

Siberian Energy Group Inc.  
Form 10-K  
May 16, 2012

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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, 2011

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

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

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

incorporation  
or  
organization)

330 Madison Ave, 6th Floor, New York, New York 10017  
(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]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 required to submit and post such files). Yes  No

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.

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, 2011 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, 2011, was approximately \$2,307,311.

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

SIBERIAN ENERGY GROUP INC.  
FORM 10-K  
YEAR ENDED DECEMBER 31, 2011  
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PART I

ITEM 1. BUSINESS

Certain statements in this Annual Report on Form 10-K (this "Form 10-K"), constitute "Forward-Looking Statements". Certain, but not necessarily all, of such Forward-Looking Statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "should", or "anticipates", or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made. Such Forward-Looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Siberian Energy Group Inc. and Kondaneftegaz, LLC, a Russian limited liability company, the registrant's 44% owned subsidiary, Zauralneftegaz Limited, a company organized under the laws of the country of England, which the registrant owns 50% of, and Rare Minerals Corporation, a Nevada corporation, the Company's wholly-owned subsidiary as a result of the Share Exchange, described below (collectively "Siberian", the "Company", "we", "us" or "our") to be materially different from any future results, performance or achievements expressed or implied by such Forward-Looking Statements. References in this form 10-K, unless another date is stated, are to December 31, 2011.

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

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

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

**BUSINESS DEVELOPMENT:**

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

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

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

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

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

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

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

#### Rare Minerals Acquisition

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

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

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



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

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

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

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

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

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

#### BUSINESS OPERATIONS:

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

We currently hold investments in ZNG, Ltd. and KNG. Both companies are involved in oil and gas exploration in the Western Siberia region of Russia; provided however, as described below, ZNG, Ltd. has advised us that it will no longer undertake any further exploration activities in Western Siberia and we have recently been advised that KNG has determined not to undertake any further exploration activities. As a result, we are currently seeking out additional oil and gas acquisition opportunities in Russia at this time and do not anticipate ZNG, Ltd. or KNG generating any revenues moving forward.

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

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## Description of KNG

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

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

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

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

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

As of December 31, 2011, the Company owned a 44% interest in KNG. Effective September 30, 2008, the Company's 44% investment in KNG is recorded on the equity method of accounting. The operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements.

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

## Description of ZNG

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

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

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

The Company's investment in the Joint Venture is recorded on the equity method of accounting. Since cumulative losses of Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through December 31, 2011.

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

The operations of the Joint Venture were funded via loans provided to ZNG, Ltd. and ZNG by Caspian Finance Limited ("Caspian"), a financing company wholly-owned by Baltic. Loans are guaranteed by ZNG, Ltd.'s holdings in ZNG. As of December 31, 2011, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to approximately \$23.5 million plus accrued interest of approximately \$5 million. The loans are not dilutive to the Company's ownership in ZNG.

#### RMC Operations:

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

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

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

#### 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. 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, 2011 totaled approximately \$18 million.



## 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. Koklanovskoe, which is 100% owned by RMC, which is 100% owned by the Company has two (2) part-time employees.

## Critical Accounting Policies and Estimates

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

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

### Going Concern

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

### Competition

Competition among Russian oil 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, assuming it can locate and obtain rights to additional producing properties or exploration projects, given the continued high demand for oil both domestically and internationally.

Another type of competition which the Company may face in the future 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.



Additionally, mines have limited lives and as a result, we may seek to expand our interests, through the acquisition of new properties in the future. There is a limited supply of desirable mineral lands in areas where we may consider conducting exploration and/or production activities. We will face strong competition for new properties from other mining companies, most of which have greater financial resources than we do and as a result, we may be unable to acquire new mining properties on terms that we consider acceptable.

There is a global market for precious minerals, which we plan to sell, if we are successful in our exploration and mining activities, at prevailing market prices. We do not believe that any single company or other institution has sufficient market power to significantly affect the price or supply of these metals.

#### Dependence on One or A Few Major Customers

The nature of the oil industry and mineral extraction industry is not based on individual customers. Crude and refined products are sold to local and international brokers as well as to refineries. Extracted minerals are sold to independent third parties and wholesale brokers. The Company does not currently and can provide no assurances that it will ever produce crude or refined products, or find or extract any commercially significant minerals.

#### Patents, Trademarks and Licenses

KNG currently holds two five-year oil and gas exploration licenses, awarded in October 2007; provided that KNG has recently decided not to move forward with the exploration of such licenses. RMC currently holds rights to the Deposit (defined above).

#### Need For Government Approval

Federal and local government approval will not be required for conversion of any exploration licenses to production licenses and/or for extension of licenses beyond their initial term. However, the Company will need to receive approval for additional exploration licenses it may choose to acquire in the future and additional approval will be required if the Company is to deliver future crude or refined products on the national pipeline system. These approvals can only be guaranteed once the Company has proved reserves.

Additionally, under certain Russian federal laws the Company does not require the approval of state and/or federal agencies for conversion of 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 previously 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 (which the Company and its partners have determined not to proceed in the exploration of).

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 and amounts borrowed under the Loan (described below under "Liquidity and Capital Resources"). As of December 31, 2011, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$5 million, which has been spent on various purposes, including seismic and gas seismotomography surveys, drilling of two exploratory wells, and paying consultants for services performed in connection with surveys performed on the previously licensed area. Our partner in ZNG, Baltic and our partner in KNG, Neftebitum, have informed us that they do not plan to move forward with any further exploration activities through ZNG or KNG, respectively. We anticipate needing approximately \$15 million of additional funding to conduct exploration activities on the Deposit acquired through the Share Exchange (as described above), which funding may not be available on favorable terms, if at all. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

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

We have no committed source of financing. Wherever possible, our Board of Directors will attempt to use non-cash consideration to satisfy obligations and pay consultants. In many instances, we believe that the non-cash consideration will consist of restricted shares of our common stock or other securities. These transactions may result in significant additional shares of common stock of the Company being issued in consideration for services rendered, loans made, or to satisfy outstanding amounts owed or accrued to various parties, similar to the Conversion, described above. Additionally, moving forward, we may attempt to conduct acquisitions of other entities or assets using our common stock or other securities as payment for such acquisitions. Our Board of Directors has authority, without action or vote of the shareholders, to issue all or part of the authorized but unissued shares of common stock and preferred stock with various preferences and other rights. These actions may, similar to the Conversions, result in substantial dilution of the ownership interests of existing shareholders, cause the value of the Company's common stock to decline in value, and dilute the book value of the Company's common stock.

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

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

management fails to properly manage and direct our operations, we may be forced to scale back or abandon our operations, which will cause the value of our common stock to decline or become worthless.

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

The Company will need to raise substantial additional funds totaling approximately \$15 million in order to complete exploration activities on the Deposit prior to the expected generation of any revenues, of which there can be no assurance. Furthermore, in order for the Company to generate any revenues it will have to successfully locate commercial quantities of rare and semi-rare earth metals and precious minerals, and be successful in extracting such minerals. Therefore, investors should keep in mind that even if the Company is able to raise the substantial amounts of additional financing that the Company will require for its future exploration operations, it could still be years before the Company generates any revenue, if ever. If the Company does not raise the funding required to complete future exploration activities, no commercial amounts of rare and semi-rare earth metals and precious minerals are discovered or the Company is unable to extract such rare and semi-rare earth metals and precious minerals, the Company may be forced to abandon its business plan, and the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to substantially decline or become worthless.

Our Auditors Have Expressed Substantial Doubt As To Whether Our Company Can Continue As A Going Concern.

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$579,251 for the year ended December 31, 2010, a net loss of \$616,922 for the year ended December 31, 2011, and had total cash on hand of \$874 and a total accumulated deficit of \$16,718,678 as of December 31, 2011. These factors among others indicate that the Company may be unable to continue as a going concern, particularly in the event that it cannot generate sufficient cash flow to conduct its operations and/or obtain additional sources of capital and financing.

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

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

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

The former shareholders of RMC hold in aggregate 99% of our outstanding common stock. As such, those shareholders, if they choose to vote together, can exercise control in determining the outcome of all corporate transactions or other matters, including the election of Directors, mergers, consolidations, the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. Any investor who purchases shares in the Company will be a minority shareholder and as such will have little to no say in the direction of the Company and the election of Directors. Additionally, it will be difficult if not impossible for investors to remove the Directors of the Company appointed from time to time by the former shareholders of RMC, which will mean that such

Directors will remain in control of who serves as officers of the Company as well as whether any changes are made in the Board of Directors. As a potential investor in the Company, you should keep in mind that even if you own shares of the Company's common stock and wish to vote them at annual or special shareholder meetings, your shares will likely have little effect on the outcome of corporate decisions.

**We Lack An Operating History Which You Can Use To Evaluate Us, Making Any Investment In Our Company Risky.**

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

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

As a development stage company, we have had limited revenues and no profits to date and our net cumulative deficit attributable to our development stage as of December 31, 2011, was \$16,268,893, and our total cumulative deficit was \$16,718,678 which included \$449,785 of pre-development stage deficit. We had a working capital deficit of \$766,195 as of December 31, 2011. The Company is currently being funded by existing shareholders and other outside parties, but there can be no assurance this amount will be sufficient to continue our planned operations or that we will have enough money to repay our outstanding debts. ZNG has previously determined to cease further exploration activities and KNG determined to cease exploration activities as well. If we are unable to raise additional funding or generate revenues in the future, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in our Company. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.

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

Our Company currently has a poor financial position. We have generated only minimal revenues to date, and we have not discovered any rare and semi-rare earth metals and precious minerals. There is a risk that we will not find enough, or even any, minerals which we require to generate enough profits in the future for your investment in our Company to appreciate. If we never generate any revenues, our Company may be forced to curtail or abandon its business plan and your shares may become worthless.

**Our Business Is Speculative And Risky And If We Do Not Find Rare And Semi-Rare Earth Metals And Precious Mineral Reserves, We May Be Forced To Curtail Our Business Plan.**

There is a risk that we will not find any rare and semi-rare earth metals and precious mineral reserves and the cost of acquiring assets or exploration activities will become too high for us to continue our business plan. If we were to cease operations, your investment in our Company could become devalued or could become worthless.

**Our Industry Is Competitive And As Such, Competitive Pressures Could Prevent Us From Obtaining Profits.**

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



#### Our Growth Will Place Significant Strains On Our Resources.

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

#### We Rely On Key Personnel And If They Leave Our Company Our Business Plan Could Be Adversely Affected.

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

#### Our Future Projections, Estimates And Statistical Analysis May Be Inaccurate Or Substantially Wrong, Which May Prevent Us From Executing Our Business Plans.

Projections on future revenues as well as costs and required capital expenditures are based on estimates. Business statistical analysis is used in projection of exploration activities, average production costs, world mineral price fluctuations and their correspondence to Russian domestic market. If our projections or estimates are wrong or our statistical analysis is faulty, our future revenues, if any, may be adversely affected which could prevent us from executing our business strategy. As an investor, if this happens your securities in our Company could be adversely affected and you could lose your investment in our Company.

#### There Is Uncertainty As To Our Ability To Enforce Civil Liabilities Both In And Outside Of The United States Due To The Fact That Our Officers, Directors And Assets Are Not Located In The United States.

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

#### We Face Risks Associated With The Fact That The Majority Of Our Operations Through Our Holdings Are Conducted In Russia, And The Licenses Owned Through Our Holdings Are In Russia.

The assets we hold are located in Russia. As a result, we are subject to various risks associated with doing business in Russia relating to Russia's economic and political environment. As is typical of an emerging market, Russia does not possess a well-developed business, legal and regulatory infrastructure that would generally exist in a more mature free

market economy and, in recent years, Russia has undergone substantial political, economic and social change. Furthermore, in recent years the Russian government has unilaterally annexed certain oil and gas properties and other companies for the government, and there can be no assurance that if resources and minerals are located on our properties, that such properties will not be annexed or otherwise claimed by the Russian government. Our failure to manage the risks associated with doing business in Russia could have a material adverse effect upon our results of operations.

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

If we do not begin any exploration activities and/or do not have enough money to continue exploration activities it is likely that we will never generate any revenues. Additionally, if we are unsuccessful in mining attempts we may choose to attempt in the future, it is likely that we will never generate any revenues. The exploration of minerals is highly speculative, and if throughout our mineral exploration we do not find commercial quantities of minerals, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in us. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.

Our Planned Mineral Exploration Efforts Are Highly Speculative.

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

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

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

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

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

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

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

- o competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive mineral properties;
- o our ability to select and acquire suitable producing properties or prospects for mineral exploration;
- o the accuracy of our reserve estimates, if any, which may be affected by the following factors beyond our control:
  - declines in the market price of the various metals we may mine in the future;
  - increased production or capital costs;
  - reduction in the grade or tonnage of the deposit;
  - increase in the dilution of the ore; or
  - reduced recovery rates;
- o risks and hazards associated with environmental hazards, political and country risks, civil unrest or terrorism, industrial accidents, labor disputes, unusual or unexpected geologic formations, cave-ins, explosive rock failures; and flooding and periodic interruptions due to inclement or hazardous weather conditions; and
- o our failure to maintain insurance on certain risks associated with any exploration activities we may undertake in the future.

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

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

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

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

- o availability of credit.

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

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

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

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

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

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

We incur significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act and new rules subsequently implemented by the SEC have imposed various new requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel need to devote a substantial amount of time to these new compliance initiatives.

Moreover, these rules and regulations have increased our legal and financial compliance costs and made some activities more time-consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses (similar to those described below in this Report). Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management efforts. We may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we continue to identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

As There Is Currently Only A Limited Market For Our Common Stock, The Market For Our Common Stock May Continue To Be Illiquid, Sporadic And Volatile.

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

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

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

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

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

Investors May Face Significant Restrictions On The Resale Of Our Common Stock Due To Federal Regulations Of Penny Stocks.

Our common stock will be subject to the requirements of Rule 15g-9, promulgated under the Securities Exchange Act of 1934, as amended, as long as the price of our common stock is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock.



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

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

#### ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

#### ITEM 2. PROPERTIES

The Company's United States office is located at 330 Madison Ave, 6th Floor, New York, New York 10017. 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 former Chief Executive Officer had been personally paying the Company's office space rent and not billing the Company from December 31, 2008 to November 30, 2010, which resulted in the Company having no rent or occupancy expense for the year ended December 31, 2009 and the eleven months ended November 30, 2010. The Company had rent and occupancy expense of \$2,491 for the year ended December 31, 2011.

#### 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. MINE SAFETY DISCLOSURES.

Not applicable.



## 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 Over-The-Counter Bulletin Board (the "OTCBB") 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." On February 22, 2011, the Company was automatically delisted from the OTCBB due to the failure of a market maker to quote the Company's common stock on the OTCBB for the time period required under FINRA rules and regulations and began trading on the OTC Pinks market (i.e., the OTCQB). The Company was requoted on the OTCBB on March 22, 2011.

We had 22,198 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, 2011. We have no outstanding shares of preferred stock. As of May 10, 2012, there were 67,367,659 shares of common stock outstanding, held by approximately 125 shareholders of record.

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

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, 2011	\$ 1.01	\$ 0.02
September 30, 2011	\$ 0.51	\$ 0.02
June 30, 2011	\$ 1.38	\$ 0.20
March 31, 2011	\$ 3.50	\$ 0.51
December 31, 2010	\$ 8.38	\$ 0.35
September 30, 2010	\$ 7.77	\$ 2.80
June 30, 2010	\$ 13.30	\$ 4.21

March 31,  
2010      \$ 48.29   \$ 3.15

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.

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## Common Stock

Holders 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.

## Preferred Stock

Shares of preferred stock may be issued from time to time in one or more series, each of which shall have such distinctive designation or title as shall be determined by our Board of Directors ("Board of Directors") prior to the issuance of any shares thereof. Preferred stock shall have such voting powers, full or limited, or no voting powers, and such preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated in such resolution or resolutions providing for the issue of such class or series of preferred stock as may be adopted from time to time by the Board of Directors prior to the issuance of any shares thereof. The number of authorized shares of preferred stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of all the then outstanding shares of our capital stock entitled to vote generally in the election of the directors, voting together as a single class, without a separate vote of the holders of the preferred stock, or any series thereof, unless a vote of any such holders is required pursuant to the terms of any series of preferred stock.

## EQUITY COMPENSATION PLAN INFORMATION

### 2010 Stock Incentive Plan

On December 15, 2010, with an effective date of January 1, 2011, the Company's Board of Directors adopted, subject to the approval of our Majority Stockholders (which was obtained on February 28, 2011), the Company's 2010 Stock Incentive Plan (the "Plan"). The Plan is intended to secure for the Company the benefits arising from ownership of the Company's common stock by the employees, officers, Directors and consultants of the Company, all of whom are and will be responsible for the Company's future growth. The Plan is designed to help attract and retain for the Company, personnel of superior ability for positions of exceptional responsibility, to reward employees, officers, Directors and consultants for their services to the Company and to motivate such individuals through added incentives to further contribute to the success of the Company.

The Plan will provide an opportunity for any employee, officer, Director or consultant of the Company, except for instances where services are in connection with the offer or sale of securities in a capital-raising transaction, or they directly or indirectly promote or maintain a market for the Company's securities, subject to any other limitations provided by federal or state securities laws, to receive (i) incentive stock options (to eligible employees only); (ii) nonqualified stock options; (iii) restricted stock; (iv) stock awards; (v) shares in performance of services; or (vi) any combination of the foregoing. In making such determinations, the Board of Directors may take into account the nature of the services rendered by such person, his or her present and potential contribution to the Company's success, and such other factors as the Board of Directors in its discretion shall deem relevant.

Subject to adjustment in connection with the payment of a stock dividend, a stock split or subdivision or combination of the shares of common stock, or a reorganization or reclassification of the Company's common stock, the maximum aggregate number of shares of common stock which may be issued pursuant to awards under the Plan is 57,142

shares. Such shares of common stock shall be made available from the authorized and unissued shares of the Company.

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The following table provides information as of December 31, 2011 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	57,142	-	-
Equity compensation plans not approved by the security holders	20,771	\$26.50	-
Total			

#### RECENT SALES OF UNREGISTERED SECURITIES

None.

#### ITEM 6. SELECTED FINANCIAL DATA

Not required pursuant to Item 301 of Regulation S-K.

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

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

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

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

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

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

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

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

In the past, we have obtained cash financing from organizing stockholders in the form of loans and advances, as a result, amounts totaling \$375,793 and \$125,631 are payable to stockholders from the Company as of December 31, 2011 and 2010, respectively.

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

## COMPARISON OF OPERATING RESULTS

### RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011, COMPARED TO THE YEAR ENDED DECEMBER 31, 2010

We had no revenues or other income for the years ended December 31, 2011 or 2010. The Company does not anticipate generating revenues until such time, if ever, as we are able to generate sufficient funding to continue our business plan and complete exploration and mining activities on the Deposit, and then only if such property contains commercial quantities of minerals and we are able to successfully extract and sell such materials, of which there can be no assurance.

We had total expenses of \$622,198 for the year ended December 31, 2011, compared to total expenses for the year ended December 31, 2010, of \$579,251, which represented an increase in total expenses from the prior period of \$42,947 or 7.4%.

The main reasons for the increase in total expenses for the year ended December 31, 2011, compared to the year ended December 31, 2010, were a \$23,742 or 10% increase in professional and consulting fees, to \$253,572 for the year ended December 31, 2011, compared to \$229,830 for the year ended December 31, 2010, mainly due to the

acquisition of RMC, a \$46,528 increase in finance and interest expense to \$53,529 for the year ended December 31, 2011, compared to \$7,001 for the year ended December 31, 2010, in connection with the Loan bearing 12% annual interest, and a \$24,348 increase in marketing and other expenses to \$36,852 for the year ended December 31, 2011, compared to \$12,504 for the year ended December 31, 2010, which increases were mainly due to certain one-time expenses associated with the Company's 1:70 reverse stock split and the cost of mailing notice of and holding the Company's 2011 Annual Meeting of Stockholders, as well as fees paid to relist the Company on the OTCBB in March 2011, which were offset by a \$53,246 or 16% decrease in salaries to \$275,754 for the year ended December 31, 2011 compared to \$329,000 for the year ended December 31, 2010, due to the Company's President, Helen Teplitskaia not receiving any compensation for the year ended December 31, 2011, compared to the year ended December 31, 2010, the termination of the employment of the Company's Moscow, Russia representative as of January 1, 2012 and the non-accrual of salary for Elena Pochapski, the Company's Chief Financial Officer, beginning on October 1, 2011, due to the fact that no services were performed for the Company.

We had a foreign currency translation gain of \$5,276 for the year ended December 31, 2011, which was due to fluctuation between the Pound Sterling, Russian Ruble and United States Dollar.

We had a net loss of \$616,922 for the year ended December 31, 2011, compared to a net loss of \$579,251 for the year ended December 31, 2010, an increase in net loss of \$37,671 or 6.5% from the prior period.

## LIQUIDITY AND CAPITAL RESOURCES

We had total assets of \$25,116,107 as of December 31, 2011, consisting of current assets of \$221,806, including \$874 of cash and \$220,932 of prepaid expenses and other receivables and total long-term assets of \$24,894,301 consisting of unproved mineral properties.

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

We had total liabilities of \$1,612,349 as of December 31, 2011, which included current liabilities of \$988,001, including \$375,793 of accounts payable to related party stockholders in connection with those shareholders paying certain of our expenses from the period between September 2010 and December 31, 2011 and advisory fees accrued to a shareholder of the Company for the period between October 2010 and December 31, 2011; \$81,004 of accounts payable to Baltic in connection with a \$29,000 loan advanced to the Company from Baltic, interest on such loan, and certain other expenses owed to Baltic; \$111,031 of accounts payable to others for advisory and professional services rendered; and \$420,173 of accrued payroll, which included approximately \$225,000 payable to our former Chief Executive Officer, David Zaikin, approximately \$75,000 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam, and long-term liabilities of \$624,348 relating to the Loan Agreement, described below.

We had negative working capital of \$766,195 and a total pre-development and development stage accumulated deficit of \$16,718,678 as of December 31, 2011.

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

Because our cumulative losses associated with the operations of ZNG exceeded our investment as of the date of the Joint Venture, ZNG, Ltd. is carried on our balance sheet at \$-0- as of December 31, 2011. Our investment in ZNG, Ltd. will exceed \$-0- at such time as ZNG, Ltd. has cumulative earnings sufficient to repay all loans to Baltic as provided in the Joint Venture, if ever.

As part of the acquisition of RMC, the Company obtained rights to a Loan Agreement provided to Koklanovskoe by a third party on January 17, 2011 and amended on January 24, 2011, in the aggregate amount of 500,000 British Pounds (approximately \$772,800 as of December 31, 2011)(the "Loan"). The Loan provides Koklanovskoe the right to make draw-downs from time to time under the Loan prior to January 31, 2015, at which time the outstanding amount of the Loan is required to be repaid in full. All amounts borrowed under the Loan bear interest at the rate of 12% per annum; provided that if an event of default occurs under the Loan any and all outstanding amounts bear interest at the rate of 18% per annum. The Loan provides the lender the right to secure such Loan by any or all of Koklanovskoe's assets. The Loan was required to be used for the acquisition of the Deposit and geological exploration activities on such Deposit. As of December 31, 2011, there was \$624,348 (405,000 British Pounds) outstanding under the Loan.



As of December 31, 2011, 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 \$177,898 of net cash used in operating activities for the year ended December 31, 2011, which was mainly attributable to adjustments to reconcile \$616,922 of net loss and \$124,920 of increase in prepaid expenses and other receivables, offset by an increase of \$563,321 of accounts payable and accrued expenses.

We had \$1,655 of net cash provided by investing activities for the year ended December 31, 2011, which represented cash received in the acquisition of RMC.

We had \$166,530 of net cash provided by financing activities for the year ended December 31, 2011, which were solely due to additional funds received in connection with the Loan described above.

Since inception, the Company has obtained cash financing from organizing stockholders, outside parties and employees in the form of loans, advances and deferred salaries, as well as through financing previously received of \$25,000 to \$85,000 per month in management fees from its Joint Venture, which management fees the Company has not received since October 2007, and which the Company does not believe will ever resume. The Company anticipates that its stockholders and management will continue to provide financing for the Company, of which there can be no assurance. There can be no certainty as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

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

#### 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), KNG (December 31, 2006 through September 30, 2008), and RMC. 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 for ZNG and KNG are no longer presented on the Company's balance sheet.



Foreign Currency Translation:

The Russian subsidiaries ZNG, KNG, and RMC 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, RMC 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, RMC, 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. Foreign currency translation adjustments are included within other comprehensive income (loss).

Mineral and Oil and Gas Properties:

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

All capitalized costs of mineral and 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, respectively. All licenses became the responsibility of the Joint Venture effective October 14, 2005 and expired in 2008.

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

Property and Equipment:

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

#### Long-Lived Assets:

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

#### Common Stock and Additional Paid-in Capital:

Shares of common stock issued for other than cash have been recorded as common stock and additional paid-in capital at amounts equivalent to the fair value of the service or assets received in exchange.

#### Income Taxes:

The provision for income taxes is based on pretax financial accounting income. Deferred assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities. Temporary differences arise from using different methods of accounting for impairments of assets and certain accrued expenses. The Company also recognizes future tax benefits of net operating loss carryforwards to the extent that realization of such benefits is more likely than not.

The Company believes it is no longer subject to examination by Federal taxing authorities for fiscal years prior to December 31, 2008.

#### Recent Accounting Pronouncements

In May 2011, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." ASU No. 2011-04 clarifies existing requirements for measuring fair value and for disclosure about fair value measurements in converged guidance of the FASB and the International Accounting Standards Board. The amendment is effective during interim and annual periods beginning after December 15, 2011. The implementation of ASU No. 2011-04 is not expected to have a material impact on the Company's consolidated financial condition and results of operations.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," which will no longer allow the presentation of the components of other comprehensive income in the consolidated statements of changes in stockholders' equity or footnotes. For reporting periods beginning after December 31, 2011, ASU No. 2011-05 requires presentation of other comprehensive income in combination with, or directly following the consolidated statements of income. In December 2011, ASU No. 2011-05 was amended to delay the proposed identification of reclassification adjustments in the consolidated statements of income. The Company is currently evaluating the allowable presentation alternatives under the new guidance.

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." The amendment requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company is currently evaluating the impact ASU No. 2011-11 will have on the Company's financial statements.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SIBERIAN ENERGY GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

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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, 2011 and 2010 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the years then ended, and the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2011. Siberian Energy Group Inc.'s management is responsible for these financial statements. 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 about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010 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, 2011, 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 12 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 12 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  
May 8, 2012

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

## Consolidated Balance Sheets

December 31,	2011	2010
Assets		
Current assets:		
Cash	\$ 874	\$ 467
Prepaid expenses and other receivables	220,932	8,810
	221,806	9,277
Investment in ZNG, Ltd., at equity	-	-
Investment in KNG, at equity	-	-
Mineral properties, unproved	24,894,301	-
Oil and gas properties, unproved	-	-
Property and equipment, net	-	623
	\$ 25,116,107	\$ 9,900
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable:		
Related party - stockholders	\$ 375,793	\$ 125,631
Related party - Baltic Petroleum, interest at 14%	81,004	74,926
Others	111,031	20,017
Accrued payroll	420,173	147,766
	988,001	368,340
Loan payable	624,348	-
Stockholders' equity:		
Preferred stock - 10,000,000 shares, \$.001 par value	-	-
Common stock - authorized 100,000,000 shares, \$.001 par value 67,367,659 and 667,659 issued and outstanding	67,368	668
Additional paid-in capital	40,159,038	15,756,738
Accumulated deficit		
Pre-development stage	(449,785 )	(449,785 )
Development stage	(16,268,893)	(15,651,971)
Accumulated other comprehensive loss	(3,970 )	(14,090 )
	23,503,758	(358,440 )
	\$ 25,116,107	\$ 9,900

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 Stage Activity- January 1, 2003 through December 31,		
For the years ended December 31,	2011	2010	2011
Revenues and other income:			
Management fees from joint venture	\$-	\$-	\$ 1,135,000
Gain from entrance into joint venture	-	-	364,479
Other	-	-	6,382
Total revenues and other income	-	-	1,505,861
Expenses:			
Salaries	275,754	329,000	4,410,612
Professional and consulting fees	253,572	229,830	5,577,343
Rent and occupancy	2,491	272	239,989
Depreciation and amortization	-	644	105,502
Finance charges and interest	53,529	7,001	179,634
Marketing and other	36,852	12,504	2,113,933
Total expenses	622,198	579,251	12,627,013
Foreign currency translation gain	(5,276 )	-	(5,276 )
Loss from disposition of loan receivable - affiliate	-	-	29,500
Loss from sale of investment	-	-	669,570
Loss on deemed disposition of oil and gas properties, unproved	-	-	3,928,000
Impairment charge on investment	-	-	525,947
Loss before income taxes	616,922	579,251	16,268,893
Provision for income taxes (benefit)	-	-	-
Net loss (development stage)	\$616,922	\$579,251	\$ 16,268,893
Basic and diluted loss per common share after 1:70 reverse stock split	\$(0.01 )	\$(1.50 )	\$(3.16 )

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Weighted average number of basic and diluted common shares outstanding after 1:70 reverse stock split	43,284,919	385,865	5,147,386
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See accompanying notes.

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

## Consolidated Statements of Stockholders' Equity and Comprehensive Income

For the cumulative period of Development Stage Activity - January 1, 2003 through December 31, 2011

	Common Stock		Additional	Accumulated	Accumulated		Comprehensive
	Number of	Par	Paid-In	Accumulated	Other		Comprehensive
	Shares	Value	Capital	Deficit	Comprehensive	Total	Loss
					Income		
					(Loss)		
Balance, January 1, 2003 (pre-development stage)	135,801	\$136	\$434,962	\$ (449,785 )	\$ -	\$(14,687 )	
Loss for the year - 2003	-	-	-	(422,516 )	-	(422,516 )	\$ (422,516 )
Shares issued in acquisition (ZNG)	14,286	14	(14 )	-	-	-	
Balance, December 31, 2003	150,087	\$150	\$434,948	\$ (872,301 )	\$ -	\$(437,203 )	
Loss for the year - 2004	-	-	-	(833,567 )	-	(833,567 )	
Foreign currency translation adjustment	-	-	-	-	(53,120 )	(53,120 )	\$ (886,687 )
Shares issued in acquisition (ZNG)	49,286	49	749,951	-	-	750,000	
Shares issued for professional services	715	1	9,999	-	-	10,000	
Other	-	-	34,426	-	-	34,426	
Balance, December 31,	200,088	\$200	\$1,229,324	\$ (1,705,868 )	\$ (53,120 )	\$(529,464 )	

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2004

Loss for the year - 2005	-	-	-	(1,153,686)	-	(1,153,686)
Foreign currency translation adjustment	-	-	-	-	50,614	50,614 \$ (1,103,072 )
Shares issued for professional services	5,500	6	198,208	-	-	198,214
Shares issued for accrued salaries	24,286	24	303,547	-	-	303,571
Warrants granted for professional services	-	-	310,000	-	-	310,000
Balance, December 31, 2005	229,874	\$230	\$2,041,079	\$ (2,859,554 )	\$ (2,506 )	\$ (820,751 )
Loss for the year - 2006	-	-	-	(4,072,788)	-	(4,072,788)
Foreign currency translation adjustment	-	-	-	-	(1,939 )	(1,939 ) \$ (4,074,727 )
Shares issued for employee stock option plan and warrants	2,786	3	45,497	-	-	45,500
Shares issued for geological data	27,143	27	3,324,973	-	-	3,325,000
Shares issued for professional services	16,279	16	2,121,444	-	-	2,121,460
Warrants granted for professional services	-	-	1,201,960	-	-	1,201,960
Shares cancelled	(8,707 )	(9 )	9	-	-	-
Balance, December 31,	267,375	\$267	\$8,734,962	\$ (6,932,342 )	\$ (4,445 )	\$ 1,798,442

2006

See accompanying notes.

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

## Consolidated Statements of Stockholders' Equity and Comprehensive Income

For the cumulative period of Development Stage Activity - January 1, 2003 through December 31, 2011

	Common Stock		Additional	Accumulated	Accumulated		Comprehensive
	Number of	Par Value	Paid-In	Deficit	Other	Total	Loss
	Shares		Capital		Comprehensive		
					Income		
					(Loss)		
Balance, December 31, 2006	267,375	\$267	\$8,734,962	\$ (6,932,342 )	\$ (4,445 )	\$1,798,442	
Loss for the year - 2007	-	-	-	(2,060,487 )	-	(2,060,487)	
Foreign currency translation adjustment	-	-	-	-	(9,804 )	(9,804 )	\$ (2,070,291 )
Shares issued for employee stock option plan and warrants	8,100	8	(8 )	-	-	-	
Shares issued for geological data	2,857	3	349,997	-	-	350,000	