

Siberian Energy Group Inc.
Form 10-K
April 15, 2010

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

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

For the transition period from _____ to _____

Commission file number: 000-53766

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

NEVADA 52-2207080
(State or other (IRS
jurisdiction of Employer
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:

Common Stock, \$0.001 par value
(Title of Class)

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

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

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

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

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Indicated by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is 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-K or any amendment to this Form 10-K. [X]

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

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

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

The issuer's revenues for the most recent fiscal year ended December 31, 2009 were \$0.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing value of the Registrant's common stock on June 30, 2009, was approximately \$657,776.

As of April 13, 2010, the issuer had 18,705,585 shares of common stock, \$.001 par value per share outstanding, which number does not include 90,000 shares which the registrant has agreed to issue to its President, Helen Teplitskaia for services rendered during the months of July 2009 through March 2010, which shares have not been issued to date and have not been included in the total number of outstanding shares disclosed throughout this report.

Documents Incorporated by Reference: NONE

Transitional Small Business Disclosure Format: Yes No

SIBERIAN ENERGY GROUP INC.
FORM 10-K
YEAR ENDED DECEMBER 31, 2009
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PART I

ITEM 1. BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K (THIS "FORM 10-K"), INCLUDING STATEMENTS UNDER "ITEM 1. BUSINESS," AND "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS", CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF SIBERIAN ENERGY GROUP INC. AND KONDANEFTEGAZ, LLC, A RUSSIAN LIMITED LIABILITY, THE REGISTRANT'S 44% OWNED SUBSIDIARY, AND ZAURALNEFTEGAZ LIMITED, A COMPANY ORGANIZED UNDER THE LAWS OF THE COUNTRY OF ENGLAND, WHICH THE REGISTRANT OWNS 50% OF (COLLECTIVELY "SIBERIAN", THE "COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-K, UNLESS ANOTHER DATE IS STATED, ARE TO DECEMBER 31, 2009.

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

BUSINESS DEVELOPMENT:

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

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

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

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

the acquisition in May 2003.

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

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

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

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

BUSINESS OPERATIONS:

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

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

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

Description of KNG

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

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

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

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

As of December 31, 2009 KNG has re-interpreted the existing seismic data from prior studies and updated its program of seismic works. 2D seismic studies are currently planned to start in the fourth quarter of 2010.

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

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

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

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

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

As of the date of this filing, Neftebitum has raised approximately \$155,000 through the sale of debt to pay for the first stage of the seismic project and the government fees for the subsoil use.

As of December 31, 2009, the Company owned a 44% interest in KNG. Effective September 30, 2008, the Company's 44% investment in KNG is recorded on the equity method of accounting. The operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements.

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

Description of ZNG

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

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

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

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

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

Joint Venture

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

ZNG Loans

To date, Caspian has provided ZNG various loans, as described below:

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

Funding to ZNG, Ltd. is provided by Caspian on the same terms as to ZNG, through the mechanism of intercompany billing within Baltic and certain companies affiliated with Baltic. As of December 31, 2009, 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, 2009.

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.

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.

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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 ZNG, Ltd. (as described above) and ZNG. Research activities include gravimetric, seismic works and seismotomography studies on the previously licensed areas. Costs incurred by ZNG and ZNG Ltd. in connection with these studies as of December 31, 2009 totaled approximately \$18 million.

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

Employees

Siberian Energy Group Inc. currently employs three (3) employees in management. KNG, which we own a 44% interest in, has two (2) part-time employees. Zauralneftegaz ("ZNG"), which is 50% owned by the Company through its joint venture ZNG, Ltd., currently employs two (2) part-time employees.

Critical Accounting Policies and Estimates

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

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

Going Concern

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

Competition

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

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

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

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

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

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

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

Dependence on One or A Few Major Customers

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

Patents, Trademarks and Licenses

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

Need For Government Approval

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

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

Costs and Effects of Compliance with Environmental Laws

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

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

ITEM 1A. RISK FACTORS

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

RISK OF CONTINUING OUR BUSINESS PLAN WITHOUT ADDITIONAL FINANCING.

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

estimated at approximately \$300,000, through funding provided by existing stockholders. As of December 31, 2009, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$5 million, which has been spent on various purposes, including seismic and gas seismotomography surveys, drilling of two exploratory wells, and paying consultants for services performed in connection with surveys performed on the previously licensed area. Our partner in ZNG, Baltic has informed us that they do not plan to move forward with any further exploration activities through ZNG. The Company's partner in KNG, Neftebitum, is responsible for financing the research work of KNG. Neftebitum is currently attempting to raise external funds; however, no significant amounts have been raised to date. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

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

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

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

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$666,116 for the year ended December 31, 2009, a net loss of \$5,863,560 for the year ended December 31, 2008, and had a total accumulated deficit of \$15,522,505 as of December 31, 2009. These factors among others indicate that the Company may be unable to continue as a going concern, particularly in the event that it cannot generate sufficient cash flow to conduct its operations and/or obtain additional sources of capital and financing.

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

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

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

As a development stage company, we have had limited revenues and no profits to date and our net cumulative deficit attributable to our development stage as of December 31, 2009, was \$15,072,720, and our total cumulative deficit was \$15,522,505 which included \$449,785 of pre-development stage deficit. We had \$1,152,054 in accrued and unpaid salaries and a working capital deficit of \$2,350,319 as of December 31, 2009. The Company is currently being funded by existing shareholders, but there can be no assurance this amount will be sufficient to continue our planned operations or that we will have enough money to repay our outstanding debts. If throughout KNG's future oil exploration, if any, no viable wells are found, and consequently, we generate only minimal revenues through KNG, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in our Company. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.

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

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

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

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

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

There is a risk that KNG will not find any hydrocarbon reserves and the cost of exploration will become too high for us to continue KNG's business plan. As our only current operations are through our 44% ownership of KNG, if KNG were to cease operations, your investment in our Company could become devalued or could become worthless.

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

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

OUR GROWTH WILL PLACE SIGNIFICANT STRAINS ON OUR RESOURCES.

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

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

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

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.

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 officers and Directors. In addition, investors may have difficulty enforcing judgments based upon the civil liability provisions of the securities laws of the United States or any state thereof, both in and outside of the United States.

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

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

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

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

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

We anticipate incurring significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and new rules subsequently implemented by the SEC have imposed various new requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, for fiscal year 2010, Section 404 will require us to obtain a report from our independent registered public accounting firm attesting to the assessment made by management. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

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

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

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

Furthermore, because our common stock is traded on the Over-The-Counter Bulletin Board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock.

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

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

STATE SECURITIES LAWS MAY LIMIT SECONDARY TRADING, WHICH MAY RESTRICT THE STATES IN WHICH AND CONDITIONS UNDER WHICH YOU CAN SELL SHARES.

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

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

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

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

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

ITEM 2. PROPERTIES

The Company's United States office is located at 275 Madison Avenue, 6th Floor, New York, New York 10016, USA. The lease is at a monthly rate of \$250 and is on a month to month basis. This space is leased from Office Escape, an operator of business centers in New York and other United States cities. The Company is not the sole occupant of the space and consequently the cost of the rental is shared with other occupants. The Company does not use the office for any purposes falling outside of its business needs. The Company is currently taking steps to move its New York office space, and as such, the Chief Executive Officer has been personally paying the Company's office space rent and not billing the Company since approximately December 31, 2008, which resulted in the Company having no rent or occupancy expense for the year ended December 31, 2009.

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

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. (REMOVED AND RESERVED)

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PART II

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

On March 22, 2005, the Company's common stock began trading on the OTC Bulletin Board under the symbol "SIBE." Effective May 2, 2005, in connection with the Company's 1:2 reverse stock split, the Company's common stock began trading under the symbol "SIBN." We had 3,025,640 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, 2009. We have no outstanding shares of preferred stock. As of April 13, 2010, there were 18,705,585 shares of common stock outstanding, held by approximately 125 shareholders of record, which number does not include 90,000 shares which the Company has agreed to issue to its President, Helen Teplitskaia for services rendered during the months of July 2009 through March 2010, which shares have not been issued to date and have not been included in the total number of outstanding shares disclosed throughout this report.

The following table sets forth the high and low closing prices for the Company's common stock, rounded to the nearest one cent, 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, 2009 | \$ 0.12 | \$ 0.05 |
| September 30, 2009 | \$ 0.25 | \$ 0.05 |
| June 30, 2009 | \$ 0.13 | \$ 0.05 |
| March 31, 2009 | \$ 0.07 | \$ 0.03 |
| December 31, 2008 | \$ 0.19 | \$ 0.04 |
| September 30, 2008 | \$ 0.39 | \$ 0.10 |
| June 30, 2008 | \$ 0.50 | \$ 0.25 |
| March 31, 2008 | \$ 0.61 | \$ 0.25 |

Dividends

We have never declared or paid any cash dividends on our common stock, and we do not anticipate paying any dividends in the foreseeable future. We intend to devote any earnings to fund the operations and the development of our business.

Common Stock

Holder of shares of common stock are entitled to one vote per share on each matter submitted to a vote of shareholders. In the event of liquidation, holders of common stock are entitled to share pro rata in the distribution of assets remaining after payment of liabilities, if any. Holders of common stock have no cumulative voting rights, and, accordingly, the holders of a majority of the outstanding shares have the ability to elect all of the directors. Holders of

common stock have no preemptive or other rights to subscribe for shares. Holders of common stock are entitled to such dividends as may be declared by the Board out of funds legally available therefore. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

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EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2009 regarding compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities available for future issuance under equity compensation plans (excluding those in first column) |
|--|---|---|--|
| Equity compensation plans approved by the security holders | - | - | - |
| Equity compensation plans not approved by the security holders | 2,492,000 | \$0.44 | - |
| Total | | | |

RECENT SALES OF UNREGISTERED SECURITIES

The Company has previously agreed to pay its President, Helen Teplitskaia, 10,000 shares of common stock per month for her service to the Company. As such, in June 2009, the Company issued Ms. Teplitskaia an aggregate of 60,000 shares, 10,000 shares per month from January 2009 to June 2009. The Company also owes Ms. Teplitskaia an additional 90,000 shares for services rendered during the months of July, August, September, October, November and December 2009 and the months of January, February and March 2010, which shares the Company has agreed to issue to its President, Helen Teplitskaia for services rendered during the months of July 2009 through March 2010, which shares have not been issued to date and have not been included in the total number of outstanding shares disclosed throughout this report.

The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, since the foregoing issuance did not involve a public offering, the recipient took the securities for investment and not resale and the Company took appropriate measures to restrict transfer.

ITEM 6. SELECTED FINANCIAL DATA

Not required.

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

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

PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

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

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

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

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

In connection with the Joint Venture, the Company previously received monthly management fees, which varied from \$25,000 to \$85,000 per month. Due to the "transition period" of the Joint Venture's exploration activities and subsequent decision of Baltic not to pursue further exploration activities through ZNG, no management fees have been paid since October 2007, and the Joint Venture will not pay any management fees in the future. As the Company will not receive any management fees moving forward, the Company believes that its organizing stockholders will continue to provide financing for the Company, of which there can be no assurance.

In the past, we have obtained cash financing from organizing stockholders in the form of loans and advances, as a result, amounts totaling \$523,906 and \$447,663 were payable to the stockholders as of December 31, 2009 and December 31, 2008, respectively. However, there can be no certainty as to the availability of continued financing in the future. Failure to obtain sufficient financing may require us to reduce our operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

COMPARISON OF OPERATING RESULTS

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009, COMPARED TO THE YEAR ENDED DECEMBER 31, 2008

We had no revenues and other income for the year ended December 31, 2009 or 2008. Until October 2007, the Company received monthly management fees of between \$25,000 and \$85,000 pursuant to terms of the Joint Venture. However, the Company has not received any management fees since October 2007, and does not anticipate receiving any such fees moving forward.

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

We had total expenses of \$636,616 for the year ended December 31, 2009, compared to total expenses for the year ended December 31, 2008, of \$740,043, which represented a decrease in total expenses from the prior period of \$103,427 or 14.0%.

The main reasons for the decrease in total expenses for the year ended December 31, 2009, compared to the year ended December 31, 2008, were an \$84,851 or 26.9% decrease in professional and consulting fees to \$231,132 for the year ended December 31, 2009, compared to \$315,983 for the year ended December 31, 2008, which decrease is largely attributable to the fact that the Company used less third party consultants and advisors during the year ended December 31, 2009, compared to the same period of 2008; a \$24,656 or 45.5% decrease in marketing and other expenses, to \$29,569 for the year ended December 31, 2009, compared to \$54,225 for the year ended December 31, 2008; and a \$14,101 decrease in rent and occupancy expenses to no rent and occupancy expenses for the year ended December 31, 2009, compared to \$14,101 for the year ended December 31, 2008, partially offset by a \$21,543 or 6.2% increase in salaries to \$368,253 for the year ended December 31, 2009, compared to \$346,710 for the year ended December 31, 2008. The Company is currently taking steps to move its New York office space, and as such, the Chief Executive Officer has been personally paying the Company's office space rent and not billing the Company since approximately December 31, 2008, which resulted in the Company having no rent or occupancy expense for the year ended December 31, 2009.

We had certain one-time additional expenses during the year ended December 31, 2008, which were not represented during the year ended December 31, 2009, including \$669,570 of loss from sale of investment (described below), \$3,928,000 of loss on deemed disposition of oil and gas properties, unproved (described below), and \$525,947 of impairment charge on investment. Since 56% of KNG was sold for a nominal amount, a non-cash impairment charge of \$525,947 was recorded to reduce the carrying value of the 44% investment in KNG to zero. The \$669,570 of loss from sale of investment for the year ended December 31, 2008 can be attributed to our sale of a controlling interest in KNG as described in greater detail above. The \$3,928,000 loss on deemed disposition of oil and gas properties, unproved, for the year ended December 31, 2008 can be attributed to the fact that the Company no longer has any plans to utilize the geological data associated with KNG, valued at \$3,928,000, other than through KNG's activities, and no consideration was received for the use of such geological data in connection with the sale of the controlling interest in KNG, although the Company has committed to providing such information to Neftebitum.

We had a net loss of \$666,116 for the year ended December 31, 2009, which included \$636,616 of operating expenses discussed above and a \$29,500 loss from disposition of a loan to KNG, since the Company is not expecting repayment of this loan. Net loss of \$666,116 represented a decrease in net loss of \$5,197,444 or 88.6% from net loss of \$5,863,560 for the year ended December 31, 2008, which decrease in net loss was mainly due to the certain one-time expenses associated with the Company's accounting for the sale of KNG during the year ended December 31, 2008, as described above, which were not repeated during the year ended December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

We had current assets of \$1,320 as of December 31, 2009, which included cash of \$751; and prepaid expenses and other current assets of \$569.

We had total assets of \$2,587 as of December 31, 2009, which included current assets of \$1,320 and non-current assets of \$1,267 representing property and equipment, net.

We had total liabilities of \$2,351,639 as of December 31, 2009, which were solely current liabilities and which included \$523,906 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, 2009; \$68,848 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; \$606,831 of accounts payable to others for advisory and professional services rendered; and \$1,152,054 of accrued payroll, which included \$652,500 payable to our Chief Executive Officer, David Zaikin, of which \$540,000 was accrued in 2007-2009, and \$112,500 which was owed to Mr. Zaikin for services rendered prior to September 2005, at which time he agreed to stop accruing salary until January 2007, when he provided us notice of his intent to once again begin accruing salary until such time as we have sufficient funds to pay such accrued salary, \$239,529 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 \$2,350,319 and a total pre-development and development stage accumulated deficit of \$15,522,505 as of December 31, 2009.

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

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

We had \$19,831 of net cash flows from operating activities for the year ended December 31, 2009, which was attributable to adjustments to reconcile \$666,116 of net loss, offset by \$606,422 of accounts payable and accrued expenses, \$621 of depreciation and amortization, \$49,452 of common stock and warrants issued for services and increased by \$48 of prepaid expenses and other assets.

In connection with the Joint Venture (described under "Joint Venture," above), the Company historically received management fees, which varied from \$25,000 to \$85,000 per month. Due to the "transition period" of the Joint Venture's exploration activities, no management fees were paid during the years ended December 31, 2008 and 2009, and the Company does not anticipate receiving any such fees moving forward. If the Company does not receive any management fees moving forward, the Company anticipates that its stockholders and management will continue to provide financing for the Company, of which there can be no assurance.

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

We are taking steps to raise equity capital and/or to borrow additional funds. There can be no assurance that any new capital will be available to us or that adequate funds for our operations, whether from our financial markets, or other

arrangements will be available when needed or on terms satisfactory to us, if at all. We have no commitments from officers, directors or affiliates to provide funding. Our failure to obtain adequate financing may require us to delay, curtail or scale back some or all of our operations. Additionally, any additional financing may involve dilution to our then-existing shareholders.

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Critical Accounting Policies

Use of Estimates:

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

Principles of Consolidation:

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

Foreign Currency Translation:

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

Oil and Gas Properties:

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

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

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

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

Property and Equipment:

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

Long-Lived Assets:

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM

The Board of Directors and Stockholders
Siberian Energy Group Inc.

We have audited the accompanying consolidated balance sheets of Siberian Energy Group Inc. (a development stage company) as of December 31, 2009 and 2008 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, 2009. 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, 2009 and 2008 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, 2009, in conformity with accounting principles generally accepted in the United States of America.

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

Lumsden & McCormick, LLP
Buffalo, New York
April 9, 2010
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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Consolidated Balance Sheets

| | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 751 | \$ 739 |
| Prepaid expenses and other | 569 | 521 |
| | 1,320 | 1,260 |
| Investment in ZNG, at equity | - | - |
| Investment in KNG, at equity | - | - |
| Oil and gas properties, unproved | - | - |
| Loan receivable - affiliate | - | 29,500 |
| Property and equipment, net | 1,267 | 1,783 |
| | \$ 2,587 | \$ 32,543 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable: | | |
| Related party - stockholders | \$ 523,906 | \$ 447,663 |
| Related party - Baltic Petroleum, interest at 14% | 68,848 | 62,771 |
| Others | 606,831 | 410,039 |
| Accrued payroll | 1,152,054 | 824,744 |
| | 2,351,639 | 1,745,217 |
| Stockholders' equity: | | |
| Common stock - authorized 100,000,000 shares, \$.001 par value, | | |
| 18,705,550 and 18,645,550 issued and outstanding | 18,706 | 18,646 |
| Additional paid-in capital | 13,161,691 | 13,112,299 |
| Accumulated deficit | | |
| Pre-development stage | (449,785) | (449,785) |
| Development stage | (15,072,720) | (14,406,604) |
| Accumulated other comprehensive income (loss) | (6,944) | 12,770 |
| | (2,349,052) | (1,712,674) |
| | \$ 2,587 | \$ 32,543 |

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

| Consolidated Statements of Operations | For the cumulative period of Development January 1, 2003 through December 31, 2009 | | |
|--|--|--------------|---------------|
| For the years ended December 31, | 2009 | 2008 | |
| Revenues and other income: | | | |
| Management fees from joint venture | \$ - | \$ - | \$ 1,135,000 |
| Gain from entrance into joint venture | - | - | 364,479 |
| Other | - | - | 6,382 |
| Total revenues and other income | - | - | 1,505,861 |
| Expenses: | | | |
| Salaries | 368,253 | 346,710 | 3,805,858 |
| Professional and consulting fees | 231,132 | 315,983 | 5,093,941 |
| Rent and occupancy | - | 14,101 | 237,226 |
| Depreciation and amortization | 621 | 885 | 104,858 |
| Finance charges and interest | 7,041 | 8,139 | 119,104 |
| Marketing and other | 29,569 | 54,225 | 2,064,577 |
| Total expenses | 636,616 | 740,043 | 11,425,564 |
| Loss from disposition of loan receivable - affiliate | 29,500 | - | 29,500 |
| Loss from sale of investment | - | 669,570 | 669,570 |
| Loss on deemed disposition of oil and gas properties, unproved | - | 3,928,000 | 3,928,000 |
| Impairment charge on investment | - | 525,947 | 525,947 |
| Loss before income taxes | 666,116 | 5,863,560 | 15,072,720 |
| Provision for income taxes (benefit) | - | - | - |
| Net loss (development stage) | \$ 666,116 | \$ 5,863,560 | \$ 15,072,720 |
| Basic and diluted loss per common share | \$ (0.04) | \$ (0.32) | \$ (1.20) |
| Weighted average number of basic and diluted common shares outstanding | 18,677,605 | 18,437,156 | 12,545,146 |

See accompanying notes.

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, 2009

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

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| | | | | | | |
|---|------------|-----------|--------------|----------------|-------------|---------------|
| Loss for the year - 2005 | - | - | - | (1,153,686) | - | (1,153,686) |
| Foreign currency translation adjustment | - | - | - | - | 50,614 | 50,614 |
| Shares issued for professional services | 385,000 | 385 | 197,829 | - | - | 198,214 |
| Shares issued for accrued salaries | 1,700,000 | 1,700 | 301,871 | - | - | 303,571 |
| Warrants granted for professional services | - | - | 310,000 | - | - | 310,000 |
| Balance, December 31, 2005 | 11,487,886 | \$ 11,488 | \$ 2,029,821 | \$ (2,859,554) | \$ (2,506) | \$ (820,751) |
| Loss for the year - 2006 | - | - | - | (4,072,788) | - | (4,072,788) |
| Foreign currency translation adjustment | - | - | - | - | (1,939) | (1,939) |
| Shares issued for employee stock option plan and warrants | 195,000 | 195 | 45,305 | - | - | 45,500 |
| Shares issued for geological data | 1,900,000 | 1,900 | 3,323,100 | - | - | 3,325,000 |
| Shares issued for professional services | 1,139,499 | 1,140 | 2,120,320 | - | - | 2,121,460 |
| Warrants granted for professional services | - | - | 1,201,960 | - | - | 1,201,960 |
| Shares cancelled | (609,424) | (610) | 610 | - | - | - |
| Balance, December 31, 2006 | 14,112,961 | \$ 14,113 | \$ 8,721,116 | \$ (6,932,342) | \$ (4,445) | \$ 1,798,442 |

See accompanying notes.
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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, 2009

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

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| | | | | | | | |
|--|------------|-----------|---------------|-----------------|--------------|----------------|----------------|
| services | | | | | | | |
| Warrants granted for professional services | - | - | 150,394 | - | - | 150,394 | |
| Balance, December 31, 2007 | 18,383,030 | \$ 18,383 | \$ 13,053,756 | \$ (8,992,829) | \$ (14,249) | \$ 4,065,061 | |
| Loss for the year - 2008 | - | - | - | (5,863,560) | - | (5,863,560) | |
| Foreign currency translation adjustment | - | - | - | - | 27,019 | 27,019 | \$ (5,836,541) |
| Shares issued for professional services and accrued salaries | 155,000 | 155 | 41,595 | - | - | 41,750 | |
| Warrants granted for professional services | - | - | 6,303 | - | - | 6,303 | |
| Shares issued for loan repayment and related interest | 107,520 | 108 | 10,645 | - | - | 10,753 | |
| Balance, December 31, 2008 | 18,645,550 | \$ 18,646 | \$ 13,112,299 | \$ (14,856,389) | \$ 12,770 | \$ (1,712,674) | |
| Loss for the year - 2009 | - | - | - | (666,116) | - | (666,116) | |
| Foreign currency translation adjustment | - | - | - | - | (19,714) | (19,714) | \$ (685,830) |
| Shares issued for accrued | 60,000 | 60 | 3,540 | - | - | 3,600 | |

salaries

Options
vested to
employees
and directors

| | | | | | |
|---|---|--------|---|---|--------|
| - | - | 45,852 | - | - | 45,852 |
|---|---|--------|---|---|--------|

Balance,
December

| | | | | | | |
|----------|------------|-----------|---------------|-----------------|-------------|----------------|
| 31, 2009 | 18,705,550 | \$ 18,706 | \$ 13,161,691 | \$ (15,522,505) | \$ (6,944) | \$ (2,349,052) |
|----------|------------|-----------|---------------|-----------------|-------------|----------------|

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, 2009 | | |
|---|--|----------------|-----------------|
| For the years ended December 31, | 2009 | 2008 | |
| Cash flows from operating activities: | | | |
| Net loss (development stage) | \$ (666,116) | \$ (5,863,560) | \$ (15,072,720) |
| Depreciation and amortization | 621 | 885 | 104,858 |
| Common stock and warrants issued for professional services and salaries and geological data | 49,452 | 48,053 | 7,231,933 |
| Gain from entrance into joint venture | - | - | (364,479) |
| Loss on disposition of office furniture | - | 1,029 | 1,029 |
| Loss on sale of investment, including deconsolidation of subsidiary | 29,500 | 794,192 | 823,692 |
| Loss on deemed disposition of oil and gas properties, unproved | - | 3,928,000 | 3,928,000 |
| Impairment charge on investment | - | 525,947 | 525,947 |
| Changes in other current assets and current liabilities: | | | - |
| Management fee receivable | - | - | 110,000 |
| Prepaid expenses and other assets | (48) | 3,764 | (263,961) |
| Accounts payable and accrued expenses | 606,422 | 563,555 | 3,991,417 |
| Net cash flows from operating activities | 19,831 | 1,865 | 1,015,716 |
| Cash flows from investing activities: | | | |
| Expenditures for licenses and related | - | - | (528,961) |
| Expenditures for oil and gas properties | - | - | (770,750) |
| Expenditures for property and equipment | - | - | (6,244) |
| Proceeds of disposition of office furniture | - | 107 | 107 |
| Loan to affiliate | - | (29,500) | (29,500) |
| Cash received in acquisition | - | - | 6 |
| Cash received from entrance into joint venture | - | - | 175,000 |
| Net cash flows for investing activities | - | (29,393) | (1,160,342) |
| Cash flows from financing activities: | | | |
| Net proceeds from demand loans | - | - | 72,500 |
| Common stock issued for employee stock option plan | - | - | 45,500 |
| Additional paid-in capital | - | - | 34,426 |
| Net cash flows from financing activities | - | - | 152,426 |
| Effect of exchange rates on cash | (19,819) | 27,019 | (7,049) |

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| | | | |
|---------------------------------|--------|--------|--------|
| Net increase (decrease) in cash | 12 | (509) | 751 |
| Cash - beginning | 739 | 1,248 | - |
| Cash - ending | \$ 751 | \$ 739 | \$ 751 |

See accompanying notes.

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SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

The Company and Description of Business:

Kondaneftegaz

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

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

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

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

On September 30, 2008 the Company sold a 51% interest in KNG to a Russian oil and gas company, and a 5% interest to two Russian individuals for \$223. This Russian company has committed to lead the exploration works on the licensed areas by accepting the operator's role and agreeing to provide funding for KNG's activities. Simultaneously

with the sale of 56% of KNG, the Company made available all geological data to the operator to be used in the program of geological studies in the region. Since no consideration was received and the Company has no intent to further utilize this geological data, a loss on the deemed disposition of these unproven oil and gas properties of \$3,928,000 has been recorded. Operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective September 30, 2008, the Company's 44% investment in KNG is recorded on the equity method of accounting. At September 30, 2008, KNG's assets were \$13,572 and liabilities were \$135,740. Since 56% of the Company was sold for a nominal amount, a non-cash impairment charge of \$525,947 has been recorded to reduce the carrying value of the 44% investment in KNG to zero.

Zauralneftegaz

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

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

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

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

Use of Estimates:

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

Principles of Consolidation:

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

Foreign Currency Translation:

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

Cash:

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

Oil and Gas Properties:

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

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

Licenses:

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

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

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Property and Equipment:

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

Long-Lived Assets:

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

Income Taxes:

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

New Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") regarding Generally Accepted Accounting Principles ("GAAP"). The guidance establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP for SEC registrants. All guidance contained in the FASB ASC carries an equal level of authority. The FASB ASC supersedes all existing non-SEC accounting and reporting standards. The FASB now issues new standards in the form of Accounting Standards Updates ("ASUs"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the FASB ASC, provide background information about the guidance and provide the basis for conclusions on the changes in the FASB ASC. References made to FASB guidance have been updated for the FASB ASC throughout this document.

In April 2009, the FASB issued new guidance related to the disclosure of the fair value of financial instruments. The new guidance, which is now part of ASC 825, Financial Instruments, requires disclosures about fair value of financial instruments in interim financial statements, as well as in annual financial statements. The new guidance requires disclosure of fair value information about financial instruments for which it is practical to estimate such fair value and excludes certain insurance related financial assets and liabilities and all non-financial instruments. The adoption of the new guidance did not have a material effect on the Company's consolidated financial condition and results of operations.

In April 2009, the FASB issued new guidance for determining when a transaction is not orderly and for estimating fair value when there has been a significant decrease in the volume and level of activity for an asset or liability. Under the new guidance, which is now part of ASC 820, Fair Value Measurements and Disclosures, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any, weight on that transaction price as an indicator of fair value. The adoption of the new guidance did not have a material effect on the Company's consolidated financial condition and results of operations.

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In May 2009, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of ASC 855, Subsequent Events, defines subsequent events as either recognized (events that existed at the balance sheet date and therefore should be reflected in the financial statements) or non-recognized (events that did not exist at the balance sheet date and are not reflected in the financial statements); material non-recognized subsequent events should be disclosed. The new guidance was effective June 15, 2009. The adoption of the new guidance did not have a material effect on the Company's consolidated financial condition and results of operations.

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

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2. Investments:

Investment in affiliate:

Following is a summary of KNG's unaudited financial position at December 31, 2009 and 2008 and results of development stage activity for the years ended December 31, 2009 and 2008:

| | 2009 | 2008 |
|--|--------------|--------------|
| Current assets | \$ 17,933 | \$ 16,755 |
| Oil and gas property, unproved | 98,742 | 96,068 |
| Other non-current assets | 33,667 | - |
| | \$ 150,342 | \$ 112,823 |
| Current liabilities | \$ 96,567 | \$ 122,001 |
| Long-term debt and other noncurrent liabilities | 163,200 | 54,047 |
| | 259,767 | 176,048 |
| Stockholders' equity (deficit) | (109,425) | (63,225) |
| | \$ 150,342 | \$ 112,823 |
| Revenues | \$ - | \$ - |
| Net loss (development stage) | \$ (46,195) | \$ (18,805) |
| Cumulative net loss | \$ (115,541) | \$ (69,346) |

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

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

Investment in Joint Venture:

As of December 31, 2009, the Joint venture generated an unaudited cumulative loss of over \$22 million as a result of exploration activities in the Kurgan region during 2003-2009. Since cumulative losses of Joint Venture exceed the Company's investment, the investment is carried at zero value. The Company has no liability to guarantee the debts of the Joint Venture.

3. Income Taxes:

At December 31, 2009, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately \$13,790,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2029. No tax benefit has been reported in the financial statements, however, because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the \$2,758,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

4. Leases:

There currently are no long-term lease arrangements that the Company is committed to.

5. Related Party Transactions:

During the development stage period from January 1, 2003 through December 31, 2009, a variety of expenses were paid for by organizing stockholders. As a result, amounts totaling \$523,906 and \$447,663 are payable to stockholders from the Company as of December 31, 2009 and 2008.

6. Employment Contracts:

The Company had entered into employment contracts with certain senior management employees that provided for minimum annual salary, adjusted for capital levels raised by the Company. These agreements have expired as of December 31, 2009.

At December 31, 2009, accrued and unpaid salaries for all employees totaled \$1,152,054. 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.

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7. Stock Option Plan:

In 2003 and in 2009, 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:

| Vest Year | Shares Reserved | | Exercise Price |
|--------------|-------------------------|-------------------------|--|
| | December 31, 2009 | December 31, 2008 | |
| 2003 | 200,000 | 200,000 | \$ 0.14 |
| 2004 | 468,000 | 468,000 | \$ 0.20 |
| 2004 | 75,000 | 75,000 | \$ 0.32 |
| 2005 | 468,000 | 468,000 | \$ 0.60 |
| 2006 | 468,000 | 468,000 | \$ 0.60 |
| 2007 | 468,000 | 468,000 | 110% of the average closing stock price for the three months prior to grant date |
| 2008 | 468,000 | 468,000 | |
| 2009 | 1,340,000 | 1,340,000 | \$ 0.055 |

The options granted in 2003 expire four years from the date of vesting. The options granted in 2009 expire three 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 | | |

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| | | |
|---|------------|---------|
| December 31, 2004 | 743,000 | |
| Vested - 2005 | 468,000 | 0.60 |
| Outstanding and exercisable at December 31, 2005 | 1,211,000 | |
| Vested - 2006 | 468,000 | 0.60 |
| Exercised - 2006 | (152,500) | |
| Outstanding and exercisable at December 31, 2006 | 1,526,500 | |
| Cancelled - 2007 | (75,000) | |
| Vested - 2007 | 468,000 | various |
| Outstanding and exercisable at December 31, 2007 | 1,919,500 | |
| Expired - 2008 | (568,000) | |
| Vested - 2008 | 468,000 | various |
| Outstanding and exercisable at December 31, 2008 | 1,819,500 | |
| Expired - 2009 | (667,500) | |
| Granted - 2009 | 1,340,000 | 0.055 |
| Outstanding and exercisable at December 31, 2009 | 2,492,000 | |

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

December 31, 2009

| Price | Options | Contractual Life |
|-------|-----------|---------------------|
| 0.60 | 384,000 | 1 |
| 2.26 | 59,500 | 2 |
| 2.14 | 29,500 | 2 |
| 1.94 | 29,500 | 2 |
| 1.62 | 29,500 | 2 |
| 1.69 | 29,500 | 2 |
| 1.82 | 29,500 | 2 |
| 1.79 | 29,500 | 2 |
| 1.77 | 29,500 | 2 |
| 1.46 | 29,500 | 2 |
| 1.16 | 29,500 | 2 |
| 0.86 | 29,500 | 2 |
| 0.76 | 29,500 | 2 |
| 0.72 | 59,500 | 3 |
| 0.63 | 29,500 | 3 |
| 0.49 | 29,500 | 3 |
| 0.38 | 29,500 | 3 |
| 0.31 | 59,000 | 3 |
| 0.34 | 29,500 | 3 |
| 0.32 | 29,500 | 3 |
| 0.33 | 29,500 | 3 |
| 0.26 | 29,500 | 3 |
| 0.21 | 29,500 | 3 |
| 0.14 | 29,500 | 3 |
| 0.055 | 1,340,000 | 3 |
| | 2,492,000 | |

December 31, 2008

| Exercise Price | Number of Options | Weighted Average Remaining Years of Contractual Life |
|-------------------|----------------------|---|
| \$ 0.60 | 415,500 | 1 |
| 0.60 | 468,000 | 2 |
| 2.26 | 66,500 | 3 |
| 2.14 | 36,500 | 3 |
| 1.94 | 36,500 | 3 |
| 1.62 | 36,500 | 3 |
| 1.69 | 36,500 | 3 |
| 1.82 | 36,500 | 3 |
| 1.79 | 36,500 | 3 |
| 1.77 | 36,500 | 3 |
| 1.46 | 36,500 | 3 |

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| | | |
|------|-----------|---|
| 1.16 | 36,500 | 3 |
| 0.86 | 36,500 | 3 |
| 0.76 | 36,500 | 3 |
| 0.72 | 66,500 | 4 |
| 0.63 | 36,500 | 4 |
| 0.49 | 36,500 | 4 |
| 0.38 | 36,500 | 4 |
| 0.31 | 73,000 | 4 |
| 0.34 | 36,500 | 4 |
| 0.32 | 36,500 | 4 |
| 0.33 | 36,500 | 4 |
| 0.26 | 36,500 | 4 |
| 0.21 | 36,500 | 4 |
| 0.14 | 36,500 | 4 |
| | 1,819,500 | |

The Company recognizes compensation cost based on the fair value method prescribed by ASC 718 Compensation – Stock Compensation. No compensation expense has been recognized through December 31, 2008 because management had determined the initial fair value of its stock options granted were minimal in light of the startup nature of the organization. The Company recorded compensation expense of \$45,852 related to stock options granted in 2009. The following key assumptions were used in determining fair value:

| | 2009 |
|-------------------------|-------|
| Dividend yield | 0 % |
| Risk free interest rate | 1.5 % |
| Expected volatility | 100 % |

8. Stock Warrants:

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

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

| 2007 | | | |
|--------------------|------------------|----------------|------------------------|
| Grant Date | Number of Shares | Exercise Price | Original Exercise Term |
| January 1, 2007 | 17,500 | \$ 2.26 | 4 years |
| February 1, 2007 | 7,500 | 2.14 | 4 years |
| March 1, 2007 | 7,500 | 1.94 | 4 years |
| March 31, 2007 | 48,925 | 1.10 | 3 years |
| April 1, 2007 | 7,500 | 1.72 | 4 years |
| May 1, 2007 | 7,500 | 1.69 | 4 years |
| June 1, 2007 | 7,500 | 1.82 | 4 years |
| June 30, 2007 | 55,233 | 1.14 | 3 years |
| July 1, 2007 | 7,500 | 1.79 | 4 years |
| August 1, 2007 | 7,500 | 1.77 | 4 years |
| September 1, 2007 | 7,500 | 1.46 | 4 years |
| September 30, 2007 | 51,352 | 0.74 | 3 years |
| October 1, 2007 | 7,500 | 1.16 | 4 years |
| November 1, 2007 | 7,500 | 0.87 | 4 years |
| December 1, 2007 | 7,500 | 0.76 | 4 years |
| December 31, 2007 | 78,130 | 0.46 | 3 years |
| | 333,640 | | |

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2006

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

2005

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

* Warrants exercised through June 2007.

** Warrants expired as of December 31, 2009.

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

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

Amounts charged to expense in 2008 totaled \$6,303.

9. Fair Value of Financial Instruments:

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

10. Loss Per Common Share:

Basic and diluted loss per common share is computed using the weighted average number of common shares outstanding during the period. Shares issuable for common stock options and warrants may have had a dilutive effect on earnings per share had the Company generated income during the periods through December 31, 2009.

11. Going Concern:

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

Management is of the opinion that its current and proposed oil and gas ventures will successfully generate allocable profits to the Company in the near term.

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

12. Cash Flows Information:

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

| | 2009 | 2008 |
|-------------------|------|------|
| Interest paid | \$ - | \$ - |
| Income taxes paid | \$ - | \$ - |

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

| | 2009 | 2008 |
|---|------|-----------|
| Demand loan payable and related accrued interest settled through the issuance of common stock | - | \$ 10,753 |
| Salaries and professional services settled through the issuance of common stock and warrants | \$ - | \$ 48,053 |

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Control and Procedures

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

Notwithstanding the assessment that our internal control over financial reporting was not effective and that there were material weaknesses as identified in this report, we believe that our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 fairly present our financial position, results of operations and cash flows for the years covered thereby in all material respects. To address the material weaknesses in our internal control over financial reporting described below, we performed additional analysis and other post-closing procedures in order to prepare the consolidated financial statements included in this Annual Report on Form 10-K.

Management's Annual Report on Internal Control over Financial Reporting

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

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

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

As of December 31, 2009, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments.

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

A material weakness is a deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. In connection with the assessment described above, management identified the following control deficiencies that represent material weaknesses at December 31, 2009:

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

Management believes that the material weaknesses set forth in items (1) and (2) above did not have an affect on the Company's financial reporting in 2009. However, management believes that the lack of a functioning audit committee and lack of a majority of outside directors on the Company's board of directors can adversely affect reporting in the future years, when our operations become more complex and less transparent and require higher level of financial expertise from the overseeing body of the Company.

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

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in internal control over financial reporting.

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS AND OFFICERS

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

| Name | Age | Position |
|-------------------|-----|--|
| David Zaikin | 42 | Chairman of the Board of Directors and Chief Executive Officer |
| Helen Teplitskaia | 55 | President and Director |
| Elena Pochapski | 44 | Chief Financial Officer and Director |
| Sergey Potapov | 46 | Director |
| Timothy Peara | 49 | Director |

David Zaikin

Chairman of the Board of Directors and Chief Executive Officer

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

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

Helen Teplitskaia

President and Director

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

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

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

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Elena Pochapski
Chief Financial Officer and Director

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

Sergey Potapov
Director

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

Timothy Peara
Director

Timothy Peara has served as a Director of the Company since April 12, 2005. Since August, 2007 he has been the Chief Operating Officer of Energy Invest Group, London though he remains the Managing Director of Alternative Energy Finance, a firm he founded in October, 2005 as the successor to Emerging Markets Finance International. From December 2001 to April 2003, he served as Finance Director of TNG Energy AG, in Frankfurt, Germany. From August 2000 to October 2001, he served as Vice President of UT Energy Holdings, in London, England and Hartford, Connecticut. From December 1998 to June 2000, he served as Vice President of PSG International, in London, England. From August 1997 to June 1998 he served as a Senior Trader with Koch Supply & Trading, in London, England. From June 1991 to July 1997, he served as a Director with Lehman Brother, in London, England. From January 1989 to May 1991, he served as Vice President of Prudential Securities, Inc. in London, England. Mr. Peara obtained a Bachelors degree from Wesleyan University in Latin American Studies in 1983 and a Masters degree in Business Administration from the University of Chicago in 1988. Mr. Peara holds a Series 3 and Series 7 brokers license.

Directors of the Company are elected annually and hold office until the annual meeting of the shareholders of the Company and until their successors are elected and qualified. Officers will hold their positions at the pleasure of the Board of Directors, absent any employment agreement. There are no family relationships among the Company's officers and directors. Officers and directors of the Company may receive compensation as determined by the

Company from time to time by vote of the Board of Directors. Vacancies in the Board are filled by majority vote of the remaining directors. Such compensation might be in the form of stock options. Directors may be reimbursed by the Company for expenses incurred in attending meetings of the Board of Directors.

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Independence of Directors

We are not required to have independent members of our Board of Directors, and do not anticipate having independent Directors until such time as we are required to do so.

Audit Committee and Financial Expert

The Company is not required to have an audit committee and as such, does not have one.

EMPLOYMENT AGREEMENTS

David Zaikin, Chief Executive Officer and Director

David Zaikin, the Company's Chief Executive Officer, signed an employment agreement effective as of August 1, 2004, which expired as of December 31, 2008 (but was extended to December 31, 2009, pursuant to the Zaikin Employment Extension Agreement described below). Under the agreement, Mr. Zaikin was obligated to perform at least 40 hours per week of work on behalf of the Company.

On or around April 30, 2009, the Company entered into a "One Year Term Extension To The Employment Agreement of August 1, 2004" with David Zaikin, the Company's Chief Executive Officer (the "Zaikin Employment Extension Agreement"). The Zaikin Employment Extension Agreement extended the term of the previous employment agreement entered into on August 1, 2004, for an additional year, such that the employment agreement expired on December 31, 2009. The salary for the year ending December 31, 2009 was \$180,000. Additionally, Mr. Zaikin was granted additional stock options in the Company as described below.

Mr. Zaikin was provided eight (8) weeks of vacation leave per year. Additionally, Mr. Zaikin also had the right under his employment agreement to purchase stock options in the Company. Under the 2003 plan, Mr. Zaikin had the right to purchase 100,000 shares of restricted stock, at an exercise price of \$0.14 per share, which options expired unexercised on December 31, 2007. Under the 2004 plan, Mr. Zaikin had the right to purchase 100,000 shares of the Company's common stock, at an exercise price of \$0.20 per share, which options expired unexercised on December 31, 2008. Under the 2005 plan, Mr. Zaikin has the right to purchase 100,000 shares of the Company's common stock, at an exercise price of \$0.60 per share, which expired unexercised on December 31, 2009. Mr. Zaikin's stock option plan continued until December 31, 2008, giving him the right to purchase 10,000 shares of common stock as of January 1, of each year, and 7,500 shares on the first date of each month thereafter, up to a maximum of 100,000 shares per year, with the exercise prices as follows: for the year beginning January 1, 2007 and any subsequent year, the exercise price will be 110% of the average closing prices for the three months prior to each grant date. All stock options received by Mr. Zaikin terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Mr. Zaikin are non-transferable, except by will or the laws of decent and distribution, and any attempt to do so shall void the option. In May 2009 (as described below) Mr. Zaikin was granted stock options to purchase 300,000 shares of common stock at an exercise price of \$0.055 per share. The options expire on May 4, 2012.

Helen Teplitskaia, President and Director

Helen Teplitskaia is the Company's President and Director. She has not signed a formal employment agreement with the Company. However, through a letter agreement, the Company agreed to provide her compensation by issuing her 10,000 shares of restricted common stock per month, beginning May 2007 and for each month thereafter for the years ended December 31, 2007, 2008 and 2009. The Company also issued her 50,000 shares of restricted common stock as a signing bonus. Continuing throughout 2010, the Company plans to issue Ms. Teplitskaia 10,000 shares of common stock per month for her service to the Company, however the Company has not issued any shares since June 2009,

and as such, the 90,000 shares of common stock due to Ms. Teplitskaia as of March 31, 2010 (10,000 shares per month from July 2009 to March 2010), are not included in the number of issued and outstanding shares disclosed throughout this report. Additionally in May 2009 Ms. Teplitskaia was granted stock options to purchase 200,000 shares of common stock in the Company (as described below) at an exercise price of \$0.055 per share. The options expire on May 4, 2012.

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Elena Pochapski, Chief Financial Officer and Director

Elena Pochapski is employed as the Company's Chief Financial Officer. She signed an employment contract with the Company on August 1, 2003, which was effective until December 31, 2008 and was extended for an additional year pursuant to the "One Year Term Extension To The Employment Agreement of August 1, 2004" described below. Ms. Pochapski was entitled to six (6) weeks of vacation time per year.

On or around April 30, 2009, the Company entered into a "One Year Term Extension To The Employment Agreement of August 1, 2004" with Elena Pochapski, the Company's Chief Financial Officer (the "Pochapski Employment Extension Agreement"). The Pochapski Employment Extension Agreement extended the term of the previous employment agreement entered into on August 1, 2003, for an additional year, such that the employment agreement expired on December 31, 2009. The salary for the year ending December 31, 2009 was be \$75,000. Additionally, Mrs. Pochapski was granted additional stock options in the Company as described below.

Ms. Pochapski had the right under her employment agreement to receive stock options in the Company. Under the 2003 plan, Ms. Pochapski had the right to purchase 100,000 shares of restricted stock of the Company for an exercise price of \$0.14 per share, which options were exercised by Ms. Pochapski in February 2006. Under the 2004 plan Ms. Pochapski had the right to purchase 100,000 shares at an exercise price of \$0.20 per share, which options expired unexercised on December 31, 2008, under the 2005 plan, Ms. Pochapski has the right to purchase 100,000 shares at an exercise price of \$0.60 per share, which options expired unexercised on December 31, 2009, and under the 2006 plan, Ms. Pochapski has the right to purchase 100,000 shares at an exercise price of \$0.60 per share. Ms. Pochapski's stock option plan continued until December 31, 2008, giving her the right to purchase 10,000 shares of common stock as of January 1, of each year, and 7,500 shares on the first date of each month thereafter, up to a maximum of 100,000 shares per year, with exercise prices as follows: for 2007 and each subsequent year the exercise price is 110% of the average closing prices for the three months prior to the grant date. All stock options received by Ms. Pochapski will terminate at 5:00 p.m. (Eastern Standard Time) on the fourth anniversary of December 31st of each year in which the options were granted. All options received by Ms. Pochapski are non-transferable except by will or the laws of decent and distribution and any attempt to do so shall void the option. In May 2009 (as described below), Ms. Pochapski was granted the right to purchase 300,000 shares of common stock at an exercise price of \$0.055 per share. The options expire on May 4, 2012.

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

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May 2009 Stock Option Agreements:

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

SECTION 16 (A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and persons who own more than 10% of a class of our equity securities which are registered under the Exchange Act of 1934, as amended, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes of ownership of such registered securities. Such executive officers, directors and greater than 10% beneficial owners are required by Commission regulation to furnish us with copies of all Section 16(a) forms filed by such reporting persons.

To our knowledge, based solely on a review of the copies of such reports furnished to us Victor Repin, David Zaikin, Elena Pochapski, Sergey Potapov, Tim Peara, Helen Teplitskaia, and Svetlana Slepchuk are currently subject to Section 16(a) filing requirements and Svetlana Slepchuk, a greater than 5% shareholder of the Company, has not made her required filing with the Commission.

ITEM 11. EXECUTIVE COMPENSATION

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

| Name And Principal Position (1) | Fiscal Year | Salary | Bonus (\$) | All Other Compen- sation | Stock Awards | Option Awards | Total Compen- sation |
|---|----------------|--------------|------------|--------------------------------|-----------------|------------------|----------------------------|
| David Zaikin CEO and Chairman | 2009 | \$ 180,000 * | -- | -- | -- | \$ 10,266 (4) | \$ 190,266 |
| | 2008 | \$ 180,000 * | -- | -- | -- | (2) | \$ 180,000 |
| | 2007 | \$ 180,000 | -- | -- | \$ 309,700 | (2) | \$ 489,700 |
| Helen Teplitskaia President and Director | 2009 | -- | -- | -- | \$ 8,400 | \$ 6,844 (4) | \$ 15,244 |
| | 2008 | -- | -- | -- | \$ 27,400 | -- | \$ 27,400 |
| | 2007 | -- | -- | -- | \$ 110,900 | -- | \$ 110,900 |
| | 2009 | \$ 75,000 * | -- | -- | -- | \$ 10,266 (4) | \$ 85,266 |

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Elena

Pochapski

| | | | | | | | | | |
|----------|------|-----------|---|----|----|----|----|---|-----------|
| CFO and | 2008 | \$ 62,126 | * | -- | -- | -- | (3 |) | \$ 62,126 |
| Director | 2007 | \$ 86,625 | | -- | -- | -- | (3 |) | \$ 86,625 |

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

* All salaries listed above for fiscal 2008 and 2009 were accrued and remain unpaid as of the filing of this report.

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(1) Other than the individuals listed above, the Company has no other executive employees who have received more than \$100,000 in compensation, including bonuses and options, during each of the last three (2) fiscal years. No executive employee listed above received any Non-Equity Incentive Plan Compensation or Nonqualified Deferred Compensation Earnings over the past three (3) years.

(2) Mr. Zaikin was granted options to purchase 100,000 shares of our common during each of the fiscal years ended 2008, 2007, 2006, 2005 and 2004, pursuant to a Stock Option Agreement he entered into with us in 2003. The exercise price of those options for the years ended December 31, 2006, 2005 and 2004, were \$0.60, \$0.20 and \$0.14 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." All unexercised options expire on December 31st of the fourth year after they were granted. We previously determined the initial fair value of our stock options was minimal at the time of our entry into the Stock Option Agreement with Mr. Zaikin, as we were only a start-up company, which did not publicly trade its stock, and as such, the options granted to Mr. Zaikin during the periods disclosed above did not represent any expense on the Company's financial statements and therefore have no value in the table above. The value of the options were calculated pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 - Stock Compensation.

(3) Ms. Pochapski was granted options to purchase 100,000 shares of our common during each of the fiscal years ended 2008, 2007, 2006, 2005 and 2004, pursuant to a Stock Option Agreement she entered into with us in 2003. The exercise price of those options for the years ended December 31, 2006, 2005 and 2004, were \$0.60, \$0.20 and \$0.14 per share, respectively. For 2007 and 2008, the exercise price is 110% of the average closing prices for the three months prior to the grant date. A further description of the granted options can be found below under "Outstanding Equity Awards At Fiscal Year-End." All unexercised options expire on December 31st of the fourth year after they were granted. We previously determined the initial fair value of our stock options was minimal at the time of our entry into the Stock Option Agreement with Ms. Pochapski, as we were only a start-up company, which did not publicly trade its stock, and as such, the options granted to Ms. Pochapski during the periods disclosed above did not represent any expense on the Company's financial statements and therefore have no value in the table above. The value of the options were calculated pursuant to FASB ASC Topic 718 - Stock Compensation.

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

Board of Directors Compensation:

The following table sets forth summary information concerning the compensation we paid to directors during the year ended December 31, 2009:

| NAME (1) | FEES EARNED OR PAID IN CASH (\$) | OPTION AWARDS (\$) | TOTAL (\$) |
|--------------------------|--|-----------------------|------------|
| Oleg V. Zhuravlev (2) | -- | \$5,817(4) | \$5,817 |
| Vladimir Eret (3) | -- | -- | -- |
| Sergei Potapov | -- | \$5,817(4) | \$5,817 |
| Timothy Pears | \$35,000* | \$6,844(4) | \$41,844 |

* Fees listed above for fiscal 2009 were accrued and remain unpaid as of the filing of this report.

No Director received any Stock Awards, Non-Equity Incentive Plan Compensation, Nonqualified Deferred Compensation Earnings or other compensation during the fiscal year ended December 31, 2009.

(1) Mr. Zaikin, Ms. Teplitskaia and Ms. Pochapski did not receive any compensation separate from the consideration they received as an officer of the Company for the year ended December 31, 2009 in consideration for services to the Board as a Director of the Company.

(2) Resigned effective January 11, 2010.

(3) Resigned effective November 23, 2009.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

OPTION AWARDS

STOCK AWARDS

| Name (a) | OPTION AWARDS | | | STOCK AWARDS | | | | | |
|--------------|---|---|---|--------------------------------|----------------------------|---|--|--|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable (b) | Number of Securities Underlying Unexercised Options (#) Unexercisable (c) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d) | Option Exercise Price (\$) (e) | Option Expiration Date (f) | Number of Shares or Units of Stock That Have Not Vested (#) (g) | Market Value of Shares or Units of Stock That Have Not Vested (\$) (h) | Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (#) (i) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (#) (j) |
| David Zaikin | 75,000 | - | - | \$0.055 | May 4, 2012 | | | | |
| | 75,000 | - | - | \$0.055 | May 4, 2012 | | | | |
| | 75,000 | - | - | \$0.055 | May 4, 2012 | | | | |
| | 75,000 | - | - | \$0.055 | May 4, 2012 | | | | |
| | 17,500 | - | - | \$0.72 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.63 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.49 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.38 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.31 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.31 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.34 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.33 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.32 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.26 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.21 | December 31, 2012 | | | | |
| | 7,500 | - | - | \$0.14 | | | | | |

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| | | | | |
|---------|---|---|--------|----------------------|
| | | | | December 31, 2012 |
| 17,500 | - | - | \$2.26 | December 31, 2011 |
| 7,500 | - | - | \$2.14 | December 31, 2011 |
| 7,500 | - | - | \$1.94 | December 31, 2011 |
| 7,500 | - | - | \$1.62 | December 31, 2011 |
| 7,500 | - | - | \$1.69 | December 31, 2011 |
| 7,500 | - | - | \$1.82 | December 31, 2011 |
| 7,500 | - | - | \$1.79 | December 31, 2011 |
| 7,500 | - | - | \$1.77 | December 31, 2011 |
| 7,500 | - | - | \$1.46 | December 31, 2011 |
| 7,500 | - | - | \$1.16 | December 31, 2011 |
| 7,500 | - | - | \$0.86 | December 31, 2011 |
| 7,500 | - | - | \$0.76 | December 31, 2011 |
| 100,000 | - | - | \$0.60 | December 31, 2010 |

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| | | | | | |
|-----------|--------|---|---|---------|-------------------|
| Elena | | | | | |
| Pochapski | 75,000 | - | - | \$0.055 | May 4, 2012 |
| | 75,000 | - | - | \$0.055 | May 4, 2012 |
| | 75,000 | - | - | \$0.055 | May 4, 2012 |
| | 75,000 | - | - | \$0.055 | May 4, 2012 |
| | 17,500 | - | - | \$0.72 | December 31, 2012 |
| | 7,500 | - | - | \$0.63 | December 31, 2012 |
| | 7,500 | - | - | \$0.49 | December 31, 2012 |
| | 7,500 | - | - | \$0.38 | December 31, 2012 |
| | 7,500 | - | - | \$0.31 | December 31, 2012 |
| | 7,500 | - | - | \$0.31 | December 31, 2012 |
| | 7,500 | - | - | \$0.34 | December 31, 2012 |
| | 7,500 | - | - | \$0.33 | December 31, 2012 |
| | 7,500 | - | - | \$0.32 | December 31, 2012 |
| | 7,500 | - | - | \$0.26 | December 31, 2012 |
| | 7,500 | - | - | \$0.21 | December 31, 2012 |
| | 7,500 | - | - | \$0.14 | December 31, 2012 |
| | 17,500 | - | - | \$2.26 | December 31, 2011 |
| | 7,500 | - | - | \$2.14 | December 31, 2011 |
| | 7,500 | - | - | \$1.94 | December 31, 2011 |
| | 7,500 | - | - | \$1.62 | December 31, 2011 |
| | 7,500 | - | - | \$1.69 | December 31, 2011 |
| | 7,500 | - | - | \$1.82 | December 31, 2011 |
| | 7,500 | - | - | \$1.79 | December 31, 2011 |
| | 7,500 | - | - | \$1.77 | December 31, 2011 |
| | 7,500 | - | - | \$1.46 | December 31, 2011 |
| | 7,500 | - | - | \$1.16 | December 31, 2011 |
| | 7,500 | - | - | \$0.86 | December 31, 2011 |

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| | | | | | |
|-------------|---------|---|---|---------|----------------------|
| | 7,500 | - | - | \$0.76 | December 31, 2011 |
| | 100,000 | - | - | \$0.60 | December 31, 2010 |
| Helen | | | | | |
| Teplitskaia | 50,000 | - | - | \$0.055 | May 4, 2012 |
| | 50,000 | - | - | \$0.055 | May 4, 2012 |
| | 50,000 | - | - | \$0.055 | May 4, 2012 |
| | 50,000 | - | - | \$0.055 | May 4, 2012 |

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

The following table provides the names and addresses of each person known to own directly or beneficially more than a 5% of the outstanding common stock (as determined in accordance with Rule 13d-3 under the Exchange Act), based on 18,705,585 shares of common stock outstanding as of April 13, 2010 and by the officers and directors, individually and as a group. Except as otherwise indicated, all shares are owned directly.

| Name And Address Of Beneficial Owner | Shares Of Common Stock Beneficially Owned (1) | Options to Purchase Shares of Common Stock Exercisable Within The Next 60 Days | Total Shares Of Common Stock Beneficially Owned (2) | Percent (1) |
|--|---|--|---|-------------|
| Victor Repin Kurgan City, Klimova St. 41, Russia 640020 | 1,750,000 | - | 1,750,000 (5) | 9.4% |
| David Zaikin 275 Madison Ave., 6th Floor, New York, New York 10016 (3) | 1,160,000 | 600,000 (4) | 1,707,500 | 8.9% |
| Elena Pochapski 275 Madison Ave., 6th Floor, New York, New York 10016 | 380,000 (5) | 600,000 (6) | 980,000 | 5.1% |
| Sergey Potapov Kurgan City Lenina St. 27/X Russia 640000 | 10,000 | 422,000 (7) | 432,000 | 2.3% |
| Tim Pears 275 Madison Ave., 6th Floor, New York, New York 10016 | 177,569 | 684,715 (8) | 862,284 | 4.4% |
| Helen Teplitskaia 275 Madison Ave. 6th Floor New York, New York 10016 | 400,000(9) | 200,000 (10) | 600,000 | 3.2% |
| Svetlana Slepchuk Mosfilmovskaya Street 17/25 Apt. 17 Moscow, Russia 119330 | 3,900,000 | - | 3,900,000 | 20.8% |
| All the Officers and Directors as a | 2,127,569 | 2,506,715 | 4,634,284 | 21.8% |

group (5 persons)

(4), (6), (7), (8),
(9), (10)

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

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- 2) Includes both the number of shares of common stock beneficially owned as of April 13, 2010, and any options which will vest and be exercisable within the next sixty days.
- 3) David Zaikin holds 400,000 of his shares in the name of WCM, Ltd, which is 100% owned by Mr. Zaikin.
- 4) Includes 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 100,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007, and 100,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date as described in greater detail above under "Outstanding Equity Awards At Fiscal Year-End". All options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. Also includes Stock Options to purchase 300,000 shares of common stock with an exercise price of \$0.055 per share, the market price of the Company's common stock on the grant date, May 4, 2009. One-fourth of the stock options vest on the grant date, and one-fourth of the stock options vest at the end of each of the Company's next three fiscal quarters. The stock options expire three years from the grant date and include a cashless exercise provision.
- 5) Includes 30,000 shares held in Mrs. Pochapski's daughter's name, which Mrs. Pochapski is deemed to beneficially own.
- 6) Includes 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 100,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007 and 100,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date as described in greater detail above under "Outstanding Equity Awards At Fiscal Year-End". All options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. Also includes Stock Options to purchase 300,000 shares of common stock with an exercise price of \$0.055 per share, the market price of the Company's common stock on the grant date, May 4, 2009. One-fourth of the stock options vest on the grant date, and one-fourth of the stock options vest at the end of each of the Company's next three fiscal quarters. The stock options expire three years from the grant date and include a cashless exercise provision.
- 7) Includes 84,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 84,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007, and 84,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date. All options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. Also includes Stock Options to purchase 170,000 shares of common stock with an exercise price of \$0.055 per share, the market price of the Company's common stock on the grant date, May 4, 2009. One-fourth of the stock options vest on the grant date, and one-fourth of the stock options vest at the end of each of the Company's next three fiscal quarters. The stock options expire three years from the grant date and include a cashless exercise provision.
- 8) Includes certain options issuable to AEF in connection with amounts loaned to ZNG (as described in greater detail herein), including 55,233 options to purchase shares of our common stock at an exercise price of \$1.14 per share, which vested on June 30, 2007, 51,352 options to purchase shares of our common stock at an exercise price of \$0.74 per share, which warrants vested on September 30, 2007, 78,130 options to purchase shares of our common stock at an exercise price of \$0.46 per share, which vested on December 31, 2007, which options expire if unexercised on the third anniversary of the date they were granted. The amount listed above also includes 100,000 options to purchase shares of our common stock at \$0.60 per share, which vested throughout the fiscal year ended 2006, 100,000 options to purchase shares of our common stock as described above, which vested throughout the fiscal year ended 2007 and 100,000 options to purchase shares of our common stock at an exercise price equal to 110% of the average closing prices for the three months prior to each grant date. All Director options are valid until 5 P.M. December 31, on the fourth anniversary of each year that the options vest. Also includes Stock Options to purchase 200,000 shares of

common stock with an exercise price of \$0.055 per share, the market price of the Company's common stock on the grant date, May 4, 2009. One-fourth of the stock options vest on the grant date, and one-fourth of the stock options vest at the end of each of the Company's next three fiscal quarters. The stock options expire three years from the grant date and include a cashless exercise provision.

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9) Includes 90,000 shares, 10,000 each for the months ended July 2009 through March 2010, which the Company has agreed to issue to Ms. Teplitskaia in consideration for services rendered, which shares have not been issued to date and have not been included in the number of issued and outstanding shares disclosed throughout this report, except in connection with Ms. Teplitskaia's ownership and all of the Directors' and officers' ownership as disclosed above.

10) Includes Stock Options to purchase 200,000 shares of common stock with an exercise price of \$0.055 per share, the market price of the Company's common stock on the grant date, May 4, 2009. One-fourth of the stock options vest on the grant date, and one-fourth of the stock options vest at the end of each of the Company's next three fiscal quarters. The stock options expire three years from the grant date and include a cashless exercise provision.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

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

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

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

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

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

On January 25, 2007, we approved an annual salary of \$180,000 (plus a performance based bonus to be determined by the Board of Directors at the end of the 2007 fiscal year, which bonus totaled 190,000 shares valued at \$309,700, which shares were issued in July 2007) for our Chief Executive Officer and Director, David Zaikin for the 2007 fiscal year. On January 31, 2007, Mr. Zaikin notified us that effective February 1, 2007, he was withdrawing his previous request to not accrue any salary until we had sufficient funds to pay such salary, and instead requested that we pay him his 2007 salary if funds were available for such payments and/or that we accrue such salary until we have sufficient funds to repay him any accrued amounts. In February 2007, our Board of Directors approved the issuance of 350,000 shares of our restricted common stock to Mr. Zaikin, in consideration for compensation for the year ended December 31, 2006, which compensation was granted by our Board of Directors in its sole discretion, even though Mr. Zaikin had previously agreed not to be paid or accrue any salary for fiscal 2006. In July 2007, we issued an aggregate of 190,000 restricted shares of common stock to Mr. Zaikin, and certain of his assigns, in consideration for services rendered during the first two quarters of 2007.

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

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

In June 2007, we issued 70,000 shares of restricted common stock to our President, Helen Teplitskaia, of which 50,000 shares were a sign-on bonus in connection with her agreeing to be an officer of the Company in May 2007, and 20,000 shares were part of her compensation package with the Company, whereby she is to be paid 10,000 shares per month for her service to the Company, which shares were issued for services rendered in May and June 2007. During the period from July to December 2007, 50,000 shares were issued for services rendered in July through November 2007. In June 2008, we issued an aggregate of 70,000 restricted shares of common stock to Ms. Teplitskaia in consideration for services rendered during the months of December 2007, and January through June 2008. Ms. Teplitskaia was subsequently issued the shares she was due for the months ended July 2008 through December 2008 in November 2008.

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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.

The Company has previously agreed to pay its President, Helen Teplitskaia, 10,000 shares of common stock per month for her service to the Company. As such, in June 2009, the Company issued Ms. Teplitskaia an aggregate of 60,000 shares, 10,000 shares per month from January 2009 to June 2009. The Company also owes Ms. Teplitskaia an additional 90,000 shares for services rendered during the months of July, August, September, October, November and December 2009 and the months of January, February and March 2010, which shares have not been issued to date and have not been included in the number of issued and outstanding shares disclosed throughout this report.

On or around April 30, 2009, the Company entered into a "One Year Term Extension To The Employment Agreement of August 1, 2004" with David Zaikin, the Company's Chief Executive Officer and Elena Pochapski, the Company's Chief Financial Officer (the "Executives" and the "Employment Extension Agreements"). The Employment Extension Agreements extended the term of the Executives previous employment agreements entered into on August 1, 2004 and September 1, 2003, respectively, for an additional year, such that the employment agreements now expire on December 31, 2009. The Executives' salaries for the year ending December 31, 2009 will be \$180,000 and \$75,000 for Mr. Zaikin and Ms. Pochapski, respectively. Additionally, both of the Executives were granted additional stock options in the Company as described below.

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

Vladimir Eret resigned as a Director of the Company effective November 23, 2009.

Oleg Zhuravlev resigned as a Director of the Company effective January 11, 2010.

The Company has historically been funded by certain related party shareholders of the Company, and as of December 31, 2009 and 2008, \$523,906 and \$447,663 was payable to such related party shareholders, respectively.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed for each of the fiscal years ended December 31, 2009 and 2008 for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and the review of the Company's quarterly financial statements were \$22,500 and \$36,000, respectively.

Audit Related Fees

None.

Tax Fees

The aggregate fees billed for each of the fiscal years ended December 31, 2009 and 2008 for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning was \$1,750 and \$1,750, respectively.

All Other Fees

The total amount of other fees billed in 2009 and 2008 was \$0 and \$8,000, respectively.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

Exhibit Description of Exhibit
No.

- 10.1(1) Option Agreement with Baltic Petroleum Limited dated April 28, 2005
- 10.2(1) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.3(1) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.4(1) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005
- 10.5(1) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005
- 10.6(2) Option Agreement with Baltic Petroleum Limited dated April 28, 2005
- 10.7(2) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.8(2) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.9(2) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005
- 10.10(2) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005
- 10.11(3) Clarification to the Contract of Purchase and Sale of the Share in Charter Capital of LLC "Zauralneftegaz" dated 15 May 2004
- 10.12(3) Agreement with Business - Standard (translated from Russian version)
- 10.13(3) Supplementary Agreement to Business - Standard Agreement (translated from Russian version)
- 10.14(3) Supplementary Agreement No. 2 to Business - Standard Agreement (translated from Russian version)
- 10.15(3) Deed of Amendment between ZNG and BP
- 10.16(3) Deed of Amendment between the Company and BP
- 10.17(4) Joint Venture Shareholders' Agreement with Baltic Petroleum (E&P) Limited and Zauralneftegaz Limited dated October 14, 2005

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

10.19(5) Form of Waiver Agreement

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- 10.20(6) Loan Agreement between OOO Zauralneftegaz and Caspian Finance Limited
- 10.21(6) Deed of Novation between Baltic Petroleum Limited, Caspian Finance Limited and OOO Zauralneftegaz
- 10.22(6) Deed of Release
- 10.23(6) Release of Pledge
- 10.24(6) Guarantee
- 10.25(6) Debenture
- 10.26(6) Agreement for the Pledge of the Participatory Interest in OOO Zauralneftegaz (Russian translation removed)
- 10.27(6) Sale and Purchase Agreement
- 10.28(8) Option Agreement with Key Brokerage
- 10.29(8) Warrant Agreement with Key Brokerage
- 10.30(9) July 26, 2006 Deed of Agreement
- 10.31(10) Consulting Agreement with Business Standard
- 10.32(11) Addition to the Loan Agreement of November 9, 2005
- 10.33(11) Gross Overriding Royalty Agreement
- 10.34(12) Amendment No. 2 to the Employment Agreement Dated August 1, 2003 with Elena Pochapski
- 10.35(13) Deed of Variation to the Loan Agreement Dated 9th of November 2005, Entered into in June 2007
- 10.36(15) Agreement of Purchase and Sale with Limited Liability Company Neftebitum, Sergey V. Prokopiev, and Oleg G. Shelepov
- 10.37(15) Operating Agreement with Limited Liability Company Neftebitum
- 10.38(16) One Year Extension to the Employment Agreement of August 1, 2004 with David Zaikin
- 10.39(16) One Year Extension to the Employment Agreement of August 1, 2004 with Elena Pochapski
- 10.40(16) Stock Option Agreement for David Zaikin
- 10.41(16) Stock Option Agreement for Elena Pochapski

21.1* Subsidiaries

31.1* Certificate of the Chief Executive Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002

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31.2* Certificate of the Chief Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002

32.1* Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2* Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.1(7) Glossary

* Filed herein.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(16) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on May 19, 2009, and incorporated herein by reference.

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SIGNATURES

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

SIBERIAN ENERGY GROUP INC.

DATED: April 15, 2010

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

DATED: April 15, 2010

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

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

| NAME | TITLE | DATE |
|--|--|----------------|
| /s/ David Zaikin David Zaikin | Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer) | April 15, 2010 |
| /s/ Elena Pochapski Elena Pochapski (Principal Financial Officer) | Chief Financial Officer (Principal Accounting Officer) and Director | April 15, 2010 |
| /s/ Helen Teplitskaia Helen Teplitskaia | President and Director | April 15, 2010 |
| /s/ Sergey Potapov Sergey Potapov | Director | April 15, 2010 |