

Siberian Energy Group Inc.  
Form 10-Q  
May 17, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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

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

Commission file number: 000-53766

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of May 10, 2012, the issuer had 67,367,659 shares of common stock, \$0.001 par value per share outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING  
FIRM

The Board of Directors and Stockholders  
Siberian Energy Group Inc.

We have reviewed the condensed consolidated balance sheet of Siberian Energy Group Inc. (a development stage company) as of March 31, 2012, and the related condensed consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the three months ended March 31, 2012 and 2011, and the cumulative period of development stage activity (January 1, 2003 through March 31, 2012). These financial statements are the responsibility of the Company's management.

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

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

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

Lumsden & McCormick, LLP  
Buffalo, New York  
May 15, 2012

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

Condensed Consolidated Balance Sheets	(Unaudited)	
	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash	\$1,062	\$874
Prepaid expenses and other receivables	280,049	220,932
Total current assets	281,111	221,806
Investment in ZNG, Ltd., at equity	-	-
Investment in KNG, at equity	-	-
Mineral properties, unproved	24,894,301	24,894,301
Oil and gas properties, unproved	-	-
Property and equipment, net	-	-
	\$25,175,412	\$25,116,107
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable:		
Related party - stockholders	\$423,631	\$375,793
Related party - Baltic Petroleum, interest at 14%	82,515	81,004
Others	132,639	111,031
Accrued payroll	474,127	420,173
Total current liabilities	1,112,912	988,001
Loan payable	690,128	624,348
Stockholders' equity:		
Preferred stock - authorized and unissued 10,000,000 shares, \$.001 par value	-	-
Common stock - authorized 100,000,000 shares, \$.001 par value, 67,367,659 issued and outstanding	67,368	67,368
Additional paid-in capital	40,159,038	40,159,038
Accumulated deficit		
Pre-development stage	(449,785 )	(449,785 )
Development stage	(16,357,195)	(16,268,893)
Accumulated other comprehensive loss	(47,054 )	(3,970 )
Total stockholders' equity	23,372,372	23,503,758
	\$25,175,412	\$25,116,107

See accompanying notes.

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

## Condensed Consolidated Statements of Operations and Comprehensive Income

			For the cumulative period of Development Stage Activity- January 1, 2003 through March 31, 2012
For the three months ended March 31,	2012	2011	
Revenues and other income:			
Management fees from joint venture	\$-	\$-	\$ 1,135,000
Gain from entrance into joint venture	-	-	364,479
Other	-	-	6,382
Total revenues and other income	-	-	1,505,861
Expenses:			
Salaries	54,649	73,400	4,465,261
Professional and consulting fees	48,373	72,471	5,625,716
Rent and occupancy	-	-	239,989
Depreciation and amortization	-	-	105,502
Finance charges and interest	20,591	1,499	200,225
Marketing and other	2,934	13,885	2,116,867
Total expenses	126,547	161,255	12,753,560
Foreign currency exchange (gain)	(38,245 )	-	(43,521 )
Loss from disposition of loan receivable - affiliate	-	-	29,500
Loss from sale of investment	-	-	669,570
Loss on deemed disposition of oil and gas properties, unproved	-	-	3,928,000
Impairment charge on investment	-	-	525,947
Loss before income taxes	88,302	161,255	16,357,195
Provision for income taxes (benefit)	-	-	-
Net loss (development stage)	88,302	161,255	16,357,195
Other comprehensive loss, net of tax:			
Foreign currency translation adjustment	(43,084 )	-	(47,054 )
Comprehensive loss	\$ 131,386	\$ 161,255	\$ 16,404,249

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Basic and diluted net loss per common share	\$ (0.00	)	\$ (0.24	)	\$ (2.38	)
Weighted average number of basic and diluted common shares outstanding	67,367,659		667,659		6,870,992	

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A  
Development Stage Company)

Condensed Consolidated Statements of Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1,  
2003 through March 31, 2012

	Common Stock		Additional	Accumulated	Accumulated	
	Number of	Par Value	Paid-In	Deficit	Other	Total
	Shares		Capital		Comprehensive	
					Income	
					(Loss)	
Balance, January 1, 2003 (pre-development stage)	135,801	\$ 136	\$434,962	\$ (449,785 )	\$-	\$(14,687 )
Loss for the year - 2003	-	-	-	(422,516 )	-	(422,516 )
Shares issued in acquisition (ZNG)	14,286	14	(14 )	-	-	-
Balance, December 31, 2003	150,087	\$ 150	\$434,948	\$ (872,301 )	\$-	\$(437,203 )
Loss for the year - 2004	-	-	-	(833,567 )	-	(833,567 )
Foreign currency translation adjustment	-	-	-	-	(53,120 )	(53,120 )
Shares issued in acquisition (ZNG)	49,286	49	749,951	-	-	750,000
Shares issued for professional services	715	1	9,999	-	-	10,000
Other	-	-	34,426	-	-	34,426
Balance, December 31, 2004	200,088	\$ 200	\$1,229,324	\$ (1,705,868 )	\$(53,120 )	\$(529,464 )
Loss for the year - 2005	-	-	-	(1,153,686 )	-	(1,153,686 )
Foreign currency translation adjustment	-	-	-	-	50,614	50,614
Shares issued for professional services	5,500	6	198,208	-	-	198,214
Shares issued for accrued salaries	24,286	24	303,547	-	-	303,571



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Warrants granted for professional services	-	-	310,000	-	-	310,000
Balance, December 31, 2005	229,874	\$230	\$2,041,079	\$ (2,859,554 )	\$(2,506 )	\$(820,751 )
Loss for the year - 2006	-	-	-	(4,072,788 )	-	(4,072,788)
Foreign currency translation adjustment	-	-	-	-	(1,939 )	(1,939 )
Shares issued for employee stock option plan and warrants	2,786	3	45,497	-	-	45,500
Shares issued for geological data	27,143	27	3,324,973	-	-	3,325,000
Shares issued for professional services	16,279	16	2,121,444	-	-	2,121,460
Warrants granted for professional services	-	-	1,201,960	-	-	1,201,960
Shares cancelled	(8,707 )	(9 )	9	-	-	-
Balance, December 31, 2006	267,375	\$267	\$8,734,962	\$ (6,932,342 )	\$(4,445 )	\$1,798,442

See accompanying notes.

SIBERIAN ENERGY GROUP INC. (A  
Development Stage Company)

Condensed Consolidated Statements of Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1, 2003 through  
March 31, 2012

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Par Value				
Balance, December 31, 2006	267,375	\$267	\$8,734,962	\$(6,932,342 )	\$(4,445 )	\$1,798,442
Loss for the year - 2007	-	-	-	(2,060,487 )	-	(2,060,487)
Foreign currency translation adjustment	-	-	-	-	(9,804 )	(9,804 )
Shares issued for employee stock option plan and warrants	8,100	8	(8 )	-	-	-
Shares issued for geological data	2,857	3	349,997	-	-	350,000
Shares issued for accrued salaries	11,257	11	1,445,395	-	-	1,445,406
Shares issued for licenses	28,571	29	1,319,971	-	-	1,320,000
Shares issued for professional services	10,215	10	1,071,100	-	-	1,071,110
Warrants granted for professional services	-	-	150,394	-	-	150,394
Balance, December 31, 2007	328,375	\$328	\$13,071,811	\$(8,992,829 )	\$(14,249 )	\$4,065,061
Loss for the year - 2008	-	-	-	(5,863,560 )	-	(5,863,560)
Foreign currency translation adjustment	-	-	-	-	27,019	27,019
Shares issued for professional services and accrued salaries	2,213	2	41,748	-	-	41,750
	-	-	6,303	-	-	6,303

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Warrants granted for professional services						
Shares issued for loan repayment and related interest	1,536	2	10,751	-	-	10,753
Balance, December 31, 2008	332,124	\$332	\$13,130,613	\$(14,856,389)	\$12,770	\$(1,712,674)
Loss for the year - 2009	-	-	-	(666,116 )	-	(666,116 )
Foreign currency translation adjustment	-	-	-	-	(19,714 )	(19,714 )
Shares issued for accrued salaries	858	1	3,599	-	-	3,600
Options vested to employees and directors	-	-	45,852	-	-	45,852
Balance, December 31, 2009	332,982	\$333	\$13,180,064	\$(15,522,505)	\$(6,944 )	\$(2,349,052)
Loss for the year - 2010	-	-	-	(579,251 )	-	(579,251 )
Foreign currency translation adjustment	-	-	-	-	(7,146 )	(7,146 )
Shares issued for accounts payable and accrued salaries	331,748	332	2,554,127	-	-	2,554,459
Shares issued for accounts payable and accrued salaries	2,929	3	22,547	-	-	22,550
Balance, December 31, 2010	667,659	\$668	\$15,756,738	\$(16,101,756)	\$(14,090 )	\$(358,440 )

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A  
Development Stage Company)

Condensed Consolidated Statements of Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1,  
2003 through March 31, 2012

	Common Stock		Additional	Accumulated	Accumulated	
	Number of	Par Value	Paid-In	Deficit	Other	Total
	Shares		Capital		Comprehensive	
					Income	
					(Loss)	
Balance, December 31, 2010	667,659	\$668	\$15,756,738	\$(16,101,756)	\$(14,090 )	\$(358,440 )
Loss for the year - 2011	-	-	-	(616,922 )	-	(616,922 )
Foreign currency translation adjustment	-	-	-	-	10,120	10,120
Shares issued in acquisition (RMC)	65,200,000	65,200	24,058,800	-	-	24,124,000
Shares issued for geological data	1,500,000	1,500	343,500	-	-	345,000
Balance, December 31, 2011	67,367,659	\$67,368	\$40,159,038	\$(16,718,678)	\$(3,970 )	\$23,503,758
Loss for the three months - 2012	-	-	-	(88,302 )	-	(88,302 )
Foreign currency translation adjustment	-	-	-	-	(43,084 )	(43,084 )
Balance, March 31, 2012	67,367,659	\$67,368	\$40,159,038	\$(16,806,980)	\$(47,054 )	\$23,372,372

See accompanying notes.

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

## Condensed Consolidated Statements of Cash Flows

			For the cumulative period of Development Stage Activity- January 1, 2003 through March 31, 2012
For the three months ended March 31,	2012	2011	
<b>Operating activities:</b>			
Net loss (development stage)	\$(88,302 )	\$(161,255 )	\$(16,357,195)
Depreciation and amortization	-	-	105,397
Common stock and warrants issued			
for professional services and salaries and geological data	-	-	7,231,933
Gain from entrance into joint venture	-	-	(364,479 )
Loss on disposition of office furniture	-	623	1,652
Loss on sale of investment, including deconsolidation of subsidiary	-	-	823,692
Loss on deemed disposition of oil and gas properties, unproved	-	-	3,928,000
Impairment charge on investment	-	-	525,947
Changes in other current assets and current liabilities:			
Management fee receivable	-	-	110,000
Prepaid expenses and other receivables	(59,117 )	8,584	(456,239 )
Accounts payable and accrued expenses	124,911	152,031	5,273,359
Net operating activities	(22,508 )	(17 )	822,067
<b>Investing activities:</b>			
Expenditures for licenses and related	-	-	(528,961 )
Expenditures for oil and gas properties	-	-	(770,750 )
Expenditures for property and equipment	-	-	(6,244 )
Proceeds of disposition of office furniture	-	-	107
Loan to affiliate	-	-	(29,500 )
Cash received in acquisition	-	-	1,661
Cash received from entrance into joint venture	-	-	175,000
Net investing activities	-	-	(1,158,687 )
<b>Financing activities:</b>			
Net proceeds from loans	65,780	-	304,810
Common stock issued for employee stock option plan	-	-	45,500
Additional paid-in capital	-	-	34,426
Net financing activities	65,780	-	384,736
Effect of exchange rates on cash	(43,084 )	-	(47,054 )
Net change in cash	188	(17 )	1,062

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Cash - beginning	874	467	-
Cash - ending	\$1,062	\$450	\$1,062

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements of Siberian Energy Group Inc. (the Company) include the accounts of the Company and its 100% owned subsidiaries. These financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) interim reporting, and do not include all of the information and note disclosures required by generally accepted accounting principles. These consolidated financial statements and notes herein are unaudited, but in the opinion of management, include all the adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company's financial positions, results of operations, and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto. Interim operating results are not necessarily indicative of operating results for any future interim period or the full year.

Use of Estimates:

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

2. The Company and Description of Business:

The Company has been in the development stage since its inception of its current endeavors.

Rare Minerals and Koklanovskoe

On April 27, 2011, the Company entered into a Share Exchange Agreement (the Agreement) with Rare Minerals Corporation (RMC), a privately held corporation, to acquire all of the outstanding shares of RMC. This agreement became effective on May 11, 2011, which is the date the Company took control of RMC.

RMC was formed as a Nevada corporation on December 9, 2010. RMC's wholly-owned subsidiary is OOO Koklanovskoe (Koklanovskoe), a Russian limited liability company. Koklanovskoe holds a license (KUG00939TE) for the Koklanovskoe Molybdenum-Tungsten deposit in the Kurgan Region of the Russian Federation. Through the acquisition of this license, the Company plans to enter the market for the exploration and production of rare and semi-rare earth metals and precious minerals.

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

Kondaneftegaz

The Company, through its subsidiary Kondaneftegaz, LLC (KNG), has been engaged in the business of exploiting and developing certain oil and gas and other petroleum products licenses issued for a period of five years by Russia's subsurface management authorities in October 2007. The two licensed areas lie in the Karabashsky zone in the

Khanty-Mansiysk Autonomous area of the Russian Federation. KNG has its principal place of business in the city of Khanty-Mansiysk, Russia. KNG has prepared and coordinated with 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.

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

Restricted common shares issued for oil and gas properties, unproved in 2006	27,143
Restricted common shares issued in connection with license acquisition by KNG in 2007	28,571
Restricted common shares issued in 2006	2,857
Total restricted common shares issued	58,571
Stock warrants issued in 2006 for purchase option	3,572

As a result of the purchase, a calculated acquisition value of \$3,928,000 was assigned to the oil and gas properties, unproved that considered the approximate market value of the stock issued (\$122.50) on the transaction date including \$3,675,000 assigned to 30,000 shares issued in 2006 and \$253,000 assigned to 3,572 stock warrants issued. A value of \$1,320,000 was assigned to the acquisition of licenses by KNG based on the market value of the 28,571 shares on the date of issue.

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

Throughout 2007-2012, the Company was involved in the collection of geological data and preparation of exploration works on the Karabashski-61 and Karabashski-67 license areas. Certain preliminary exploration activities were

performed on the licensed areas over the past several years; however, KNG subsequently determined to cease exploration activities on the licensed areas. As such, the Company does not anticipate KNG generating any revenues moving forward.

#### Zauralneftegaz

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

Activities of ZNG for the period March 2003 through October 2005 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective October 14, 2005, the Company's investment in Joint Venture has been recorded on the equity method of accounting. Since the cumulative losses of the Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through March 31, 2012.

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

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

3. Loan Payable:

The Company obtained a long-term loan facility from an unrelated individual with a maximum borrowing capacity of 500,000 British pounds (equivalent to \$799,500 on March 31, 2012). The proceeds were used to purchase a geological license and to fund current operations. The loan provides the lender the right to secure the loan by any or all of Koklanovskoe's assets, bears interest at 12%, and is due January 31, 2015. At March 31, 2012 and December 31, 2011, there was \$690,128 and \$624,348 (431,600 and 405,000 British pounds) outstanding.

4. Income Taxes:

At March 31, 2012, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately \$5,056,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2032. No tax benefit has been reported in the financial statements, however, because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the \$1,770,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

5. Loss Per Common Share:

Basic and diluted loss per common share is computed using the weighted average number of common shares outstanding during the period. Shares issuable for common stock options and warrants may have had a dilutive effect on earnings per share had the Company generated income during the periods through March 31, 2012.

6. Adoption of New Accounting Standard:

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

7. Going Concern:

These financial statements have been prepared assuming the Company will continue as a going concern, however, since inception of its current endeavor in 2003, it has not earned substantial revenues and is considered to be in the development stage, which raises substantial doubt about its ability to continue as a going concern.

Management is of the opinion that sufficient financing will be obtained from external sources to provide the Company with the ability to continue its operations in the near term.

For the cumulative period ended March 31, 2012, the Company obtained cash financing from outside parties, organizing stockholders, and employees in the form of loans, advances, and deferred salaries. However, there can be no certainty as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain statements in this Quarterly Report on Form 10-Q (this "Form 10-Q"), constitute "Forward-Looking Statements". Certain, but not necessarily all, of such Forward-Looking Statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "should", or "anticipates", or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made. Such Forward-Looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Siberian Energy Group Inc. and Kondaneftegaz, LLC, a Russian limited liability company, the registrant's 44% owned subsidiary, Zauralneftegaz Limited, a company organized under the laws of the country of England, which the registrant owns 50% of, and Rare Minerals Corporation, a Nevada corporation, the Company's wholly-owned subsidiary as a result of the Share Exchange, described below (collectively "Siberian", the "Company", "we", "us" or "our") to be materially different from any future results, performance or achievements expressed or implied by such Forward-Looking Statements. References in this Form 10-Q, unless another date is stated, are to March 31, 2012.

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

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

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

### BUSINESS DEVELOPMENT:

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

On September 17, 1999, the Company effected a 1-for-30 reverse stock split. A subsequent 3-for-1 forward split was consummated on October 2, 2000 and a further 1:2 reverse stock split was effected on May 2, 2005. Effective March 15, 2011, the Company effected a 1:70 reverse stock split with the shares held by remaining shareholders rounded up to a minimum of 100 shares on a per shareholder basis (collectively the "Stock Splits"). All share amounts, trading prices, and option and warrant exercise prices, subsequently listed are retroactively adjusted to reflect these Stock Splits unless otherwise provided.

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



On May 9, 2003, the Company entered into an Acquisition Agreement (the "Acquisition Agreement") by and among the Company, Zaural Neftegaz, a Russian corporation ("ZNG"), the shareholders of ZNG and Oleg Zhuravlev, President of ZNG, and a former Director of the Company. Pursuant to the Acquisition Agreement, the Company acquired a 51% interest in ZNG by issuing to ZNG 28,571 shares of the Company's common stock. In June 2004, the Company purchased the remaining 49% of ZNG in exchange for 98,571 shares of the Company's common stock, making ZNG a wholly-owned subsidiary of the Company. The Company had no affiliation with ZNG prior to the acquisition in May 2003.

The activities of ZNG were carried out through the Joint Venture Shareholders' Agreement ("Joint Venture") entered into on October 14, 2005 with Baltic Petroleum (E&P) Limited ("BP" or "Baltic") and Zauralneftgaz Limited, the joint venture company ("ZNG, Ltd."), as contemplated by the Option Agreement, as amended (the "Option"). The Company closed the Joint Venture and transferred 100% of the outstanding stock of ZNG to ZNG, Ltd. in connection with the terms and conditions of the Joint Venture. As a result of such transfer, the Company holds 50% of the outstanding stock of ZNG, Ltd., which holds 100% of the outstanding stock of the Company's former wholly-owned subsidiary, ZNG. ZNG, Ltd. operates through ZNG and is engaged in the exploration and development of, production and sale of, oil and gas assets in the Western Siberian region of the Russian Federation and the former Soviet Union, although ZNG, Ltd. is not currently conducting any business activities.

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

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

#### Rare Minerals Acquisition

On April 27, 2011, we entered into a Share Exchange Agreement with Rare Minerals Corporation, a Nevada corporation ("RMC" and the "Share Exchange") and RMC's shareholders (the "RMC Shareholders"). Pursuant to the Share Exchange, we agreed to exchange 65,200,000 shares of newly issued common stock (representing 99% of our then outstanding common stock) with the RMC Shareholders for 100% of the outstanding shares of RMC. The Share Exchange closed effective May 11, 2011 (the "Closing").

Pursuant to the Share Exchange, the RMC Shareholders agreed not to vote the shares which they hold in favor of removing any current Director of the Company, to vote any and all shares in favor of re-appointing all current members of the Board of Directors (subject to the terms of the Share Exchange) for a period of one year from Closing, and that they had no rights to appoint or remove Directors for a period of one year from the Closing, which requirements expired on May 11, 2012 (collectively the "Voting Requirements").

In connection with and pursuant to the Share Exchange, we agreed to issue an aggregate of 65,200,000 shares of restricted common stock (representing 99% of our then outstanding shares of common stock) to the following RMC shareholders in the amounts stated, which RMC Shareholders own percentage interests in the Company subsequent to the transaction as follows:

RMC Shareholder Name	Shares	Percentage of Company's Outstanding Shares*
The Abner Rosen Foundation (a)	5,600,000	8.5%
Jonathan P. Rosen (a)	5,600,000	8.5%
Ferris Hill LLP (b)	1,800,000	2.7%
Mikhail Frayman	200,000	0.3%
Ilya Aharon	4,400,000	6.7%
Yohanan Aharon	3,200,000	4.9%
Ioulia Chipilevskaia	4,400,000	6.7%
Rosa Shimonov	4,000,000	6.1%
Polina Matsuleva	8,800,000	13.4%
Valeria Zagourski	7,200,000	10.9%
Liudmila Radziminskaya	3,200,000	4.9%
Olga Yulanova	6,200,000	9.4%
Yury Kolomiets	6,600,000	10.0%
Donatina Cordone	200,000	0.3%
Oksana Danylych	3,800,000	5.8%
Total	65,200,000	99.0%

\* Based on 667,659 shares of common stock outstanding immediately prior to the consummation of the Share Exchange.

(a) The President of The Abner Rosen Foundation is Jonathan P. Rosen.

(b) The beneficial owner of Ferris Hill LP is Norman H. Brown, Jr., its Managing Member.

As a result of the Share Exchange, control of the Company changed to the former RMC Shareholders described above, subject to the Voting Requirements of the Share Exchange.

On June 1, 2011, the Company entered into a Data Purchase Agreement with Ioulia Chipilevskaia and the Joseph Rosen Foundation, Inc., significant shareholders of the Company and former shareholders of RMC, and purchased all of the geological data held by them relating to the Deposit (defined below under "RMC Operations") including certain core samples. In consideration for the acquisition of the geological data, the Company issued an aggregate of 1,500,000 shares of restricted common stock to Ms. Chipilevskaia and the Joseph Rosen Foundation, Inc. The closing of the Data Purchase Agreement occurred on June 15, 2011.

#### BUSINESS OPERATIONS:

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

We currently hold investments in ZNG, Ltd. and KNG. Both companies are involved in oil and gas exploration in the Western Siberia region of Russia; provided however, as described below, ZNG, Ltd. has advised us that it will no

longer undertake any further exploration activities in Western Siberia and we have recently been advised that KNG has determined not to undertake any further exploration activities. As a result, we are currently seeking out additional oil and gas acquisition opportunities in Russia at this time and do not anticipate ZNG, Ltd. or KNG generating any revenues moving forward.

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



## Description of KNG

KNG was created in 2004 for the purpose of oil and gas exploration in the Khanty-Mansiysk district of Western Siberia, Russia. In October 2007, KNG was awarded two oil and gas exploration licenses in the Khanty-Mansiysk region in Western Siberia, Russia for the Karabashsky-61 and Karabashsky-67 blocks located in the Khanty-Mansiysk Autonomous Region, Russian Federation. The license areas together cover 166,000 acres and are situated in the territory of the Urals oil and gas bearing area.

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

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

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

KNG previously prepared and coordinated with the Russian authorities an exploration works program on the Karabashsky-61 and Karabashsky-67 license areas. Certain preliminary exploration activities were performed on the licensed areas over the past several years; however, KNG subsequently determined to cease exploration activities on the licensed areas. As such, we do not anticipate KNG generating any revenues moving forward. The Company is currently evaluating spinning or selling off its investment in KNG.

As of March 31, 2012, the Company owned a 44% interest in KNG. Effective September 30, 2008, the Company’s 44% investment in KNG is recorded on the equity method of accounting. The operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements.

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

## Description of ZNG

ZNG has been involved in the oil and gas research activities in the Kurgan region of the Russian Federation. During 2003-2008 it has completed seismic studies and a drilling program in the Kurgan region of Siberia, Russia. The

Company believes ZNG, Ltd. has created value through the geological results of the two exploratory wells and other data gathered in the area and ZNG, Ltd. is considering its options with regard to realizing this value in connection with a potential direct sale of geophysical and seismic data to a third party operating in the area.

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Between 2003 and 2007, ZNG carried out extensive seismic and gas seismotomographic studies on its 4 licensed blocks acquired in 2003 through a government tender (which have since expired): the Privolny, Mokrousovsky, West-Suersky and Orlovo-Pashkovsky blocks, and drilled 2 exploratory wells on the Privolny and Mokrousovsky blocks. Based on the interpretation of seismic and seismotomographic surveys and analysis of samples from the wells, ZNG prepared a comprehensive analysis of geological resources of the Kurgan region. Both the Privolny-1 and Mokrousovsky-1 studies confirmed the presence of hydrocarbons and contributed greatly to the understanding of geological resources in the region. However, a substantial amount of further exploration studies and work is required before a conclusion on the future potential of the blocks can be drawn. Upon the expiration of the license terms of these blocks in March 2008, ZNG kept the preferential right to re-apply for the licenses.

The Company's investment in the Joint Venture is recorded on the equity method of accounting. Since cumulative losses of Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through March 31, 2012.

As of the date of this filing, Baltic has advised us that Baltic and as a result, ZNG, has withdrawn from any further exploration activities in the Kurgan region and that they will not expend any further resources on such activities moving forward. Baltic has however advised us that they believe they may be able to sell ZNG's previously prepared seismic and geological studies and data in the future, assuming other exploration companies in the area desire to purchase such information, of which there is no assurance.

The operations of the Joint Venture were funded via loans provided to ZNG, Ltd. and ZNG by Caspian Finance Limited ("Caspian"), a financing company wholly-owned by Baltic. Loans are guaranteed by ZNG, Ltd.'s holdings in ZNG. As of March 31, 2012, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to approximately \$23.5 million plus accrued interest of approximately \$5 million. The loans are not dilutive to the Company's ownership in ZNG.

#### RMC Operations:

RMC, which the Company acquired ownership of pursuant to the Share Exchange (described above), which was consummated in May 2011, was formed as a Nevada corporation on December 9, 2010. RMC's wholly-owned subsidiary is OOO Koklanovskoe, a Russian limited liability company ("Koklanovskoe"). Koklanovskoe holds a license (KUG00939TE) for the Koklanovskoe Molybdenum-Tungsten deposit in the Kurgan Region of the Russian Federation (the "License" and the "Deposit").

Through the acquisition of the License, the Company plans to enter the market for the exploration and production of rare and semi-rare earth metals and precious minerals.

The Deposit is a molybdenum-tungsten deposit that was identified and subsequently explored between 1985 and 1988. The Deposit is located in the Russian Urals, approximately 45 kilometers ("km") south-east from the town of Kamens-Uralskiy which is also the nearest rail head. The Deposit area can be accessed via all seasonal roads from the town of Kataysk which is located approximately 30 km to the north-east.

#### Critical Accounting Policies and Estimates

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

results may differ from these estimates under different assumptions or conditions.

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

#### Going Concern

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

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

We are a development stage company which is seeking opportunities for investment in and/or acquisition of small to medium companies in Russia, specifically in the precious minerals and oil and gas industries. We may also enter into merger, acquisition or similar transactions in the future with companies in separate industries and fields in the event we determine such transactions are in the best interests of the Company and its shareholders.

We currently hold investments in ZNG, Ltd. and KNG. Both companies were previously involved in oil and gas exploration in the Western Siberia region of Russia; provided however, as described above, ZNG, Ltd. has advised us that it will no longer undertake any further exploration activities in Western Siberia and we have recently been advised that KNG has determined not to undertake any further exploration activities.

In May 2011, as described above, we obtained ownership of RMC and its rights to the Deposit. The Company plans to explore the Deposit (funding permitting) in the hopes of discovering commercial quantities of molybdenum, tungsten, iron ore, gold, fluorite, bismuth, copper and other rare and semi-rare earth metals and precious minerals. The Company believes that the Deposit is potentially suitable for open-pit mining.

Additionally, moving forward, the Company may focus on the acquisition of additional operations, assets or entities; however, the Company has not entered into any definitive agreements to date, and there can be no assurance that any such agreements will be entered into on favorable terms, if at all.

Historically, we have obtained cash financing from organizing stockholders and outside parties in the form of loans and advances. Additionally, during the fourth quarter of 2005 and the fourth quarter of 2010, we restructured much of our debt through the issuance of shares of our common stock to our creditors and in certain cases, in 2005, obtained waiver letters, postponing certain of our liabilities until such time as we have generated sufficient revenues to pay such debts.

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 and subsequent decision of Baltic not to pursue further exploration activities through ZNG, no management fees have been paid since October 2007, and the Joint Venture will not pay any management fees in the future. As the Company will not receive any management fees moving forward, the Company believes that its organizing stockholders will continue to

provide financing for the Company, of which there can be no assurance.

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In the past, we have obtained cash financing from organizing stockholders in the form of loans and advances, as a result, amounts totaling \$423,631 and \$375,793 were payable to stockholders from the Company as of March 31, 2012 and December 31, 2011, respectively.

There can be no certainty as to the availability of continued financing in the future. Failure to obtain sufficient financing may require us to reduce our operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

## COMPARISON OF OPERATING RESULTS

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2012, COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2011

We had no revenues or other income for the three months ended March 31, 2012 or 2011. The Company does not anticipate generating revenues until such time, if ever, as we are able to generate sufficient funding to continue our business plan and complete exploration and mining activities on the Deposit, and then only if such property contains commercial quantities of minerals and we are able to successfully extract and sell such materials, of which there can be no assurance.

We had total expenses of \$126,547 for the three months ended March 31, 2012, compared to total expenses for the three months ended March 31, 2011, of \$161,255, which represented a decrease in total expenses from the prior period of \$34,708 or 21.5%.

The main reasons for the decrease in total expenses for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, were a \$24,098 or 33.3% decrease in professional and consulting fees, to \$48,373 for the three months ended March 31, 2012, compared to \$72,471 for the three months ended March 31, 2011 and a \$10,951 or 78.9% decrease in marketing and other expenses to \$2,934 for the three months ended March 31, 2012, compared to \$13,885 for the three months ended March 31, 2011, which decreases were mainly due to certain one-time expenses during the three months ended March 31, 2011, associated with the Company's 1:70 reverse stock split and the cost of mailing notice of and holding the Company's 2011 Annual Meeting of Stockholders, as well as fees paid to relist the Company on the OTCBB in March 2011, which were not present during the three months ended March 31, 2012 and a decrease of \$18,751 or 25.5% in salaries to \$54,649 for the three months ended March 31, 2012, compared to \$73,400 for the three months ended March 31, 2011, due to the termination of the employment of the Company's Moscow, Russia representative as of January 1, 2012 and the non-accrual of salary for Elena Pochapski, the Company's Chief Financial Officer, beginning on October 1, 2011, due to the fact that no services were performed for the Company by Ms. Pochapski during that time, offset by a \$19,092 increase in finance charges and interest to \$20,591 for the three months ended March 31, 2012, compared to \$1,499 for the three months ended March 31, 2011, in connection with the Loan bearing 12% annual interest as described in greater detail below under "Liquidity and Capital Resources."

We had a foreign currency exchange gain of \$38,245 for the three months ended March 31, 2012, which was due to fluctuation between the Pound Sterling, Russian Ruble and United States Dollar.

We had a net loss of \$88,302 for the three months ended March 31, 2012, compared to a net loss of \$161,255 for the three months ended March 31, 2011, a decrease in net loss of \$72,953 or 45.2% from the prior period.

## LIQUIDITY AND CAPITAL RESOURCES

We had total assets of \$25,175,412 as of March 31, 2012, consisting of current assets of \$281,111, including \$1,062 of cash and \$280,049 of prepaid expenses and other receivables and total long-term assets of \$24,894,301 consisting of unproved mineral properties.

On April 27, 2011, with a closing date of May 11, 2011, we entered into the Share Exchange with RMC (described in greater detail above under "Rare Minerals Acquisition") and acquired rights to the Deposit, which together with certain geological data, represent the \$24,894,301 of unproved mineral properties.

We had total liabilities of \$1,803,040 as of March 31, 2012, which included current liabilities of \$1,112,912, including \$423,631 of accounts payable to related party stockholders in connection with those stockholders paying certain of our expenses from the period between September 2010 and March 31, 2012 and advisory fees accrued to a shareholder of the Company for the period between October 2010 and March 31, 2012; \$82,515 of accounts payable to Baltic in connection with a \$29,000 loan advanced to the Company from Baltic, interest on such loan, and certain other expenses owed to Baltic; \$132,639 of accounts payable to others for advisory and professional services rendered; and \$474,127 of accrued payroll, which included approximately \$270,000 payable to our former Chief Executive Officer, David Zaikin, approximately \$75,000 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam, and long-term liabilities of \$690,128 relating to the Loan Agreement, described below.

We had negative working capital of \$831,801 and a total pre-development and development stage accumulated deficit of \$16,806,980 as of March 31, 2012.

In October 2010, the Company entered into Debt Conversion Agreements with nine (9) creditors of the Company (the majority of which were shareholders and related parties of the Company), pursuant to which such creditors agreed to convert an aggregate of \$2,554,459 of debt owed to such creditors by the Company into 331,748 shares of restricted common stock of the Company, at the rate of one share for each \$7.70 of debt converted (the "Conversion").

Because our cumulative losses associated with the operations of ZNG exceeded our investment as of the date of the Joint Venture, ZNG, Ltd. is carried on our balance sheet at \$-0- as of March 31, 2012. 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 part of the acquisition of RMC, the Company obtained rights to a Loan Agreement provided to Koklanovskoe by a third party on January 17, 2011 and amended on January 24, 2011, in the aggregate amount of 500,000 British Pounds (approximately \$779,500 as of March 31, 2012)(the "Loan"). The Loan provides Koklanovskoe the right to make draw-downs from time to time under the Loan prior to January 31, 2015, at which time the outstanding amount of the Loan is required to be repaid in full. All amounts borrowed under the Loan bear interest at the rate of 12% per annum; provided that if an event of default occurs under the Loan any and all outstanding amounts bear interest at the rate of 18% per annum. The Loan provides the lender the right to secure such Loan by any or all of Koklanovskoe's assets. The Loan was required to be used for the acquisition of the Deposit and geological exploration activities on such Deposit. As of March 31, 2012, there was \$690,128 (431,600 British Pounds) outstanding under the Loan.

As of March 31, 2012, 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.



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We had \$22,508 of net cash used in operating activities for the three months ended March 31, 2012, which was mainly attributable to adjustments to reconcile \$88,302 of net loss and \$59,117 of increase in prepaid expenses and other receivables, offset by an increase of \$124,911 of accounts payable and accrued expenses.

We had \$65,780 of net cash provided by financing activities for the three months ended March 31, 2012, which were solely due to additional funds received in connection with the Loan described above.

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Since inception, the Company has obtained cash financing from organizing stockholders, outside parties and employees in the form of loans, advances and deferred salaries, as well as through financing previously received of \$25,000 to \$85,000 per month in management fees from its Joint Venture, which management fees the Company has not received since October 2007, and which the Company does not believe will ever resume. The Company anticipates that its stockholders and management will continue to provide financing for the Company, of which there can be no assurance. 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.

We are taking steps 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Control and Procedures

We conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of March 31, 2012. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2012, our disclosure controls and procedures were not effective as a result of the material weakness in internal control over financial reporting discussed below.

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

Effective as of December 31, 2011, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments.

Based on that evaluation, management concluded that, during the period covered by our Annual Report on Form 10-K, such internal controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our internal controls and that taken together may be considered to be a material weakness.

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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 provide expert advice.

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

Changes in internal control over financial reporting.

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

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

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

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

### ITEM 1A. RISK FACTORS

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

#### Risk of Continuing Our Business Plan Without Additional Financing.

We depend to a great degree on the ability to attract external financing in order to conduct future exploratory and development activities. The Company believes it can satisfy its cash requirements during the next twelve months, estimated at approximately \$300,000, through funding provided by existing stockholders, third parties and amounts borrowed under the Loan (described below under "Liquidity and Capital Resources"). As of March 31, 2012, 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 previously licensed area. Our partner in ZNG, Baltic and our partner in KNG, Neftebitum, have informed us that they do not plan to move forward with any further exploration activities through ZNG or KNG, respectively. We anticipate needing approximately \$15 million of additional funding to conduct exploration activities on the Deposit acquired through the Share Exchange (as described above), which funding may not be available on favorable terms, if at all. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

Shareholders May Be Diluted Significantly Through Our Efforts To Pay Consultants, Obtain Financing, Satisfy Obligations And/Or Complete Acquisitions Through The Issuance Of Additional Shares Of Our Common Stock Or Other Securities.

We have no committed source of financing. Wherever possible, our Board of Directors will attempt to use non-cash consideration to satisfy obligations and pay consultants. In many instances, we believe that the non-cash consideration will consist of restricted shares of our common stock or other securities. These transactions may result in significant

additional shares of common stock of the Company being issued in consideration for services rendered, loans made, or to satisfy outstanding amounts owed or accrued to various parties, similar to the Conversion, described above. Additionally, moving forward, we may attempt to conduct acquisitions of other entities or assets using our common stock or other securities as payment for such acquisitions. Our Board of Directors has authority, without action or vote of the shareholders, to issue all or part of the authorized but unissued shares of common stock and preferred stock with various preferences and other rights. These actions may, similar to the Conversions, result in substantial dilution of the ownership interests of existing shareholders, cause the value of the Company's common stock to decline in value, and dilute the book value of the Company's common stock.

Investors Face A Risk That The Company Will Enter Into A Transaction That Results In Substantial Dilution To Our Existing Shareholders, New Management Being Appointed To Run The Company And A New Operating Business Of The Company In The Future.

The management of the Company has discussed potential acquisition or merger opportunities. In the future, we may enter into mergers and/or acquisitions with separate companies, which may result in our business focus or majority shareholders changing and substantial numbers of new shares of common or preferred stock being issued, resulting in substantial dilution to our then current shareholders. As a result, if there were new majority shareholders, they will likely change the composition of our Board of Directors and replace our current management. The new management will likely change our business focus or our business focus could be changed in connection with the transaction and we can make no assurances that our new management will be able to properly manage our direction or that this change in our business focus will be successful. If we do enter into a merger or acquisition transaction, and our new management fails to properly manage and direct our operations, we may be forced to scale back or abandon our operations, which will cause the value of our common stock to decline or become worthless.

We Will Need To Raise Substantial Financing, Which May Cause Substantial Dilution To Existing Shareholders. Additionally, We Will Require Substantial Time And Financing Before We Anticipate Generating Revenues Through Our Future Operations, If Any.

The Company will need to raise substantial additional funds totaling approximately \$15 million in order to complete exploration activities on the Deposit prior to the expected generation of any revenues, of which there can be no assurance. Furthermore, in order for the Company to generate any revenues it will have to successfully locate commercial quantities of rare and semi-rare earth metals and precious minerals, and be successful in extracting such minerals. Therefore, investors should keep in mind that even if the Company is able to raise the substantial amounts of additional financing that the Company will require for its future exploration operations, it could still be years before the Company generates any revenue, if ever. If the Company does not raise the funding required to complete future exploration activities, no commercial amounts of rare and semi-rare earth metals and precious minerals are discovered or the Company is unable to extract such rare and semi-rare earth metals and precious minerals, the Company 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 \$579,251 for the year ended December 31, 2010, a net loss of \$616,922 for the year ended December 31, 2011, a net loss of \$88,302 for the three months ended March 31, 2012 and had total cash on hand of \$1,062 and a total accumulated deficit of \$16,806,980 as of March 31, 2012. 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.

Shareholders Who Hold Restricted Shares Of Our Common Stock May Be Subject To Resale Restrictions In The Event We Cease Filing Periodic Reports With The Commission Pursuant To Rule 144, Due To Our Status As A Former "Shell Company."

Pursuant to Rule 144 of the Securities Act of 1933, as amended ("Rule 144"), a "shell company" is defined as a company that has no or nominal operations; and, either no or nominal assets; assets consisting solely of cash and cash equivalents; or assets consisting of any amount of cash and cash equivalents and nominal other assets. While we believe that we are not currently a "shell company", we are a former "shell company", and as such, sales of our securities pursuant to Rule 144 are not able to be made unless we continue to make our required periodic filings pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. As such, in the event we cease filing periodic reports with the Commission, Rule 144 will not be available for resales of our securities, and any shareholders holding restricted shares of our common stock will be unable to sell their securities. Consequently the value of our securities, if any, could decline in value or become worthless.

The Former Shareholders of RMC Exercise Majority Voting Control Over The Company And Therefore Will Exercise Control Over Corporate Decisions Including The Appointment Of New Directors.

The former shareholders of RMC hold in aggregate 99% of our outstanding common stock. As such, those shareholders, if they choose to vote together, can exercise control in determining the outcome of all corporate transactions or other matters, including the election of Directors, mergers, consolidations, the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. Any investor who purchases shares in the Company will be a minority shareholder and as such will have little to no say in the direction of the Company and the election of Directors. Additionally, it will be difficult if not impossible for investors to remove the Directors of the Company appointed from time to time by the former shareholders of RMC, which will mean that such Directors will remain in control of who serves as officers of the Company as well as whether any changes are made in the Board of Directors. As a potential investor in the Company, you should keep in mind that even if you own shares of the Company's common stock and wish to vote them at annual or special shareholder meetings, your shares will likely have little effect on the outcome of corporate decisions.

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 potential revenues. Therefore, an investment in our Company is risky because we have no business history and it is hard to predict what the outcome of our business operations will be in the future.

We May Continue To Be Unprofitable And May Not Generate Profits To Continue Our Business Plan.

As a development stage company, we have had limited revenues and no profits to date and our net cumulative deficit attributable to our development stage as of March 31, 2012, was \$16,357,195, and our total cumulative deficit was \$16,806,980 which included \$449,785 of pre-development stage deficit. We had a working capital deficit of \$831,801 as of March 31, 2012. The Company is currently being funded by existing shareholders and other outside parties, 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. ZNG has previously determined to cease further exploration activities and KNG determined to cease exploration activities as well. If we are unable to raise additional funding or generate revenues in the future, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in our Company. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.





We Have A Poor Financial Position And If We Do Not Generate Revenues, We May Be Forced To Abandon Our Business Plan.

Our Company currently has a poor financial position. We have generated only minimal revenues to date, and we have not discovered any rare and semi-rare earth metals and precious minerals. There is a risk that we will not find enough, or even any, minerals which we require to generate enough profits in the future 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 We Do Not Find Rare And Semi-Rare Earth Metals And Precious Mineral Reserves, We May Be Forced To Curtail Our Business Plan.

There is a risk that we will not find any rare and semi-rare earth metals and precious mineral reserves and the cost of acquiring assets or exploration activities will become too high for us to continue our business plan. If we 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 rare and semi-rare earth metals and precious minerals industry is finding deposits. If our Company or joint ventures we may enter into in the future, are unable to find deposits 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 deposits, 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 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, Chief Financial Officer and Chairman, Eran Forman, Elena Pochapski, and David Zaikin, respectively, for the success of our Company. We do not currently have employment agreements in place with Mr. Forman, Ms. Pochapski or Mr. Zaikin. 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 any members 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 such individuals, or such individuals 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 or worthless.



Our Future Projections, Estimates And Statistical Analysis May Be Inaccurate Or Substantially Wrong, Which May Prevent Us From Executing Our 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 exploration activities, average production costs, world mineral price fluctuations and their correspondence to Russian domestic market. If our projections or estimates are wrong or our statistical analysis is faulty, our future revenues, if any, may be adversely affected which could prevent us from executing our 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.

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 Israel, Canada and Russia. As a result, it may be difficult for shareholders to effect service of process within the United States on our officers and Directors. 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.

The assets we hold are located in 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 other companies for the government, and there can be no assurance that if resources and minerals are located 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.

We May Not Find Any Commercial Quantities Of Minerals In The Future, And May Not Generate Any Profits, Which May Force Us To Curtail Our Business Plan.

If we do not begin any exploration activities and/or do not have enough money to continue exploration activities it is likely that we will never generate any revenues. Additionally, if we are unsuccessful in mining attempts we may choose to attempt in the future, it is likely that we will never generate any revenues. The exploration of minerals is highly speculative, and if throughout our mineral exploration we do not find commercial quantities of minerals, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in us. 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.

Our Planned Mineral Exploration Efforts Are Highly Speculative.

Mineral exploration is highly speculative. It involves many risks and is often non-productive. Even if we believe we have found a valuable mineral deposit, it may be several years before production is possible. During that time, it may become no longer feasible to produce those minerals for economic, regulatory, political, or other reasons. Additionally, we may be required to make substantial capital expenditures and to construct mining and processing facilities. As a result of these costs and uncertainties, we may be unable to start, or if started, to finish our exploration

activities.

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The Probability Of Our Property Producing Any Commercially Viable Reserves In The Future Is Remote.

Our mineral project is in the exploration stage as opposed to the development stage and we have no known body of economic mineralization. Until further exploration activities can be conducted, we will be unable to determine whether a commercially mineable ore body exists on our property. In order to carry out exploration and development programs of any economic ore body and place it into commercial production, we will be required to raise substantial additional funding, and even if we are successful in completing our exploration activities on our property, we may not be successful in finding commercial quantities of minerals. Furthermore, the probability of an individual prospect ever having reserves or being commercially viable is extremely remote. As a result, there is only a small probability that our property contains any reserves and that any funds spent on exploration activities will ever be recovered.

Our Future Planned Mining Operations Involve A High Degree Of Risk, Which We May Be Unable, Or May Not Choose To Insure Against, Making Exploration And/Or Development Activities We May Pursue Subject To Potential Legal Liability For Certain Claims.

Our future exploration operations, if any, will be subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although we plan to take adequate precautions to minimize these risks, and risks associated with equipment failure or failure of retaining dams which may result in environmental pollution, even with our precautions, damage or loss may occur and we may be subject to liability which will have a material adverse effect on our business, results of operation and/or financial condition. If this were to happen, we could be forced to curtail or abandon our business activities.

We Will Be Subject To Numerous Risks If We Commence Mining Operations.

The mineral exploration and mining business is competitive in all of its phases. We currently have no mining operations of any kind; however, if we do commence mining activities in the future, we will be subject to numerous risks, including:

- o competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive mineral properties;
- o our ability to select and acquire suitable producing properties or prospects for mineral exploration;
- o the accuracy of our reserve estimates, if any, which may be affected by the following factors beyond our control:
  - declines in the market price of the various metals we may mine in the future;
  - increased production or capital costs;
  - reduction in the grade or tonnage of the deposit;
  - increase in the dilution of the ore; or
  - reduced recovery rates;

- o risks and hazards associated with environmental hazards, political and country risks, civil unrest or terrorism, industrial accidents, labor disputes, unusual or unexpected geologic formations, cave-ins, explosive rock failures; and flooding and periodic interruptions due to inclement or hazardous weather conditions; and
- o our failure to maintain insurance on certain risks associated with any exploration activities we may undertake in the future.

If we do begin exploration activities in the future, we will be subject to the above risks. If any of the above risks occur, we may be forced to curtail or abandon our operations and/or exploration and development activities, if any. As a result, any investment in us could decrease in value and/or become worthless.

Our Determinations Of Planned Activities And Estimates Of Potential Reserves, If Any, May Be Inaccurate.

Before we can begin a development project, if ever, we must first determine whether it is economically feasible to do so. This determination is based on estimates of several factors, including:

- o expected recovery rates of metals from the ore;
- o facility and equipment costs;
- o capital and operating costs of a development project;
- o future metals prices;
- o tax rates;
- o inflation rates;
- o political risks and regulatory climates; and
- o availability of credit.

Any development projects we may undertake in the future will likely not have an operating history upon which to base these estimates and as a result, actual cash operating costs and returns from a development project, if any, may differ substantially from our estimates. Consequently, it may not be economically feasible to continue with a development project, if one is started.

Nevada Law And Our Articles Of Incorporation Authorize Us To Issue Shares Of Stock, Which Shares May Cause Substantial Dilution To Our Existing Shareholders.

We have authorized capital stock consisting of 100,000,000 shares of common stock, \$0.001 par value per share and 10,000,000 shares of preferred stock, \$0.001 par value per share. As of the date of this filing, we had 67,367,659 shares of common stock issued and outstanding and – 0 – shares of preferred stock issued and outstanding. As a result, our Board of Directors has the ability to issue a large number of additional shares of common stock without shareholder approval, which if issued could cause substantial dilution to our then shareholders. Additionally, shares of preferred stock may be issued by our Board of Directors without shareholder approval with voting powers, and such preferences and relative, participating, optional or other special rights and powers as determined by our Board of Directors, which may be greater than the shares of common stock currently outstanding. As a result, shares of preferred stock may be issued by our Board of Directors which cause the holders to have super majority voting power over our shares, provide the holders of the preferred stock the right to convert the shares of preferred stock they hold into shares of our common stock, which may cause substantial dilution to our then common stock shareholders and/or have other rights and preferences greater than those of our common stock shareholders. Investors should keep in mind that the Board of Directors has the authority to issue additional shares of common stock and preferred stock, which could cause substantial dilution to our existing shareholders. Additionally, the dilutive effect of any preferred stock, which we may issue may be exacerbated given the fact that such preferred stock may have super majority voting rights and/or other rights or preferences which could provide the preferred shareholders with voting control over us subsequent to this filing and/or give those holders the power to prevent or cause a change in control. As a result, the issuance of shares of common stock and/or preferred stock may cause the value of our securities to decrease and/or become worthless.

If We Are Late In Filing Our Quarterly Or Annual Reports With The Securities And Exchange Commission Or A Market Maker Fails To Quote Our Common Stock On The Over-The-Counter Bulletin Board For A Period Of More Than Four Days, We May Be De-Listed From The Over-The-Counter Bulletin Board.

Pursuant to Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the Securities and Exchange Commission ("SEC"), any OTCBB issuer which fails to file a periodic report (Form 10-Q or 10-K) by the due date of such report (not withstanding any extension granted to the issuer by the filing of a Form 12b-25), three times during any 24 month period is automatically 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. Additionally, if a market maker fails to quote our common stock on the OTCBB for a period of more than four consecutive days, we will be automatically delisted from the OTCBB (similar as to how we were automatically delisted from the OTCBB in February 2011, which forced us to take actions to re-quote our common stock on the OTCBB in March 2011). As we were late in filing our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and our Form 10-K Annual Report for the year ended December 31, 2011, if we are late in our periodic filings one additional time prior to the filing of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, or three times in any subsequent 24 month and are de-listed from the OTCBB or are automatically delisted for failure of a market maker to quote our stock, our securities may become worthless and we may be forced to curtail or abandon our business plan.

Compliance with Section 404 of the Sarbanes-Oxley Act will continue to strain our limited financial and management resources.

We incur significant legal, accounting and other expenses in connection with our status as a fully reporting public company. 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 need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and made 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. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses (similar to those described in this Report). Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management efforts. 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 continue to identify 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 market for precious metals and minerals 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.

State Securities Laws May Limit Secondary Trading, Which May Restrict The States In Which And Conditions Under Which You Can Sell Shares.

Secondary trading in our common stock may not be possible in any state until the common stock is qualified for sale under the applicable securities laws of the state or there is confirmation that an exemption, such as listing in certain recognized securities manuals, is available for secondary trading in the state. If we fail to register or qualify, or to obtain or verify an exemption for the secondary trading of the common stock in any particular state, the common stock cannot be offered or sold to, or purchased by, a resident of that state. In the event that we do not apply for registration in, there is not a valid exemption for, and/or a significant number of states refuse to permit secondary trading in our common stock, the liquidity for the common stock could be significantly impacted.

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 15c-2-01, promulgated under the Securities Exchange Act of 1934, as amended, as long as the price of our common stock is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock.

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

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Description of Exhibit

No.

- 3.1(a) Original Articles of Incorporation of the Company then called "Advanced Rehab Technology Corporation."
- 3.2(b) Certificate of Amendment to the Company's Articles of Incorporation filed March 9, 2001, changing the Company's name to "Talking Cards, Inc."
- 3.3(b) Certificate of Amendment to the Company's Articles of Incorporation filed February 12, 2002, changing the Company's name to "Osterking Incorporated."
- 3.4(b) Certificate of Amendment to the Company's Articles of Incorporation filed December 3, 2002, changing the Company's name to "17388 Corporation Inc."
- 3.5(b) Certificate of Amendment to the Company's Articles of Incorporation filed May 5, 2003, changing the Company's name to "Trans Energy Group Inc."
- 3.6(b) Certificate of Amendment to the Company's Articles of Incorporation filed December 3, 2003, changing the Company's name to "Siberian Energy Group Inc."
- 3.7 (b) Certificate of Amendment to the Company's Articles of Incorporation filed April 25, 2005, affecting a 1:2 reverse stock split, re-authorizing 100,000,000 shares of common stock, par value \$0.001 per share, and authorizing 10,000,000 shares of preferred stock, par value \$0.001 par value per share
- 3.8(c) Certificate of Amendment to Articles of Incorporation Affecting a 1:70 Reverse Stock Split
- 3.9(d) Amended and Restated Bylaws
- 4.1(e) Siberian Energy Group Inc. 2010 Stock Incentive Plan

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

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- 10.3(1) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.4(1) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005
- 10.5(1) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005
- 10.6(2) Option Agreement with Baltic Petroleum Limited dated April 28, 2005
- 10.7(2) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.8(2) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.9(2) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005
- 10.10(2) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005
- 10.11(3) Clarification to the Contract of Purchase and Sale of the Share in Charter Capital of LLC "Zauralneftegaz" dated 15 May 2004
- 10.12(3) Agreement with Business - Standard (translated from Russian version)
- 10.13(3) Supplementary Agreement to Business - Standard Agreement (translated from Russian version)
- 10.14(3) Supplementary Agreement No. 2 to Business - Standard Agreement (translated from Russian version)
- 10.15(3) Deed of Amendment between ZNG and BP
- 10.16(3) Deed of Amendment between the Company and BP
- 10.17(4) Joint Venture Shareholders' Agreement with Baltic Petroleum (E&P) Limited and Zauralneftegaz Limited dated October 14, 2005
- 10.18(5) Amendment to the Employment Agreement Dated August 1, 2003, with Elena Pochapski
- 10.19(5) Form of Waiver Agreement
- 10.20(6) Loan Agreement between OOO Zauralneftegaz and Caspian Finance Limited
- 10.21(6) Deed of Novation between Baltic Petroleum Limited, Caspian Finance Limited and OOO Zauralneftegaz

10.22(6) Deed of Release

10.23(6) Release of Pledge

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- 10.24(6) Guarantee
- 10.25(6) Debenture
- 10.26(6) Agreement for the Pledge of the Participatory Interest in OOO Zauralneftegaz (Russian translation removed)
- 10.27(6) Sale and Purchase Agreement
- 10.28(8) Option Agreement with Key Brokerage
- 10.29(8) Warrant Agreement with Key Brokerage
- 10.30(9) July 26, 2006 Deed of Agreement
- 10.31(10) Consulting Agreement with Business Standard
- 10.32(11) Addition to the Loan Agreement of November 9, 2005
- 10.33(11) Gross Overriding Royalty Agreement
- 10.34(12) Amendment No. 2 to the Employment Agreement Dated August 1, 2003 with Elena Pochapski
- 10.35(13) Deed of Variation to the Loan Agreement Dated 9th of November 2005, Entered into in June 2007
- 10.36(15) Agreement of Purchase and Sale with Limited Liability Company Neftebitum, Sergey V. Prokopiev, and Oleg G. Shelepov
- 10.37(15) Operating Agreement with Limited Liability Company Neftebitum
- 10.38(16) One Year Extension to the Employment Agreement of August 1, 2004 with David Zaikin
- 10.39(16) One Year Extension to the Employment Agreement of August 1, 2004 with Elena Pochapski
- 10.40(16) Stock Option Agreement for David Zaikin
- 10.41(16) Stock Option Agreement for Elena Pochapski
- 10.42(17) Extension of Employment Agreement of David Zaikin
- 10.43(17) Extension of Employment Agreement of Elena Pochapski
- 10.44(18) Form of Debt Conversion Agreement
- 10.45(18) Extension of Employment Agreement of David Zaikin

10.46(18)Extension of Employment Agreement of Elena Pochapski

10.47(19)Share Exchange Agreement with Rare Minerals Corporation and its  
Shareholders

10.48(19)Exploration License (Translated From Russian)

10.50(20)Data Purchase Agreement

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10.51(20) Extension of Employment Agreement of David Zaikin

10.52(20) Extension of Employment Agreement of Elena Pochapski

10.53(14) Loan Agreement

10.54(14) Addition to Loan Agreement

21.1(21) 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

101.INS\*\* XBRL Instance Document

101.SCH\*\* XBRL Taxonomy Extension Schema Document

101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herein.

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

(a) Filed as an Exhibit to our Form SB-2 Registration Statement, filed with the Commission on September 10, 2004, and incorporated herein by reference.

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

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(c) Filed as an Exhibit to the Company's Form 8-K, filed with the Commission on March 15, 2011, and incorporated herein by reference.

(d) Filed as an Exhibit to the Company's Form 10-KSB, filed with the Commission on April 2, 2007, and incorporated herein by reference.

(e) Filed as an Exhibit to the Company's Definitive Information Statement on Schedule 14C, filed with the Commission on January 14, 2011, and incorporated herein by reference.

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- (1) Filed as Exhibit 10.1, 10.2, 10.3, 10.4 and 10.5 to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.
- (2) Filed as Exhibits to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.
- (3) Filed as Exhibits to the Company's Report on Form 10-QSB, filed with the Commission on August 22, 2005, and incorporated herein by reference.
- (4) Filed as Exhibits to the Company's Report on Form 8-K, filed with the Commission on October 28, 2005, and incorporated herein by reference.
- (5) Filed as Exhibits to our Report on Form 10-QSB for the period ending September 31, 2005, which was filed with the Commission on November 21, 2005, and is incorporated herein by reference.
- (6) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on December 2, 2005, filed with the Commission on April 13, 2006, and incorporated herein by reference.
- (7) Filed as Exhibit 99.1 to our Report on Form 10-KSB for the year ended December 31, 2004, filed with the Commission on March 28, 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 April 2, 2007, and incorporated herein by reference.
- (12) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on May 15, 2007, and incorporated herein by reference.
- (13) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on August 14, 2007, and incorporated herein by reference.
- (14) Filed as an exhibit to our Report on Form 10-Q filed with the Commission on August 19, 2011, and incorporated herein by reference.
- (15) Filed as an Exhibit to our Report on Form 8-K filed with the Commission on November 14, 2008, and incorporated herein by reference.
- (16) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on May 19, 2009, and incorporated herein by reference.
- (17) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on May 21, 2010, and incorporated herein by reference.

(18) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on November 19, 2010, and incorporated herein by reference.

(19) Filed as an exhibit to our Report on Form 8-K filed with the Commission on May 12, 2011, and incorporated herein by reference.

(20) Filed as an exhibit to our Report on Form 10-Q filed with the Commission on June 22, 2011, and incorporated herein by reference.

(21) Filed as an exhibit to our Report on Form 10-K filed with the Commission on May 16, 2012, and incorporated herein by reference.

SIGNATURES

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

SIBERIAN ENERGY GROUP INC.

DATED: May 16, 2012

/s/ Eran Forman  
Eran Forman  
Chief Executive Officer  
(Principal Executive Officer)

DATED: May 16, 2012

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

