | - | \$0.26 | December 31, 2012 |
| 7,500 | - | - | \$0.21 | December 31, 2012 |
| 7,500 | - | - | \$0.14 | December 31, 2012 |
| 17,500 | - | - | \$2.26 | December 31, 2011 |
| 7,500 | - | - | \$2.14 | December 31, 2011 |

| | | | | |
|---------|---|---|--------|----------|
| | | | | December |
| 7,500 | - | - | \$1.94 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$1.62 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$1.69 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$1.82 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$1.79 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$1.77 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$1.46 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$1.16 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$0.86 | 31, 2011 |
| | | | | December |
| 7,500 | - | - | \$0.76 | 31, 2011 |
| | | | | December |
| 100,000 | - | - | \$0.60 | 31, 2010 |
| | | | | December |
| 100,000 | - | - | \$0.60 | 31, 2009 |

(1) Mr. Peara's option awards in the table above, do not include option and/or warrants issued by us to Alternative Energy Finance Ltd., which Mr. Peara is the Managing Director of, which are described in greater detail herein, as those options and/or warrants were not issued to Mr. Peara in consideration for his services to the Company as a Director.

COMPENSATION DISCUSSION AND ANALYSIS

Director Compensation

The members of our Board of Directors each receive yearly option grants pursuant to Option Agreements which they entered into with us when they were appointed Directors of the Company. The Option Agreements and yearly option grants are described in greater detail above under "Employment and Option Agreements." The Board of Directors reserves the right in the future to award the members of the Board of Directors cash or stock based consideration for their services to the Company, which awards, if granted shall be in the sole determination of the Board of Directors.

Executive Compensation Philosophy

Our Board of Directors determines the compensation provided to our executive officers in their sole determination. Our executive compensation program is designed to attract and retain talented executives to meet our short-term and long-term business objectives. In doing so, we attempt to align our executives' interests with the interests of our shareholders by providing an adequate compensation package to such executives. This compensation package includes a base salary, which we believe is competitive with other companies of our relative size. Our Board of Directors reserves the right to award incentive bonuses which are linked to our performance, as well as to the individual executive officer's performance in the future. This package may also include long-term, stock based

compensation to certain executives which is intended to align the performance of our executives with our long-term business strategies, which may be similar to the stock option grants which our Directors receive.

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Base Salary

The base salary of our executive officers was established by our entry into Employment Agreements with those individuals, as describe above. The salaries of those individuals were established by evaluating the range of responsibilities of their positions, as well as the anticipated impact that such individuals could have in meeting our strategic objectives. The established base salary of each individual was then benchmarked to comparable positions with that of our industry and similarly sized companies. Base salaries are adjusted to reflect the varying levels of position responsibilities and individual executive performance.

Incentive Bonus

Along with our executives' base salaries, the Board of Directors reserves the right to give incentive bonuses to our executive officers and Directors, which bonuses the Board of Directors may grant in its sole discretion, if the Board of Directors believes such bonuses are in the Company's best interest, after analyzing our current business objectives and growth, if any, which growth is a direct result of the actions and ability of such executives in the sole discretion of the Board of Directors.

Long-term, Stock Based Compensation

In order to attract, retain and motivate executive talent necessary to support the Company's long-term business strategy we may award certain executives with long-term, stock based compensation in the future, in the sole discretion of our Board of Directors, which we do not currently have any immediate plans to award.

Criteria for Compensation Levels

The Company has always sought to attract and retain qualified executives and employees able to positively contribute to the success of the Company for the benefit of its various stakeholders, the most important of which is its shareholders, but also including its customers, its employees, and the communities in which the Company operates.

The Board of Directors (in establishing compensation levels for the Chief Executive Officer and Chief Operating Officer, as well as other executive positions) and the Company (in establishing compensation levels for all executives of the Company) considers many factors, which may include, but are not limited to, the individual's abilities and executed performance that results in: the advancement of corporate goals of the Company, execution of the Company's business strategies, contributions to positive financial results, contributions to the Company's overall image and reputation in the Company's industry, and contributions to the development of the management team and other employees.

An officer must demonstrate his or her ability to deliver results in his or her areas of responsibility, which can include, among other things: business development, efficient management of operations and systems, implementation of appropriate changes and improvements to operations and systems, personnel management, financial management, and strategic decision making. In determining compensation levels, the Board of Directors may also consider: competitiveness of compensation packages relative to other comparable companies, both inside and outside of the oil and gas exploration and development industry, and the experience level of each particular individual.

Compensation levels for executive officers are generally reviewed upon the expiration of such executive's employment and/or consulting agreements (if any), or annually, but may be reviewed more often as deemed appropriate.

Compensation Philosophy and Strategy

In addition to the “Criteria for Compensation Levels” set forth above, the Company has a “Compensation Philosophy” for all employees of the Company (set forth below), and a “Compensation Strategy for Key Management Personnel” (set forth below), a substantial portion of which also applies to all employees of the Company.

Compensation Philosophy

The Company’s compensation philosophy is as follows:

- The Company believes that compensation is an integral component of its overall business and human resource strategies. The Company’s compensation plans will strive to promote the hiring and retention of personnel necessary to execute the Company’s business strategies and achieve its business objectives.
- The Company’s compensation plans will be strategy-focused, competitive, and recognize and reward individual and group contributions and results. The Company’s compensation plans will strive to promote an alignment of the interests of employees with the interests of the shareholders by having a portion of compensation based on financial results and actions that will generate future shareholder value.
- In order to reward financial performance over time, the Company’s compensation programs generally will consist of: base compensation, and may also consist of short-term variable incentives and long-term variable incentives, as appropriate.
- The Company’s compensation plans will be administered consistently and fairly to promote equal opportunities for the Company’s employees.

Compensation Strategy for Key Management Personnel

The Company’s compensation strategy for its key management personnel is as follows:

- Total compensation may include base salary and short-term and long-term variable incentives based on annual and long term performance, and long-term variable incentives, in each case, where appropriate.
- Compensation will be comparable to general and industry-specific compensation practices.
- Generally, base compensation, and targeted short and long-term variable compensation, if any, will be established within the range of compensation of similarly situated companies in the Company’s industry. The Company’s organization, size and complexity will be taken into account, and therefore similarly situated companies include companies of similar size and complexity whether or not such companies are in the Company’s industry or not.
- When determining compensation for officers, managers and consultants, the Company takes into account the employee’s (and/or consultant’s) knowledge, experience, past employment history and connections in the industry, including industry specific knowledge and experience, to the extent such knowledge and

experience contributes to the Company's ability to achieve its business objectives.

- The Company reserves the right to adjust annual base salaries of employees and/or to award performance based bonuses if individual performance is at or above pre-established performance expectations.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides the names and addresses of each person known to own directly or beneficially more than a 5% of the outstanding common stock (as determined in accordance with Rule 13d-3 under the Exchange Act), based on 18,645,585 shares of common stock outstanding as of March 31, 2009 and by the officers and directors, individually and as a group. Except as otherwise indicated, all shares are owned directly.

| Name And Address Of Beneficial Owner | Shares Of Common Stock Beneficially Owned (1) | Options to Purchase Shares of Common Stock Exercisable Within The Next 60 Days | Total Shares Of Common Stock Beneficially Owned (2) | Percent (1) |
|---|---|--|---|-------------|
| Victor Repin Kurgan City, Klimova St. 41, Russia 640020 | 1,750,000 | - | 1,750,000 (5) | 9.4% |
| David Zaikin 275 Madison Ave., 6th Floor, New York, New York 10016 (3) | 1,160,000 | 347,500 (4) | 1,507,500 | 7.9% |
| Elena Pochapski 275 Madison Ave., 6th Floor, New York, New York 10016 | 380,000 (5) | 400,000 (6) | 780,000 | 4.1% |
| Oleg V. Zhuravlev Kurgan City Lenina St. 27/X Russia 640000 | 25,000 | 400,000 (7) | 425,000 | 2.2% |
| Sergey Potapov Kurgan City Lenina St. 27/X Russia 640000 | 10,000 | 336,000 (8) | 346,000 | 1.8% |
| Valdimir Eret Kurgan City Lenina St. 27/X Russia 640000 | 10,000 | 336,000 (8) | 346,000 | 1.8% |
| Tim Peara 275 Madison Ave., 6th Floor, New York, New York 10016 | 117,569 | 731,213 (9) | 848,782 | 4.4% |

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| | | | | |
|---|-------------|---|-----------|-------|
| Helen Teplitskaia 275 Madison Ave. 6th Floor New York, New York 10016 | 250,000(10) | - | 250,000 | 1.3% |
| Svetlana Slepchuk Mosfilmovskaya Street 17/25 Apt. 17 Moscow, Russai 119330 | 3,900,000 | - | 3,900,000 | 20.9% |
| All the Officers and Directors as a group (7 persons) | 1,952,569 | 2,658,915 (4), (6), (7), (8), (9) | 4,611,484 | 21.6% |

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1) The number of shares of common stock "beneficially owned" are determined under the rules of the Securities and Exchange Commission, and include any shares of common stock as to which a person has sole or shared voting or investment power and any shares of common stock which the person has the right to acquire within sixty (60) days through the exercise of any option, warrant or right. Shares of common stock subject to an option or warrant currently exercisable or exercisable within sixty (60) days are deemed outstanding for computing the percentage of the person holding such option or warrant, but are not deemed outstanding for computing the percentage of any other person.

2) Includes both the number of shares of common stock beneficially owned as of March 31, 2009, and any options which will vest and be exercisable within the next sixty days.

3) David Zaikin holds 400,000 of his shares in the name of WCM, Ltd, which is 100% owned by Mr. Zaikin.

4) Includes 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2005, 47,500 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006 (Mr. Zaikin exercised 52,500 options in December 2006), 100,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007, and 100,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date as described in greater detail above under "Outstanding Equity Awards At Fiscal Year-End". All options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. The options are described in greater detail under "Employment and Option Agreements" above.

5) Includes 30,000 shares held in Mrs. Pochapski's daughter's name, which Mrs. Pochapski is deemed to beneficially own.

6) Includes 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2005, 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 100,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007 and 100,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date as described in greater detail above under "Outstanding Equity Awards At Fiscal Year-End". All options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. The options are described in greater detail under "Employment and Option Agreements" above.

7) Includes 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2005, 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 100,000 options to purchase shares of our common stock at as described above, which vested throughout the fiscal year ended 2007 and 100,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date as described in greater detail above under "Outstanding Equity Awards At Fiscal Year-End". All options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. The options are described in greater detail under "Employment and Option Agreements" above.

8) Includes 84,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2005, 84,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 84,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007, and 84,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date as described in greater detail above under "Outstanding Equity Awards At Fiscal Year-End". All options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. The options are described in greater detail under "Employment and Option Agreements" above.

9) Includes certain options issuable to AEF in connection with amounts loaned to ZNG (as described in greater detail herein), including 17,561 options to purchase shares of our common stock at an exercise price of \$0.67 per share, which vested on March 31, 2006; 20,412 options to purchase shares of our common stock at an exercise price of \$2.02 per share, which vested on June 30, 2006; 20,952 options to purchase shares of our common stock at an exercise price of \$1.53 per share, which vested on September 30, 2006; 38,648 options to purchase shares of our common stock at an exercise price of \$1.44 per share, which vested on December 31, 2006, 48,925 options to purchase shares of our common stock at an exercise price of \$1.10 per share, which warrants vested on March 31, 2007, 55,233 options to purchase shares of our common stock at an exercise price of \$1.14 per share, which vested on June 30, 2007, 51,352 options to purchase shares of our common stock at an exercise price of \$0.74 per share, which warrants vested on September 30, 2007, 78,130 options to purchase shares of our common stock at an exercise price of \$0.46 per share, which vested on December 31, 2007, which options expire if unexercised on the third anniversary of the date they were granted. Finally, the amount listed above includes 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2005, 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 100,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007 and 100,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date as described in greater detail above under "Outstanding Equity Awards At Fiscal Year-End". All Director options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. The options are described in greater detail under "Employment and Option Agreements" above.

10) Does not include 30,000 shares, 10,000 each for the months ended January through March 2009, which the Company has agreed to issue to Ms. Teplitskaia in consideration for services rendered, which shares have not been issued to date and have not been included in the number of issued and outstanding shares disclosed throughout this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On May 1, 2006, our Director, Timothy Pears exercised his option to purchase 50,000 shares of our common stock in accordance with the terms of his Option agreement entered into in consideration for consulting services rendered in 2005. Mr. Pears elected a cashless exercise of the options and he will therefore receive the full number of shares exercised (50,000), less the number of shares that totaled the aggregate exercise price of the 50,000 shares (\$15,000 with each option exercisable at \$0.30 per share), based on the average market value of the common stock on the five (5) trading days prior to Mr. Pears's exercise (\$2.00), which is equal to 7,500 shares. As a result, Mr. Pears was issued 42,500 shares in connection with the exercise of his options.

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We previously agreed to issue Alternative Energy Finance Ltd. ("AEF"), of which Tim Peara is the Managing Director as well as a Director of the Company, certain warrants in connection with Mr. Peara introducing the parties who formed the joint venture. Pursuant to an agreement between AEF and the Company, AEF will receive compensation based on the total investment made by Baltic Petroleum Ltd. in the Joint Venture.

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

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

On March 13, 2007, Mr. Peara personally, and on behalf of AEF agreed to accept 58,134 shares of our restricted common stock in consideration for the forgiveness of \$45,626 owed personally to Mr. Peara in Director's fees and accrued expenses and \$47,969 owed to AEF in connection with our agreement with AEF for fees due from the period from March 31, 2006 to December 31, 2006, which shares have been issued to date and which debt has been forgiven by Mr. Peara and AEF.

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

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

- o 350,000 shares of our restricted common stock to David Zaikin, our Chief Executive Officer and Director, which compensation was granted by our Board of Directors in its sole discretion, even though Mr. Zaikin had previously agreed not to be paid or accrue any salary for fiscal 2006;
- o 50,000 shares of our restricted common stock to Elena Pochapski, our Chief Financial Officer and Director;
- o 20,000 shares of our restricted common stock to Timothy Peara, our Director;
- o 25,000 shares of our restricted common stock to Oleg Zhuravlev, our Director;
- o 10,000 shares of our restricted common stock to Vladimir Eret, our Director; and
- o 10,000 shares of our restricted common stock to Sergei Potapov, our Director.

On January 25, 2007, we approved an annual salary of \$180,000 (plus a performance based bonus to be determined by the Board of Directors at the end of the 2007 fiscal year, which bonus totaled 190,000 shares valued at \$309,700, which shares were issued in July 2007) for our Chief Executive Officer and Director, David Zaikin for the 2007 fiscal year. On January 31, 2007, Mr. Zaikin notified us that effective February 1, 2007, he was withdrawing his previous request to not accrue any salary until we had sufficient funds to pay such salary, and instead requested that we pay

him his 2007 salary if funds were available for such payments and/or that we accrue such salary until we have sufficient funds to repay him any accrued amounts. In February 2007, our Board of Directors approved the issuance of 350,000 shares of our restricted common stock to Mr. Zaikin, in consideration for compensation for the year ended December 31, 2006, which compensation was granted by our Board of Directors in its sole discretion, even though Mr. Zaikin had previously agreed not to be paid or accrue any salary for fiscal 2006. In July 2007, we issued an aggregate of 190,000 restricted shares of common stock to Mr. Zaikin, and certain of his assigns, in consideration for services rendered during the first two quarters of 2007.

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On January 26, 2007, the Company's Chief Executive Officer, President and Director, David Zaikin transferred 25,000 shares of the Company's restricted common stock which he held to the Toronto Jewish Academy Ohr Menahem ("TJA"). The shares were transferred to the TJA as a charitable donation from Mr. Zaikin personally.

On January 26, 2007, the Company's Chief Financial Officer and Director, Elena Pochapski transferred 30,000 shares of the Company's restricted common stock which she held to her daughter, which shares she is deemed to beneficially own, and which shares have been included in her beneficial ownership listed throughout this report.

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 from July to December 2007, 50,000 shares were issued for services rendered in July through November 2007. In June 2008, we issued an aggregate of 70,000 restricted shares of common stock to Ms. Teplitskaia in consideration for services rendered during the months of December 2007, and January through June 2008. Ms. Teplitskaia was subsequently issued the shares she was due for the months ended July 2008 through December 2008 in November 2008.

In July 2007, Mr. Zaikin agreed to transfer 40,000 shares of the Company's restricted common stock which he held to the Toronto Jewish Russian Academy Ohr Menahem (the "TJRA"). The shares were transferred to the TJRA as a charitable donation from Mr. Zaikin personally.

In July 2007, Ms. Pochapski agreed to transfer 75,000 shares of the Company's restricted common stock which she held to the Jewish- Russian Community Center (the "JRCC"). The shares were transferred to the JRCC as a charitable donation from Ms. Pochapski personally.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed for each of the fiscal years ended December 31, 2008 and 2007 for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and the review of the Company's quarterly financial statements were \$36,000 and \$26,000, respectively.

Audit Related Fees

None.

Tax Fees

The aggregate fees billed for each of the fiscal years ended December 31, 2008 and 2007 for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning was \$1,750 and \$1,800, respectively.

All Other Fees

Other fees billed by our principal accountant in 2007 included review and evaluation of responses to SEC queries surrounding the Company's Form 10-KSB for 2006. The total amount billed in 2007 was \$6,200 and \$8,000 in 2008.

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ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 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 Pledge and Security Agreement between Siberian Energy Group, Inc. and
(2) Baltic Petroleum Limited dated April 28, 2005
- 10.11 Clarification to the Contract of Purchase and Sale of the Share in Charter
(3) Capital of LLC "Zauralneftegaz" dated 15 May 2004
- 10.12 Agreement with Business - Standard (translated from Russian version)
(3)
- 10.13 Supplementary Agreement to Business - Standard Agreement (translated
(3) from Russian version)
- 10.14 Supplementary Agreement No. 2 to Business - Standard Agreement
(3) (translated from Russian version)
- 10.15 Deed of Amendment between ZNG and BP
(3)
- 10.16 Deed of Amendment between the Company and BP
(3)

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- 10.17 Joint Venture Shareholders' Agreement with Baltic Petroleum (E&P)
(4) Limited and Zauralneftegaz Limited dated October 14, 2005

- 10.18 Amendment to the Employment Agreement Dated August 1, 2003, with
(5) Elena Pochapski

- 10.19 Form of Waiver Agreement
(5)

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

- 10.21(6) Deed of Novation between Baltic Petroleum Limited, Caspian Finance Limited and OOO Zauralneftegaz
- 10.22(6) Deed of Release
- 10.23(6) Release of Pledge
- 10.24(6) Guarantee
- 10.25(6) Debenture
- 10.26(6) Agreement for the Pledge of the Participatory Interest in OOO Zauralneftegaz (Russian translation removed)
- 10.27(6) Sale and Purchase Agreement
- 10.28(8) Option Agreement with Key Brokerage
- 10.29(8) Warrant Agreement with Key Brokerage
- 10.30(9) July 26, 2006 Deed of Agreement
- 10.31(10) Consulting Agreement with Business Standard
- 10.32(11) Addition to the Loan Agreement of November 9, 2005
- 10.33(11) Gross Overriding Royalty Agreement
- 10.34(12) Amendment No. 2 to the Employment Agreement Dated August 1, 2003 with Elena Pochapski
- 10.35(13) Deed of Variation to the Loan Agreement Dated 9th of November 2005, Entered into in June 2007
- 10.36(14) Agreement of Purchase and Sale
- 10.37(14) Operating Agreement
- 21.1* 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

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* Filed herein.

(1) Filed as Exhibit 10.1, 10.2, 10.3, 10.4 and 10.5 to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.

(2) Filed as Exhibits to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.

(3) Filed as Exhibits to the Company's Report on Form 10-QSB, filed with the Commission on August 22, 2005, and incorporated herein by reference.

(4) Filed as Exhibits to the Company's Report on Form 8-K, filed with the Commission on October 28, 2005, and incorporated herein by reference.

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

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

(7) Filed as Exhibit 99.1 to our Report on Form 10-KSB for the year ended December 31, 2005, and incorporated herein by reference.

(8) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on September 19, 2006, and incorporated herein by reference.

(9) Filed as an Exhibit to our Report on Form 10-QSB, filed with the Commission on November 14, 2006, and incorporated herein by reference.

(10) Filed as an Exhibit to our Form 8-K filed with the Commission on February 20, 2007, and incorporated herein by reference.

(11) Filed as Exhibits to our Report on Form 10-KSB filed with the Commission on February 2, 2007, and incorporated herein by reference.

(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 8-K filed with the Commission on November 14, 2008, and incorporated herein by reference.

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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: April 14, 2009
 By: /s/ David Zaikin
 David Zaikin
 Chief Executive Officer
 (Principal Executive Officer)

DATED: April 14, 2009
 By: /s/ Elena Pochapski
 Elena Pochapski
 Chief Financial Officer
 (Principal Accounting Officer)

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| NAME | TITLE | DATE |
|---|---|-------------------|
| /s/ David Zaikin David Zaikin | Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer) | April 14, 2009 |
| /s/ Elena Pochapski Elena Pochapski (Principal Financial Officer) | Chief Financial Officer (Principal Accounting Officer) and Director | April 14, 2009 |
| /s/ Helen Teplitskaia Helen Teplitskaia | President and Director | April 14, 2009 |

