

Siberian Energy Group Inc.
Form 10KSB/A
July 17, 2008

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

FORM 10-KSB/A
AMENDMENT NO. 1

(Mark One)

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

For the fiscal year ended December 31, 2007

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

For the transition period from _____ to _____

Commission file number: 333-118902

SIBERIAN ENERGY GROUP INC.

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

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

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

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

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

NONE

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

NONE

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

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

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

The issuer's revenues for the most recent fiscal year ended December 31, 2007 were \$700,000.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing value of the Registrant's common stock on April 10, 2008 was approximately \$3,000,500.

As of April 9, 2008, the issuer had 18,383,065 shares of common stock, \$.001 par value per share outstanding.

The Registrant is filing this Amended Report on Form 10-KSB to include an expanded discussion of its restated 2006 consolidated financial statements in Footnote 13 to the Registrant's consolidated financial statements. All other sections of this Amended Report on Form 10-KSB remain the same as originally filed by the Registrant and investors should review the Registrant's most recent filings for updated information on the operations and financial condition of the Registrant.

Documents Incorporated by Reference: NONE

Transitional Small Business Disclosure Format: Yes No

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YEAR ENDED DECEMBER 31, 2007
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PART I

ITEM 1. DESCRIPTION OF BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-KSB/A (THIS "FORM 10-KSB"), INCLUDING STATEMENTS UNDER "ITEM 1. DESCRIPTION OF BUSINESS," AND "ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS", CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF SIBERIAN ENERGY GROUP INC. AND KONDANEFTEGAZ, LLC, A RUSSIAN LIMITED LIABILITY, THE REGISTRANT'S WHOLLY OWNED SUBSIDIARY, AND ZAURALNEFTEGAZ LIMITED, A COMPANY ORGANIZED UNDER THE LAWS OF THE COUNTRY OF ENGLAND, WHICH THE REGISTRANT OWNS 50% OF (COLLECTIVELY "SIBERIAN", THE "COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-KSB/A , UNLESS ANOTHER DATE IS STATED, ARE TO DECEMBER 31, 2007.

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

BUSINESS DEVELOPMENT:

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

On September 17, 1999, the Company effected a 1-for-30 reverse stock split. A subsequent 3-for-1 forward split was consummated on October 2, 2000 (collectively the "Stock Splits"). All share amounts subsequently listed are retroactively adjusted to reflect these stock splits unless otherwise provided. All activities related to the Company's business were discontinued prior to January 1, 2000 and the Company began looking for opportunities to acquire an operating business.

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

On May 9, 2003, the Company entered into an Acquisition Agreement (the "Acquisition Agreement") by and among the Company, Zaural Neftegaz, a Russian corporation ("ZNG"), the shareholders of ZNG and Oleg Zhuravlev, President of ZNG. Pursuant to the Acquisition Agreement, the Company acquired a 51% interest in ZNG by issuing to

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ZNG 2,000,000 shares of the Company's common stock. In June 2004, the Company purchased the remaining 49% of ZNG in exchange for 6,900,000 shares of the Company's common stock, making ZNG a wholly owned subsidiary of the Company. The Company had no affiliation with ZNG prior to the acquisition in May 2003.

On May 2, 2005, the Company affected a 1:2 reverse stock split and all share amounts listed throughout this report on Form 10-KSB/A retroactively reflect such split and the Stock Splits described above.

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

BUSINESS OPERATIONS:

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

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

Moving forward the Company plans to focus on the exploration and potential development of licenses acquired by KNG and to continue the oil and gas exploration activities in Kurgan and to work towards generating production activities from ZNG's licenses either with its partner in the Joint Venture, Baltic Petroleum (E&P) Limited ("BP" or "Baltic") or by attracting a third party interest. Additionally, the Company is currently contemplating entering into additional partnership agreements in connection with advanced stage exploration or production projects in Western Siberia, of which there can be no assurance.

Description of KNG

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

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

The total consideration paid in connection with the acquisition of KNG consisted of restricted shares of common stock and stock warrants and can be summarized as follows:

Restricted shares of common stock issued to Key Brokerage	1,900,000
	200,000

Restricted shares of common stock issued to
an adviser in connection with the purchase of
KNG

Total restricted common shares issued 2,100,000

Stock warrants issued to KNG on September
14, 2006

in connection with the option to purchase
KNG 250,000

As a result of the purchase, a calculated acquisition value of \$3,928,000 was assigned to the geological data assets based on the approximate market value of the stock issued (\$1.75) on the transaction date. The total value of purchased assets consisted of \$3,675,000 assigned to the shares issued and \$253,000 assigned to stock warrants issued.

In October 2007, KNG was awarded two oil & gas exploration licenses in Khanty-Mansiysk region in West Siberia, Russia for the Karabashsky-61 and Karabashsky-67 blocks located in the Khanty-Mansiysk Autonomous Region, Russian Federation. On November 7, 2007, the Board of Directors of the Company approved the issuance of 2,000,000 shares of common stock to Key Brokerage, in connection with the successful acquisition of two new oil and gas exploration licenses by Kondaneftegaz LLC, the value of which was determined as \$1,320,000 based on the current market prices of the shares at the date of issuance.

The license areas together cover 166,000 acres and are situated in the territory of the Urals oil and gas bearing area.

License agreements for the Karabashsky-61 and Karabashshky-67 blocks specify the conditions of subsurface use:

The right to use the subsurface resources of the Karabashsky-61 and Karabashky-67 Fields is granted for the term of validity of the license (five (5) years), from the date of its state registration (October 22, 2007).

The term of use of the subsurface resources can be extended to finish exploration and estimation of deposit or for liquidation work, if the terms of usage of the subsurface resources are not breached.

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

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

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

- to prepare and coordinate, and get approval in the prescribed manner of the "Program of exploration works on the Karabashsky-61 license area" within 12 months from the date of the state registration of the license (October 22, 2007).
- to begin 2D seismic works during the 2008-2010 fieldwork season and to perform not less than 176.26 linear kilometers of seismic profiles on Karabashky-61 and 158 linear km on Karabashky-67 (minimal density of the profile not less than 1 linear kilometer per 1 square kilometer of license area).
- No later than 2011, to start drilling an exploratory well and to complete not less than 2 exploratory wells by April 1, 2012;

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

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

The rates currently yield total annual payments for the two blocks of approximately \$3,300 in the first three years, \$6,600 in the fourth year and \$10,000 in the fifth year. Currently the Company is negotiating a joint venture with a

local partner to perform prescribed geological research works on the two blocks, of which there can be no assurance.

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Description of ZNG

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

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

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

- Obtained core samples from parametric wells drilled in prior years on the licensed areas and adjacent territories in the Eastern part of Kurgan region during the initial search for oil and gas in the region, and performed analysis of the data provided by the samples;
- Completed a 2D seismic survey over 1,000 linear kilometers on the first license areas obtained in 2003, through an agreement with a Russian company, Bashneftegeofizika;
- Completed approximately 2,106 linear kilometers of gas seismotomographic and geochemical surveys performed by Exotrad. Gas seismotomography is an advanced technique of combining active gas geochemistry, passive seismic and electromagnetic methods. The surveys were performed by Exotrad, a world leader in this field. Exotrad has used this technology in more than 260 projects as well as “Caspian Pipeline Consortium”; “Sakhalin-2”; and “Blue Stream” in diverse locations across Asia, Eastern Europe and the Americas;
- Scientific and technical analysis was performed by the team of geologists, which included experts from Exploration Consultants Limited (“ECL”), a leading international oil and gas consulting firm (part of RPS Group);

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

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

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

Joint Venture

Currently, the operating activities of ZNG described above are carried out through the Joint Venture Shareholders' Agreement ("Joint Venture") entered into on October 14, 2005 with Baltic Petroleum (E&P) Limited ("BP" or "Baltic") and Zauralneftegaz Limited, the joint venture company ("ZNG, Ltd."), as contemplated by the Option Agreement, as amended (the "Option"). The Company closed the Joint Venture and transferred 100% of the outstanding stock of ZNG to ZNG, Ltd. in connection with the terms and conditions of the Joint Venture. As a result of such transfer, the Company holds 50% of the outstanding stock of ZNG, Ltd., which holds 100% of the outstanding stock of the Company's former wholly owned subsidiary, ZNG. ZNG, Ltd., will, operate through ZNG and be engaged in the exploration and development of, production and sale of, oil and gas assets in the Western Siberian region of the Russian Federation and the former Soviet Union and as a result of such transfer, the Company no longer has any separate oil and gas exploration activities in Kurgan, Russia, other than through its ownership of ZNG, Ltd.

The operations of the Joint Venture are funded via loans provided to ZNG, Ltd. and ZNG by Caspian Finance Limited ("Caspian"), a financing company wholly owned by Baltic. Loans are guaranteed by ZNG, Ltd.'s holdings in ZNG. As of December 31, 2007 the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to approximately \$23.5 million plus accrued interest of approximately \$3 million.

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

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

The total outstanding balance of the New Loan provided up to December 31, 2007, was \$14,763,000, including \$12,790,000 of principal and \$1,973,000 of interest accrued as of December 31, 2007.

Funding to ZNG, Ltd. is provided by Caspian on the same terms as to ZNG, through the mechanism of intercompany billing within Baltic and certain companies affiliated with Baltic. As of December 31, 2007, the total loan to ZNG, Ltd. from Caspian totaled \$10,235,000, including \$9,380,000 of principal and accrued interest of \$855,000. In addition, ZNG, Ltd. owes \$1,482,000 directly to Baltic for unpaid management fees and accrued interest through December 31, 2007.

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

“Gross Override Royalty Agreement.”

Terms of loans to ZNG, Ltd. and ZNG:

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

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

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

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

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

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

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

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

Gross Overriding Royalty Agreement

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

Agreement With Alternative Energy Finance, Ltd.

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

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

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

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

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

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

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

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

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

Officer and Director Transactions:

On January 25, 2007, we approved an annual salary of \$180,000 (plus a performance based bonus to be determined by the Board of Directors at the end of the 2007 fiscal year) for our Chief Executive Officer and Director, David Zaikin

for the 2007 fiscal year. On January 31, 2007, Mr. Zaikin notified us that effective February 1, 2007, he was withdrawing his previous request to not accrue any salary until we had sufficient funds to pay such salary, and instead requested that we pay him his 2007 salary if funds were available for such payments and/or that we accrue such salary until we have sufficient funds to repay him any accrued amounts. In February 2007, our Board of Directors approved the issuance of 350,000 shares of our restricted common stock to Mr. Zaikin, in consideration for compensation for the year ended December 31, 2006, which compensation was granted by our Board of Directors in its sole discretion, even though Mr. Zaikin had previously agreed not to be paid or accrue any salary for fiscal 2006. In July 2007, we issued an aggregate of 190,000 restricted shares of common stock to Mr. Zaikin, and certain of his assigns, in consideration for services rendered during the first two quarters of 2007.

In June 2007, we issued 70,000 shares of restricted common stock to our President, Helen Teplitskaia, of which 50,000 shares was a sign-on bonus in connection with her agreeing to be an officer of the Company in May 2007, and 20,000 shares were part of her compensation package with the Company, whereby she is to be paid 10,000 shares per month for her service to the Company, which shares were issued for services rendered in May and June 2007. During the period from July to December 2007, 50,000 shares were issued for services rendered in July through November 2007, 10,000 shares for the month of December have not been issued as of the date of this report, and have not been included in the number of issued and outstanding shares disclosed herein.

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

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

Global Consulting Group Agreement

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

RECENT EVENTS

In October 2007, the Company entered into a Settlement Agreement and Mutual Release with its former consultant, Aspen Management Inc. and its principals ("Aspen"). Pursuant to the agreement, we and Aspen agreed to release any claims or causes of action, whatsoever, that we have against each other, and we agreed to pay Aspen a total of \$12,500, and Aspen agreed to return any and all Company documents and materials which it has in its possession.

Estimate of Amount of Time Spent On Research and Development

An initial business plan was developed over the course of three months in 2003. During that time period, market research was conducted. Research and development activities on the licensed blocks in the Kurgan Region were directly borne by the Company up to the time the Joint Venture was closed in October 2005. As a result of the closing of the Joint Venture, these research and development costs are now paid by both by ZNG, Ltd. (as described above) and ZNG. Research activities include gravimetric, seismic works and seismotomography studies on the licensed areas. Costs incurred by ZNG and ZNG Ltd. in connection with these studies as of December 31, 2007 totaled approximately \$18 million. Furthermore, moving forward we expect additional research and development costs will be paid by us in connection with our exploration of any of the blocks that KNG may obtain at auction in the future, of which there can be no assurance.

Employees

Siberian Energy Group Inc. currently employs two (2) employees in management. Zaural Neftegaz ("ZNG"), which is 50% owned by the Company through its joint venture ZNG, Ltd., employs nineteen (19) full-time employees and one (1) part-time employee. KNG, which we purchased in December 2006 has two (2) part-time employees.

Critical Accounting Policies and Estimates

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

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

Going Concern

The Company's financial statements have been prepared assuming that the Company will continue as a going concern; however, since inception of its current endeavors in 2003, the Company has not earned any revenues from production of hydrocarbons and is considered to be in the development stage, which raises substantial doubt about its ability to continue as a going concern. The Company is of the opinion that sufficient financing will be obtained from external sources to provide the Company with the ability to continue the process of development to achieve commercial production and sales of products. Since inception, the Company has obtained cash financing from organizing stockholders and employees in the form of loans, advances and deferred salaries, as well as through debt financing and

more recently has received \$55,000 to \$85,000 per month in management fees from its Joint Venture. There can be no certainty as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

Competition

Given the recent boom in the Russian oil industry, there has been an increase in interest and activity in the Western Siberian basin. In September 2003, a competitive bid process for eleven newly-opened exploration blocks was held in the Tyumen region, immediately north of Kurgan. Ten of the blocks were awarded to seven companies. The total value of the purchases was over \$2,400,000. The closest of these blocks lies within 60 miles of the licensed areas covered by ZNG's blocks, with the majority of the blocks lying within 120 miles of these areas. While additional blocks have recently sold in areas surrounding ZNG's blocks, this does not imply that ZNG or KNG (assuming it is awarded the licenses for which it has applied) are anymore likely to find hydrocarbon reserves and it has no bearing on the future success of the Company's development or exploration efforts in Western Siberia.

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

A healthy level of competition currently exists among local oil service companies and recent reductions in demand for their services are leading to a surplus of supply. The Company believes that having the wide range of service companies within such close proximity creates an opportunity for ZNG (and KNG, if it is granted exploration licenses at auction, of which there can be no assurance) to choose the best combination of price and quality while signing the service contract, due to the fact that service companies may compete with each other for providing exploration, drilling and other services to ZNG and/or KNG.

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

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

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

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

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

Dependence on One or A Few Major Customers

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

Patents, Trademarks and Licenses

ZNG currently holds three oil and gas exploration and production licenses that it obtained in June 2006, which have a 25 year term. KNG currently holds two five-year oil and gas exploration licenses, awarded in October 2007. KNG has also applied for 8 other licenses in Western Siberia, Russia, with no date currently planned for the remaining auctions as of the date of this filing.

Need For Government Approval

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

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

Costs and Effects of Compliance with Environmental Laws

According to the laws and regulations of the Russian Federation, organizations are permitted to carry out seismic and other development activities on licensed fields, provided the companies conform to ecological standards. Accordingly, ZNG and KNG have encountered two costs associated with environmental law compliance: costs associated with obtaining licenses and costs associated with obtaining permission from the Russian Ministry of Natural Resources (the "Ministry"). These costs have totaled approximately \$186,900, which includes \$2,000 relating to the ecological review by the Ministry and \$184,900 in legal costs and fees to obtain the Company's licenses. ZNG has successfully passed a review by the Ministry.

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

ITEM 2. DESCRIPTION OF PROPERTY

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

The Company rents office space in Toronto, Ontario, Canada. The term of the lease on the Canadian office space was from January 1, 2005 until December 31, 2005, and the Company had an option to renew the lease for an additional

five (5) years on a year to year basis. The Company renewed the office space for the period from January 1, 2007 until December 31, 2007, and since December 31, 2007, the Company has been leasing the office space on a month-to-month basis. The monthly rental fee under the Canadian office space lease is currently approximately \$1,450. The office space encompasses approximately 370 square feet of office space.

KNG currently rents office space in Khanty-Mansiysk City, Russia, under a one year lease expiring in December 2007, at a monthly rental cost of approximately \$80 per month.

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ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

The Company had no matters submitted to a vote of security holders during the fiscal quarter ended December 31, 2007.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On March 22, 2005, the Company's common stock began trading on the OTC Bulletin Board under the symbol "SIBE." Effective May 2, 2005, in connection with the Company's 1:2 reverse stock split, the Company's common stock began trading under the symbol "SIBN." We had 1,526,500 shares of common stock subject to outstanding options and warrants to purchase, or securities convertible into, the Company's common stock as of December 31, 2007. We have no outstanding shares of preferred stock. As of April 9, 2008 there were 18,383,065 shares of common stock outstanding, held by approximately 125 shareholders of record.

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

Closing Prices Quarter Ended	High	Low
December 31, 2007	\$0.84	\$0.36
September 30, 2007	\$1.65	\$0.65
June 30, 2007	\$2.00	\$1.26
March 31, 2007	\$1.90	\$1.25
December 31, 2006	\$2.40	\$1.75
September 30, 2006	\$3.55	\$1.82
June 30, 2006	\$4.33	\$1.00
March 31, 2006	\$1.20	\$0.65

RECENT SALES OF UNREGISTERED SECURITIES

In June 2007, we issued 70,000 shares of restricted common stock to our President, Helen Teplitskaia, of which 50,000 shares were a sign-on bonus in connection with her agreeing to be an officer of the Company in May 2007, and 20,000 shares were part of her compensation package with the Company, whereby she is to be paid 10,000 shares per month for her service to the Company, which shares were issued for services rendered in May and June 2007. During the period July to December 2007 50,000 shares were issued for services rendered in July through November 2007. However, the 10,000 shares for the month of December 2007 have not been issued as of the date of this report. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuances did not involve a public offering, the recipient took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by the Company.

On September 30, 2007, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 51,352 shares of our common stock at an exercise price of \$0.74 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of warrants did not involve a public offering, the recipient took the warrants for investment and we took steps to restrict the transfer of the warrants. No underwriters or agents were involved in the foregoing grant and no underwriting discounts or commissions were paid by us.

On November 7, 2007, the Board of Directors of the Company approved the issuance of 2,000,000 shares of common stock to Key Brokerage, in connection with the successful acquisition of two new oil and gas exploration licenses by Kondaneftegaz LLC. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuance did not involve a public offering, the recipient took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by the Company.

In December 2007, we issued 25,000 and 20,000 restricted shares, respectively, to two separate investor relation firms in consideration for investor relations services rendered to the Company. The Company claims an exemption from registration afforded by Section 4(2) of the Act since the foregoing issuance did not involve a public offering, the recipient took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuance and no underwriting discounts or commissions were paid by the Company.

On December 31, 2007, in connection with our agreement with AEF, we agreed to grant AEF a warrant to purchase 78,130 shares of our common stock at an exercise price of \$0.46 per share, which warrants contained a cashless feature. The warrants expire three years from the grant date. We claim an exemption from registration afforded by Section 4(2) of the Securities Act of 1933 since the foregoing issuance of warrants did not involve a public offering, the recipient took the warrants for investment and we took steps to restrict the transfer of the warrants. No underwriters or agents were involved in the foregoing grant and no underwriting discounts or commissions were paid by us.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

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

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

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

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

In connection with the Joint Venture (described under "Joint Venture Agreement," above), the Company generally received management fees in connection with the Joint Venture, which varied from \$25,000 to \$85,000 per month. The Company, however, can make no assurance that the Joint Venture will continue payment of management fees or that fees received will be adequate to pay its upcoming expenses and liabilities, and/or that such funds will be received

timely, if at all (as the Company has recently experienced delays in obtaining such funds) in which case the Company plans that its organizing stockholders will continue to provide financing for the Company, of which there can be no assurance.

In the past, we have obtained cash financing from organizing stockholders in the form of loans and advances, as a result, amounts totaling \$370,500 and \$362,166 were payable to the stockholders as of December 31, 2007 and December 31, 2006, respectively. However, there can be no certainty as to the availability of continued financing in the future. Failure to obtain sufficient financing may require us to reduce our operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

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COMPARISON OF OPERATING RESULTS

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007, COMPARED TO THE YEAR ENDED DECEMBER 31, 2006

We had revenues and other income of \$700,000 for the year ended December 31, 2007, which was due solely to \$55,000 of monthly management fees received from ZNG, Ltd for the months of January through May 2007, and monthly management fees of \$85,000 received for the months of June through October 2007. We had \$360,000 of revenue and other income for the year ended December 31, 2006, due solely to \$360,000 of management fees received. In November 2006, the management fees we received pursuant to our Joint Venture increased from \$25,000 per month to \$55,000 per month and in June 2007, additional amounts of \$30,000 per month were paid for July through October 2007. Revenues increased \$340,000 or 94% for the year ended December 31, 2007, compared to the year ended December 31, 2006, which increase was due solely to the increases in monthly management fees we receive in connection with the Joint Venture.

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

We had total expenses of \$2,760,487 for the year ended December 31, 2007, compared to total expenses for the year ended December 31, 2006, of \$4,432,788, which represented a decrease in total expenses from the prior period of \$1,672,301 or 37.7%.

The main reason for the decrease in total expenses for the year ended December 31, 2007, compared to the year ended December 31, 2006, was a \$1,202,248 or 49.4% decrease in professional and consulting fees, to \$1,229,593 for the year ended December 31, 2007, compared to \$2,431,841 for the year ended December 31, 2006, which decrease is largely attributable to 600,000 shares of common stock issued to a consulting firm Business Standard, which had a value of \$1,113,000 in connection with the acquisition of three additional licenses by ZNG in June 2006 and to a \$276,000 value of stock options granted to certain of our consultants during the year ended December 31, 2006, compared to \$45,118 during the year ended December 31, 2007, coupled with the fact that the options granted in fiscal 2007 had a lower value due to the lower trading price of the Company's common stock, partially offset by increased fees of Business Standard accrued on a monthly basis starting in January 2007. Total expenses also decreased because of a \$258,363 or 23.7% decrease in salaries to \$833,457 for the year ended December 31, 2007, compared to \$1,091,820 for the year ended December 31, 2006, mainly attributable to lower stock bonuses in 2007 (\$478,480 in 2007 versus \$957,900 in 2006) partially offset by an increase in David Zaikin's, our Chief Executive Officer, salary, which Mr. Zaikin agreed to waive in 2006 but accrued in the amount of \$180,000 in 2007, and because of a \$176,751 or 21.6% decrease in other expenses, mainly attributable to a lower number and lower value of shares issued for advertising and marketing services for the year ended December 31, 2007, compared to the year ended December 31, 2006, partially offset by an increase of overseas travel expenses over the same period.

The \$833,457 of salaries for the year ended December 31, 2007, included \$86,844 of salaries and applicable taxes which were attributable to our Chief Financial Officer, Elena Pochapski, of which \$14,806 was accrued; \$180,000 attributable to the salary of our Chief Executive Officer, David Zaikin, of which all \$180,000 was accrued; \$110,900 attributable to the salary of our President Helen Teplitskaia, payable through the issuance of shares of common stock (described above under "Recent Sales of Unregistered Securities"), and \$6,600 of accrued salary; and certain other amounts were paid to various other officers, Directors, employees and consultants. As of December 31, 2007, Ms. Teplitskaia had earned 130,000 shares of common stock (50,000 as a bonus and 10,000 per month) in consideration for her services to the Company as President, of which 10,000 shares remain unissued as of the date of this filing (and are therefore not included in the number of issued and outstanding shares disclosed throughout this report).

We had a net loss of \$2,060,487 for the year ended December 31, 2007, compared to a net loss of \$4,072,788 for the year ended December 31, 2006, a decrease in net loss of \$2,012,301 or 49.4% from the prior year. The decrease in net loss was mainly attributable to the \$340,000 or 94% increase in management fees and by the \$1,672,301 or 37.7%

decrease in total expenses, namely the decrease in professional and consulting fees and decrease in salaries, described above, for the year ended December 31, 2007, compared to the year ended December 31, 2006.

LIQUIDITY AND CAPITAL RESOURCES

We had current assets of \$5,533 as of December 31, 2007, which included cash of \$1,248; and prepaid expenses and other of \$4,285.

We had total assets of \$5,257,476 as of December 31, 2007, which included current assets of \$5,533 and non-current assets of \$5,251,943. Non-current assets included \$5,248,000 of oil and gas properties, unproved, representing two exploration licenses of KNG and also geological studies and data, which we received in connection with the purchase of KNG and \$3,943 of property and equipment, net.

We had total liabilities of \$1,192,415 as of December 31, 2007, which were solely current liabilities and which included \$370,500 of accounts payable to related party stockholders in connection with those shareholders paying certain of our expenses from the period between January 1, 2003 to December 31, 2007; \$56,693 of accounts payable to Baltic in connection with a \$29,000 loan advanced to the Company from Baltic and certain other expenses owed to Baltic; \$213,854 of accounts payable to others for advisory and professional services rendered; and \$541,368 of accrued payroll, which included \$292,500 payable to our Chief Executive Officer, David Zaikin, of which \$180,000 was accrued in 2007, and \$112,500 was owed to Mr. Zaikin for services rendered prior to September 2005, at which time he agreed to stop accruing salary until January 2007, when he provided us notice of his intent to once again begin accruing salary until such time as we have sufficient funds to pay such accrued salary, \$99,513 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam.

We had negative working capital of \$1,186,882 and a total pre-development and development stage accumulated deficit of \$8,992,829 as of December 31, 2007.

Because our cumulative losses associated with the operations of ZNG exceeded our investment as of the date of the Joint Venture, ZNG is carried on our balance sheet at \$-0- as of December 31, 2007. Our investment in ZNG will exceed \$-0- at such time as ZNG has cumulative earnings sufficient to repay all loans to Baltic as provided in the Joint Venture, if ever.

We had \$1,630 of net cash flows from operating activities for the year ended December 31, 2007, which resulted from payment of current liabilities through the issuance of common stock, particularly common stock and warrants worth \$3,016,910 were issued for professional services and salaries offset by a \$1,066,415 decrease in accounts payable and accrued expenses, and \$2,060,487 of net loss.

We had \$2,013 of net cash flows for investing activities for the year ended December 31, 2007, which was for expenditures for property and equipment.

We had \$10,000 of net cash flows from financing activities for the year ended December 31, 2007, which was due solely to net proceeds from demand loan.

Pursuant to the Deed of Agreement, whereby Baltic agreed to loan ZNG approximately \$12,000,000 to be used on seismic studies, the budget for the current program of seismic studies and drilling of the first four wells on ZNG's licenses in 2007 was adopted by ZNG, Ltd.'s Board. This budget amounted to US \$14,998,000, or approximately \$8 million British pounds. These funds were raised by Baltic's parent company through a placement of shares. Of the total budgeted amount of \$14,998,000, the sum of \$9,659,000 is being provided through the ZNG loans described earlier and the sum of \$5,339,000 is committed to be provided to ZNG, Ltd. The loans will not be dilutive to the Company's ownership in ZNG. ZNG currently has approximately \$3,000,000 remaining from its 2007 budget and has not set, nor raised, any funds in connection with its 2008 budget as of the date of this report.

As of December 31, 2007, ZNG had received \$12,790,000 pursuant to the New Loan, which amount includes \$6,874,325 assumed by ZNG in connection with a previous loan made to ZNG. Total interest accrued as of December 31, 2007 was \$1,973,000, including accrued interest on the previous loan. The total funding provided to ZNG, Ltd. and ZNG by Baltic as of December 31, 2007 was equal to \$22,170,000 plus accrued interest of approximately \$2,828,000.

Under the Joint Venture, we will be receiving \$25,000 per month as a management fee from ZNG, Ltd. This amount was subsequently increased to \$55,000 as per the 2007 operating budget and further increased to \$85,000 for the months of June through October 2007. However, we are currently in discussions with Baltic regarding the amount of the management fees for fiscal 2008. Should Baltic decide not to pursue financing for the Kurgan project, the management fees will be discontinued and we will have to raise additional funding to support our operations, which

may be on unfavorable terms, if at all.

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

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

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

RISK FACTORS

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

RISK OF CONTINUING OUR BUSINESS PLAN WITHOUT ADDITIONAL FINANCING.

We depend to a great degree on the ability to attract external financing in order to conduct future exploratory and development activities. The Company believes it can satisfy its cash requirements during the next twelve months through funding provided by existing stockholders and with amounts received from the Joint Venture (described above), including \$55,000 a month which the Company is to receive from ZNG, Ltd., pursuant to the Joint Venture. As of December 31, 2007, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$3 million, which has been spent on various purposes, including paying consultants for services performed in connection with surveys performed on the licensed area. As the Joint Venture is now responsible for the funding of the operations of ZNG, we believe our expenditures in connection with ZNG will decrease in the upcoming periods. If we are unable to raise the additional funds required for the planned activities of the Joint Venture and for additional activities, separate from the Joint Venture, or if the management fees were to cease, our Company may be forced to abandon its current business plan. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

RISK OF FUNDING PARTNER NOT MOVING FORWARD WITH JOINT VENTURE

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

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

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

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

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

no revenues are generated and hydrocarbon reserves are not discovered, KNG may be forced to abandon its business plan, and the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to become worthless.

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

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$2,060,487 for the year ended December 31, 2007 and had a total accumulated deficit of \$8,992,829 as of December 31, 2007. These factors among others indicate that the Company may be unable to continue as a going concern, particularly in the event that it cannot generate sufficient cash flow to conduct its operations and/or obtain additional sources of capital and financing.

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

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

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

As a development stage company, we have no revenues or profits to date and our net cumulative deficit attributable to our development stage as of December 31, 2007, was \$8,543,044, and our total cumulative deficit was \$8,992,829 which included \$449,785 of pre-development stage deficit. We had \$541,368 in accrued and unpaid salaries and a working capital deficit of \$1,186,882 as of December 31, 2007. The Company is currently being funded by existing shareholders, but there can be no assurance this amount will be sufficient to continue our planned operations or that we will have enough money to repay our outstanding debts. There is a risk that ZNG will never begin production and our Company will never generate any revenues through our ownership of ZNG, Ltd. If throughout ZNG's and KNG's oil exploration no viable wells are found, and consequently, we generate only minimal revenues through ZNG, Ltd. (and/or through KNG), we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in our Company. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.

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

Our Company currently has a poor financial position. We have generated only minimal revenues to date, and we have not discovered any hydrocarbon reserves or begun production on any wells. There is a risk that we will not find enough, or even any, viable wells which we require to generate enough profits for your investment in our Company to appreciate. If we never generate any revenues, our Company may be forced to curtail or abandon its business plan and your shares may become worthless.

OUR BUSINESS IS SPECULATIVE AND RISKY AND IF ZNG OR KNG DOES NOT FIND HYDROCARBON RESERVES, WE MAY BE FORCED TO CURTAIL OUR BUSINESS PLAN.

There is a risk that ZNG and KNG will not find any hydrocarbon reserves and the cost of exploration will become too high for ZNG, Ltd. to continue ZNG's business plan and/or us to continue KNG's business plan. As our only current operations are through our 50% ownership of ZNG, Ltd. which in turn owns 100% of ZNG, and through KNG, if ZNG, ZNG, Ltd. or KNG were to cease operations, your investment in our Company could become devalued or could become worthless.

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

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

OUR GROWTH WILL PLACE SIGNIFICANT STRAINS ON OUR RESOURCES.

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

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

We rely on the Company's Chief Executive Officer and Chief Financial Officer, David Zaikin and Elena Pochapski, for the success of our Company, both of whom are employed under contracts. Their experience and input create the foundation for our business and they are responsible for the directorship and control over the Company's development activities. The Company does not hold "key man" insurance on either member of management. Both Mr. Zaikin and Ms. Pochapski serve as Directors for RAM Resources, Ltd., and as such, the amount of time they are able to spend on Company matters may be limited. Moving forward, should they be lost for any reason, the Company will incur costs associated with recruiting replacement personnel and any potential delays in operations. If we are unable to replace Mr. Zaikin and/or Ms. Pochapski, or if Mr. Zaikin or Ms. Pochapski are unable to spend a sufficient amount of time on Company matters, the Company may be forced to scale back or curtail its business plan. As a result of this, any securities you hold in our Company could become devalued.

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

Projections on future revenues as well as costs and required capital expenditures are based on estimates. Business statistical analysis is used in projection of drilling success ratios, average production costs, world oil price fluctuations and their correspondence to Russian domestic market. If ZNG's or KNG's projections or estimates are wrong or our statistical analysis faulty, ZNG's or KNG's revenues may be adversely affected which could prevent ZNG and/or KNG from executing their business strategy. As an investor, if this happens your securities in our Company could be adversely affected and you could lose your investment in our Company due to the fact that our only current oil and gas operations are through our 50% ownership of ZNG, Ltd., which in turn owns 100% of ZNG and through KNG, which has been awarded two exploration oil & gas licenses to date.

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

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

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

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

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

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

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

Moving forward, we anticipate incurring significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and new rules subsequently implemented by the SEC have imposed various new requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, for this Annual Report on Form 10-KSB/A, we were required to perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. For fiscal year 2008, Section 404 will require us to obtain a report from our independent registered public accounting firm attesting to the assessment made by management. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

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

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

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

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

based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.

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

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

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

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

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

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

ITEM 7. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM

The Board of Directors and Stockholders
Siberian Energy Group Inc.

We have audited the accompanying consolidated balance sheets of Siberian Energy Group Inc. (a development stage company) as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Siberian Energy Group Inc. as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended and the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, the 2006 financial statements have been restated to remove the effect of discounting the value of issued restricted common stock.

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

Lumsden & McCormick, LLP
Buffalo, New York

April 14, 2008, except for the expanded Note 13 as to which the date is July 16, 2008

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Consolidated Balance Sheets

December 31,	2007	Restated 2006
Assets		
Current assets:		
Cash	\$ 1,248	\$ 1,435
Management fee receivable	-	110,000
Prepaid expenses and other	4,285	5,272
	5,533	116,707
Investment in joint venture	-	-
Oil and gas properties, unproved	5,248,000	3,928,000
Property and equipment, net	3,943	2,565
	\$ 5,257,476	\$ 4,047,272
Liabilities and Stockholders' Equity		
Current liabilities:		
Demand loan from stockholder, interest at 9%	\$ 10,000	\$ -
Accounts payable:		
Related party - stockholders	370,500	362,166
Related party - Baltic Petroleum, interest at 14%	56,693	50,615
Others	213,854	535,961
Accrued payroll	541,368	1,300,088
	1,192,415	2,248,830
Stockholders' equity:		
Common stock - authorized 100,000,000 shares, \$.001 par value, 18,383,030 and 14,112,961 issued and outstanding	18,383	14,113
Additional paid-in capital	13,053,756	8,721,116
Accumulated deficit		
Pre-development stage	(449,785)	(449,785)
Development stage	(8,543,044)	(6,482,557)
Accumulated other comprehensive income (loss)	(14,249)	(4,445)
	4,065,061	1,798,442
	\$ 5,257,476	\$ 4,047,272

See accompanying notes.

SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Consolidated Statements of Operations

		Restated	For the cumulative period of Development Stage Activity- January 1, 2003 through December 31, 2007
For the years ended December 31,	2007	2006	2007
Revenues and other income:			
Management fees	\$ 700,000	\$ 360,000	\$ 1,135,000
Gain from entrance into joint venture	-	-	364,479
Other	-	-	6,382
	700,000	360,000	1,505,861
Expenses:			
Salaries	833,457	1,091,820	3,090,895
Professional and consulting fees	1,229,593	2,431,841	4,546,826
Rent and occupancy	46,882	39,698	223,125
Depreciation and amortization	635	337	103,352
Finance charges and interest	6,948	49,369	103,924
Other	642,972	819,723	1,980,783
Total expenses	2,760,487	4,432,788	10,048,905
Loss before income taxes	2,060,487	4,072,788	8,543,044
Provision for income taxes (benefit)	-	-	-
Net loss (development stage)	\$ 2,060,487	\$ 4,072,788	8,543,044
Basic and diluted loss per common share	\$ (0.13)	\$ (0.35)	\$ (0.84)
Weighted average number of basic and diluted common shares outstanding	15,766,523	11,749,699	10,132,056

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Consolidated Statements of Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1, 2003 through December 31, 2007

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Loss
	Number of Shares	Par Value					
Balance, January 1, 2003 (pre-development stage)	4,902,886	\$ 4,903	\$ 430,195	\$ (449,785)	\$ -	(14,687)	
Loss for the year - 2003	-	-	-	(422,516)	-	(422,516)	(422,516)
Shares issued in acquisition (ZNG)	1,000,000	1,000	(1,000)	-	-	-	
Balance, December 31, 2003	5,902,886	\$ 5,903	\$ 429,195	\$ (872,301)	\$ -	(437,203)	
Loss for the year - 2004	-	-	-	(833,567)	-	(833,567)	
Foreign currency translation adjustment	-	-	-	-	(53,120)	(53,120)	(886,687)
Shares issued in acquisition (ZNG)	3,450,000	3,450	746,550	-	-	750,000	
Shares issued for professional services	50,000	50	9,950	-	-	10,000	
Other	-	-	34,426	-	-	34,426	
Balance, December 31, 2004	9,402,886	\$ 9,403	\$ 1,220,121	\$ (1,705,868)	\$ (53,120)	(529,464)	
Loss for the year - 2005	-	-	-	(1,153,686)	-	(1,153,686)	
	-	-	-	-	50,614	50,614	(1,103,072)

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Foreign currency translation adjustment						
Shares issued for professional services	385,000	385	197,829	-	-	198,214
Shares issued for accrued salaries	1,700,000	1,700	301,871	-	-	303,571
Warrants granted for professional services	-	-	310,000	-	-	310,000
Balance, December 31, 2005 (Restated)	11,487,886	\$ 11,488	\$ 2,029,821	\$ (2,859,554)	\$ (2,506)	\$ (820,751)
Loss for the year - 2006	-	-	-	(4,072,788)	-	(4,072,788)
Foreign currency translation adjustment	-	-	-	-	(1,939)	(1,939)\$ (4,074,727)
Shares issued for employee stock option plan and warrants	195,000	195	45,305	-	-	45,500
Shares issued for geological data	1,900,000	1,900	3,323,100	-	-	3,325,000
Shares issued for professional services	1,139,499	1,140	2,120,320	-	-	2,121,460
Warrants granted for professional services and geological data	-	-	1,201,960	-	-	1,201,960
Shares cancelled	(609,424)	(610)	610	-	-	-
Balance, December 31, 2006 (Restated)	14,112,961	\$ 14,113	\$ 8,721,116	\$ (6,932,342)	\$ (4,445)	\$ 1,798,442
Loss for the year - 2007	-	-	-	(2,060,487)	-	(2,060,487)
	-	-	-	-	(9,804)	(9,804)\$ (2,070,291)

Foreign currency
translation
adjustment

Shares issued for
employee stock
option plan and
warrants

566,935	567	(567)	-	-	-
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Shares issued for
geological data

200,000	200	349,800	-	-	350,000
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Shares issued for
accrued salaries

788,000	788	1,444,618	-	-	1,445,406
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Shares issued for
licenses

2,000,000	2,000	1,318,000	-	-	1,320,000
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Shares issued for
professional
services

715,134	715	1,070,395	-	-	1,071,110
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Warrants granted
for professional
services

-	-	150,394	-	-	150,394
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Balance, December
31, 2007

18,383,030	\$ 18,383	\$ 13,053,756	\$ (8,992,829)	\$ (14,249)	\$ 4,065,061
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See accompanying
notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Consolidated Statements of Cash Flows		For the cumulative period of Development Stage Activity- January 1, 2003 through December 31, 2007	
For the years ended December 31,	2007	Restated 2006	December 31, 2007
Cash flows from operating activities:			
Net loss (development stage)	\$ (2,060,487)	\$ (4,072,788)	\$ (8,543,044)
Depreciation and amortization	635	337	103,352
Common stock and warrants issued for professional services and salaries	3,016,910	3,295,733	7,134,428
Gain from entrance into joint venture	-	-	(364,479)
Changes in other current assets and current liabilities:			
Management fee receivable	110,000	-	110,000
Prepaid expenses and other assets	987	(65,002)	(267,677)
Accounts payable and accrued expenses	(1,066,415)	789,406	2,821,440
Net cash flows from (for) operating activities	1,630	(52,314)	994,020
Cash flows from investing activities:			
Expenditures for licenses and related	-	-	(528,961)
Expenditures for oil and gas properties	-	-	(770,750)
Expenditures for property and equipment	(2,013)	(1,363)	(6,244)
Cash received in acquisition	-	-	6
Cash received from entrance into joint venture	-	-	175,000
Net cash flows for investing activities	(2,013)	(1,363)	(1,130,949)
Cash flows from financing activities:			
Net proceeds from demand loan	10,000	-	72,500
Common stock issued for employee stock option plan	-	45,500	45,500
Additional paid-in capital	-	-	34,426
Net cash flows from financing activities	10,000	45,500	152,426
Effect of exchange rates on cash	(9,804)	(1,939)	(14,249)
Net increase (decrease) in cash	(187)	(10,116)	1,248
Cash - beginning	1,435	11,551	-
Cash - ending	\$ 1,248	\$ 1,435	\$ 1,248

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

The Company and Description of Business:

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

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

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

As of December 31, 2007, the total amount of funds provided through such loans to ZL and ZNG were equal to \$23.5 million plus accrued interest of approximately \$3 million. The funds were used to perform extensive seismic and gas seismotomographic works on ZNG's licensed areas, drill 2 exploratory wells and prepare complete analysis of geological resources in the Kurgan region, using reputable UK and Russian geological expert firms.

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

- During the arrangement, the Company generally receives a monthly management fee of \$25,000 from ZNG (\$55,000 effective November 2006). Management fees for the period June 2007 through October 2007 were \$85,000 per month;
- Profits from the Joint Venture are allocated 50% to the Company only after all financing of ZNG are settled with Baltic and Baltic's financing subsidiaries;
- Although the Company and Baltic each own 50% of the Joint Venture's shares and each appoint 50% of the Directors to the Joint Venture, Baltic always has an additional casting vote on Board of Director related issues;
- The Company has essentially no liability to guarantee the debts of the Joint Venture;
- The Company recognized a settlement gain of \$364,479 as a result of the initial joint venture transaction. This resulted primarily to adjust the Company's negative investment to zero as of the agreement date. All activity of ZNG before the agreement date is otherwise included in these financial statements.

Activities of ZNG prior to October 14, 2005 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective October 14, 2005, the Company's investment in Joint Venture is recorded on the equity method of accounting. Since cumulative losses of Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through December 31, 2007.

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

Restricted common shares issued to Seller	1,900,000
Restricted common shares issued to an adviser (value included in accounts payable at December 31, 2006; shares issued in early 2007)	200,000
Total restricted common shares issued	2,100,000

Stock warrants issued to Seller September 14, 2006 for purchase option (see Note 8)	250,000
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As a result of the purchase, a calculated acquisition value of \$3,928,000 was assigned to the geological data assets that considered the approximate market value of the stock issued (\$1.75) on the transaction date. The total value of purchased assets consisted of \$3,675,000 assigned to the shares issued and \$253,000 assigned to stock warrants issued. The valuation method of the stock warrants is described in Note 8 herein. Additionally, to facilitate the transaction, management and the Seller considered the results of a good faith valuation of assets prepared by a Russian consultant, who attempted to determine an “arms length fair value” price of such assets. However, management did not rely on this valuation, and assumes full responsibility for the value assigned in the acquisition.

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

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

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

The Company was incorporated in the State of Nevada on August 13, 1997, and previously provided comprehensive outpatient rehabilitation services to patients suffering from work, sports and accident related injuries. All activities related to the Company's previous business ventures were essentially discontinued prior to January 1,

2000. Predecessor names of the Company since its inception include Trans Energy Group Inc., 17388 Corporation Inc., Talking Cards Inc., Oyster King Incorporated and Advanced Rehab Technology Corporation.

Use of Estimates:

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

Principles of Consolidation:

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

Foreign Currency Translation:

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

Cash:

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

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Oil and Gas Properties:

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

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

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

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

At December 31, 2007, the only oil and gas properties the Company has are the capitalized geological data assets acquired on December 31, 2006, totaling \$3,928,000, and the newly acquired exploration licenses of Konda, valued at \$1,320,000, which assets are more fully described herein under the caption "The Company and Description of Business." Because proved reserves associated with these assets have not yet been determined, they are considered unproved properties not yet subject to amortization. As a result of the Joint Venture, also described earlier, all oil and gas properties associated with ZNG are otherwise the responsibility of the Joint Venture effective October 14, 2005.

Management has evaluated the geological data assets, and based on ongoing operations, issuance of additional licenses and movements ahead, management has determined that no impairment is deemed necessary as of December 31, 2007.

Licenses:

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

Property and Equipment:

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

Long-Lived Assets:

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

Income Taxes:

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

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2. Investment in Joint Venture:

Following is a summary of the Joint Venture's unaudited financial position at December 31, 2007 and 2006 and results of development stage activity for the years ended December 31, 2007 and 2006 (\$000's omitted):

	2007	2006
Current assts	\$ 57	\$ 113
Intangibles and other noncurrent assets	4,986	5,421
	\$ 5,043	\$ 5,534
Current liabilities	\$ 950	\$ 729
Long-term debt and other noncurrent liabilities	26,480	12,468
	\$ 27,430	\$ 13,197
Stockholders' equity (deficit)	(22,387)	(7,663)
	\$ 5,043	\$ 5,534
Revenues	\$ -	\$ -
Net loss (development stage)	\$ (12,919)	\$ (7,241)
Cumulative net loss since October 14, 2005 (date of Joint Venture inception)	\$ (21,405)	

The Company's investment asset will begin to exceed zero once the Joint Venture has cumulative earnings sufficient to repay all loans to Baltic and Baltic's financing subsidiaries, as agreed.

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

3. Income Taxes:

At December 31, 2007, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately \$7,261,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2027. No tax benefit has been reported in the financial statements, however, because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the \$1,452,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

4. Leases:

Office rent expense for the years ended December 31, 2007 and 2006 was \$46,882 and \$39,698. There currently are no long-term lease arrangements that the Company is committed to, however, it may negotiate with selected landlord prospects for space commitments.

5. Related Party Transactions:

During the development stage period from January 1, 2003 through December 31, 2007, a variety of expenses were paid for by organizing stockholders. As a result, amounts totaling \$370,500 and \$362,166 are payable to stockholders from the Company as of December 31, 2007 and 2006.

6. Employment Contracts:

The Company has entered into employment contracts with certain senior management employees through 2008 that provide for minimum annual salary, adjusted for capital levels raised by the Company. If terminated without cause, an employee is paid, as severance, the greater of twelve months salary or one-half the remaining amount owed under the contract. At December 31, 2007, the minimum total future additional commitment due is approximately \$255,000.

At December 31, 2007, accrued and unpaid salaries for all employees totaled \$541,368. These amounts are expected to be paid when sufficient cash flows are generated by the Company or by the issuance of restricted stock of the Company.

7. Stock Option Plan:

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

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

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

The following summarizes stock option activity:

	Number of Shares	Exercise Price
Outstanding and exercisable at January 1, 2003	-	\$ -
Vested - 2003	300,000	0.14
Outstanding and exercisable at December 31, 2003	300,000	
Vested - 2004	518,000	0.20
Vested - 2004	75,000	0.32
Expired - 2004	(100,000)	0.14
Expired - 2004	(50,000)	0.20
Outstanding and exercisable at December 31, 2004	743,000	
Vested - 2005	468,000	0.60
Outstanding and exercisable at December 31, 2005	1,211,000	