TETON PETROLEUM CO
Form 10QSB
May 17, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ____________________

Commission file number: 001-31679

TETON PETROLEUM COMPANY

(Exact Name of Registrant as Specified in its Charter)

Delaware	84-1482290
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

(303)-542-1878
(Registrant's Telephone Number including area code)

1600 Broadway, Suite 2400
Denver, Colorado 80202-4921
(Address of Principal Executive Office)

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

Yes X No __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-3 of the Exchange Act).

Yes __No X

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes __ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 10, 2004, 9,114,663 shares of the issuer's common stock were outstanding.

TETON PETROLEUM COMPANY

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PART I. FINANCIAL INFORMATION

TETON PETROLEUM COMPANY

PART I. FINANCIAL INFORMATION

Consolidated Balance Sheets

	March 31, 2004 (Unaudited)	December 31, 2003 (Audited)
Assets		
Current assets		
Cash	$ 7,856,899	$ 7,588,439
Proportionate share of Goloil accounts receivable	16,538	15,739
Proportionate share of Goloil VAT and other accounts receivable	1,756,637	1,078,369
Proportionate share of Goloil inventory	622,981	448,812
Prepaid expenses and other assets	72,271	95,693
Total current assets	10,325,326	9,227,052
Non-current assets		
Oil and gas properties, net (successful efforts)	8,564,084	9,339,786
Cogeneration plant construction in progress	1,758,620	1,700,696
Fixed assets, net	484,642	450,841
Total non-current assets	10,807,346	11,491,323
Total assets	$ 21,132,672	$ 20,718,375
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 732,261	$ 376,429
Proportionate share of Goloil accounts payable and accrued liabilities	4,059,089	2,590,901
Current portion of proportionate share of notes payable owed to affiliate (Note 2)	8,219,652	7,419,409
Total current liabilities	13,011,002	10,386,739
Non-current liabilities		
Asset retirement obligation	129,500	126,500
Total non-current liabilities	129,500	126,500
Total liabilities	13,140,502	10,513,239
Commitments and contingencies		
Stockholders' equity		
Series A convertible preferred stock, $.001 par value, 25,000,000 shares authorized, 269,970 and 618,231 issued and outstanding at March 31, 2004 and		

December 31, 2004. Liquidation preference at March 31, 2004 and December 31, 2003 of $1,197,839 and $2,689,305	270	618
Common stock, $0.001 par value, 250,000,000 and 100,000,000 shares authorized, 9,101,830 and 8,584,068 shares issued and outstanding at March 31, 2004 and December 31, 2003 ...	9,101	8,584
Additional paid-in capital	37,548,890	37,073,366
Unamortized preferred stock dividends....	--	(118,610)
Accumulated deficit	(30,179,691)	(27,657,578)
Foreign currency translation adjustment .	613,600	898,756
Total stockholders' equity	7,992,170	10,205,136
Total liabilities and stockholders' equity .	$ 21,132,672	$ 20,718,375

See notes to unaudited consolidated financial statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Loss

	For the Three Months Ended March 31,	
	2004	2003
Sales	$ 2,962,500	$ 3,408,718
Cost of sales and expenses		
Oil and gas production	622,277	326,305
Transportation and marketing	- -	280,965
Taxes other than income taxes	1,973,275	1,427,572
Export duties..	- -	559,240
Exploration	154,776	93,148
General and administrative - Goloil	184,086	219,557
General and administrative - Teton Petroleum	2,102,638	772,899
Depreciation, depletion and amortization	409,670	332,738
Total cost of sales and expenses	5,446,722	4,012,424
Loss from operations	(2,484,222)	(603,706)
Other income (expense)		
Other income	17,640	21,688
Interest expense	(55,531)	(94,225)
Total other income (expense)	(37,891)	(72,537)

Net loss before taxes	(2,522,113)	(676,243)
Foreign income tax	--	(104,842)
Net loss	(2,522,113)	(781,085)
Imputed preferred stock dividends for inducements and beneficial conversion charges	(521,482)	--
Preferred stock dividend	(31,488)	--
Net loss applicable to common stock	(3,075,083)	(781,085)
Other comprehensive (loss) income, net of tax		
Effect of exchange rates	(285,156)	86,000
Other comprehensive (loss) income	(285,156)	86,000
Comprehensive loss	$(3,360,239)	$ (695,085)
Basic and diluted weighted average common shares outstanding	8,747,165	6,321,218
Basic and diluted (loss) income per common share	$ (.35)	$ (.12)

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

	For the Three Months Ended March 31,	
	2004	2003
Cash flows from operating activities		
Net loss	$(2,522,113)	$ (781,085)
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Depreciation, depletion, and amortization	409,670	332,738
Stock and warrants issued for services and interest	117,094	--
Debentures issued for services	--	--
Changes in assets and liabilities		
Accounts receivable	(679,067)	(488,956)
Prepaid expenses and other assets	23,422	75,446
Inventory	(174,169)	19,104
Accounts payable and accrued liabilities	1,261,983	1,034,540
	958,933	972,872

Net cash provided by (used in) operating activities	(1,563,180)	191,787
Cash flows from investing activities		
Repayment of loans from Goloil	1,065,000	--
Oil and gas properties and equipment expenditures	(190,444)	(2,886,831)
Net cash provided by (used in) investing activities	874,556	(2,886,831)
Cash flows from financing activities		
Net (repayments) proceeds from advances under notes payable from affiliate	800,243	(103,714)
Proceeds from issuance of stock, net of issue costs of $50,000 and $98,100	449,997	2,406,510
Payment of dividends	(8,000)	--
Net cash provided by financing activities	1,242,240	2,302,796
Effect of exchange rates	(285,156)	86,000
Net (decrease) increase in cash	268,460	(306,248)
Cash - beginning of year	7,588,429	712,013
Cash - end of period	$ 7,856,899	$ 405,765

See notes to unaudited consolidated financial statements.

Supplemental disclosure of non-cash activity:

During the first quarter of 2004, the Company had the following transactions:

100,000 warrants were issued to a consultant for services valued at $102,094.

13,750 shares of common stock were issued for the settlement of accrued liabilities valued at $58,700.

The Company issued (i) 1,306,669 non-qualified options to officers and directors valued at $3,243,406; and (ii) 108,331 incentive stock options valued at $268,899 with no expense being recorded for accounting purposes.

The Company issued 3,750 shares of common stock for services valued at $15,000.

The Company has accrued a liability for (i) $52,362 related to the obligation to issue 50,000 warrants to consultants; (ii) $32,329 related to the obligation to issue 7,876 common shares to consultants; and (iii) $28,500 related to the obligation to issue 5,955 shares for services rendered by the outside directors.

Approximately $2,383,000 of capital expenditures for oil and gas properties were included in accounts payable at March 31, 2004 and approximately $1,786,000 of capital expenditures were in accounts payable at December 31, 2003 for an increase during the three months ended March 31, 2004 of $597,000.

Conversion of 463,207 shares of preferred stock, plus dividends of 37,057 shares converted into 500,264 shares of common stock.

We issued 50,000 warrants valued at $22,863 in settlement of accrued liabilities at December 31, 2003.

During the first quarter of 2003, the Company had the following transactions:

7,408 shares of stock were issued to a consultant for services valued at $20,000 provided in 2001 and accrued in payables.

73,422 shares of stock and 66,667 warrants exercisable at $6.00 were issued to a consultant for services provided in 2002 valued at $200,000 and accrued in accounts payable.

$25,000 of stock subscriptions receivable outstanding at March 31, 2003 were collected in April 2003.

Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation and Significant Accounting Policies

The March 31, 2004 financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The unaudited financial statements as of March 31, 2004, as is customary in the oil and gas industry, reflect a pro-rata consolidation of the Company's 50% interest in ZAO Goloil, a Russian closed joint-stock company. However, see note 5 regarding the sale of Goloil. The unaudited financial statements contained herein should be read in conjunction with the financial statements and notes thereto contained in the Company's financial statements for the year ended December 31, 2003, as reported in the Company's Form 10-KSB filed March 30, 2004. The results of operations for the period ended March 31, 2004 are not necessarily indicative of the results for the entire fiscal year.

Certain amounts for March 31, 2003 have been adjusted to include adjustments to exploration expenses and depreciation, depletion and amortization made during the fourth quarter of 2003.

Foreign Currency Exchange Rates

The conversion of the functional currency of Goloil (a Russian Company) in rubles to the reporting currency of U.S. dollars is based upon the exchange rates in effect. The exchange rates in effect at March 31, 2004 and 2003 were 28.48 and 31.67 rubles to the U.S. dollar, respectively. The average rates in effect during the three months ended March 31, 2004 and 2003 was 29.00 and 31.67 rubles to the U.S. dollar, respectively.

Earnings Per Share

At the March 19, 2003 meeting, the Company's shareholders approved a reverse 1 for 12 stock split. All share amounts and earnings per share have been adjusted to reflect the split.

All potential dilutive securities have an antidilutive effect on earnings (loss) per share and accordingly, basic and dilutive weighted average shares are the same.

The following table reflects the effects of dilutive securities as of March 31, 2004 which could dilute future earnings:

Dilutive effects of stock options	2,993,037
Dilutive effects of warrants	7,932,553
Dilutive effects of convertible preferred shares	526,441
	11,452,031

Note 2 - Proportionate Share of Liabilities

The proportionate share of accounts payable and accrued liabilities of $4,059,089 at March 31, 2004, are obligations of Goloil and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

The Company's 50% pro-rata share of notes payable advances made which are advances to Goloil by an affiliate are also obligations of Goloil at March 31, 2004 and not Teton Petroleum nor have they been guaranteed by Teton Petroleum. However, see note 5 regarding the proposed sale of Goloil.

The Company's pro-rata share of Goloil notes payable owed to an affiliate totaled $8,219,652 at March 31, 2004. The proceeds were used to pay certain operating expenses and capital expenditures of Goloil. These notes provide for interest rates of 8%, with quarterly interest payments, maturing through June 2004. These notes are secured by substantially all Goloil assets. The notes payable will be repaid from cash flow from ZAO Goloil as available, or extended to future periods. However, see note 5 regarding the proposed sale of Goloil.

Note 3 - Stockholder's Equity

In March 2003, the stockholders approved an increase in the amount of authorized common shares from 100,000,000 to 250,000,000 and also approved 25,000,000 of preferred stock authorized for future issuances.

Private Placements of Common Stock

17,500 common shares valued at $73,700 were issued for (i) the settlement of accrued liabilities of $58,700; and (ii) services provided by consultants of $15,000.

Private Placements of Series A Convertible Preferred Stock

During the period ending March 31, 2004 the Company received the following proceeds from the issuance of privately placed preferred stock at a price of $4.35 per share.

Proceeds of $450,000 (net of cash costs of $50,000) from the issuance of 114,942 shares of 8% convertible preferred stock.

The preferred shares carry an 8% dividend, payable quarterly commencing January 1, 2004 and are convertible into common stock at a price of $4.35 per share. The preferred stock is entitled to vote on all matters presented to the Company's common stockholders, with the number of votes being equal to the number of underlying common shares. The preferred stock also contains a liquidation preference of $4.35 per share plus accrued unpaid dividends. The preferred shares can be redeemed by the Company after one year for $4.35 per share upon proper notice of redemption being provided by the Company.

In connection with the preferred share private placements, certain placements were entered into when the underlying price of the common stock to which the preferred shares are convertible into, exceeded $4.35 the stated conversion rate. As a result of the underlying shares being in-the-money, the Company was required to compute a beneficial conversion charge, which is calculated as the difference between the conversion price of $4.35 and the closing stock price on the effective date each offering, multiplied by the total of the related common shares to be issued upon conversion of the preferred stock. These charges are reflected as a dividend to the preferred shareholders and are recognized over the period in which the preferred stock first becomes convertible. For the Tranche 1 shares the charge was immediately recognized as the shares were immediately convertible into common. For Tranche 2 the shares could not be converted until a shareholder vote on January 27, 2004 took place approving the issuance of additional common shares. The calculated beneficial conversion feature on Tranche 2 was therefore amortized from the effective date of each issuance through January 27, 2004. This resulted in total beneficial conversion charges of $1,182,452, of which $1,063,842 was recorded during the fourth quarter of 2003, and $118,610 was amortized and recorded as preferred dividends in January 2004.

In order to induce convertible preferred shareholders to convert to Common shares, the Company agreed to issue Common share dividends of 8% for a full year, totaling $140,815, and agreed to issue, 402,990 warrants, valued at $262,057, resulting in a total inducement charge of $402,872 to be recognized as a preferred dividend in the first quarter for those investors which accepted the inducement offer. As a result, shareholders converted 463,207 of 8% convertible preferred shares to common stock at a price of $4.35 per share during the first quarter of 2004. The warrants issued were valued using the Black-Scholes option pricing model using the following assumptions: volatility of 55.2%, a risk-free rate of 1.59%, zero dividend payments, and a life of two years.

Note 4 - Stock Options

At the annual meeting on March 19, 2003, the Company's shareholders approved an employee stock option plan and authorized 2,083,333 shares of Common Stock for issuance thereunder. Under the plan, incentive and non-qualified options may be granted.

During the first quarter of 2004, the Company issued 1,306,669 non-qualified options to employees, officers and directors valued at $3,243,406 using the Black-Scholes option-pricing model with the following assumptions: volatility of 55.2%, a risk-free rate of 4%, zero dividend payments, and a life of ten years. The Company also issued 108,331 incentive options to employees, officers and directors valued at $268,899 using the Black-Scholes option-pricing model under the same assumptions described above.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for stock options issued to employees, officers and directors under the stock option plan. Had compensation cost for the Company's options issued to employees, officers and directors been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's net loss and basic loss per common share would have been changed to the pro forma amounts indicated below:

	For the Three Months Ended March 31,	
	2004	2003
Net loss applicable to common shareholders - as reported	($3,075,083)	($781,085)

Add fair value of employee compensation expense	(3,512,304)	--
Net loss applicable to common shareholders - pro forma	($6,587,387)	($781,085)
Basic loss per common share - as reported	($ 0.35)	($0.12)
Basic loss per common share - pro forma	($ 0.75)	($0.12)

Note 5-Proposed Sale of Goloil Shares

During April 2004 the Company entered into a Sale and Purchase Agreement (the "Agreement") with RussNeft, an Open Joint-Stock Company organized under the laws of the Russian Federation. RussNeft is the current operator of Goloil. Pursuant to the terms of the Agreement, RussNeft will pay $8,960,000 for all of the Company's shares held in Goloil. In connection with the Agreement, the Company entered into a separate agreement with Goloil for repayment of all of the outstanding advances owed to the Company. At the date the parties reached agreement, the Company had advances totaling $6,040,000, of which $1,065,000 and $3,600,000 had been received as of March 31, 2004 and May 11, 2004, respectively. The Company will pay an investment banking fee of $750,000 related to the sale and estimates its expenses in connection with the negotiation of the agreement to be $135,000.

The Company had recorded the advances as investments in Goloil and accordingly such amount had been included in the carrying value of oil and gas properties.

The transaction is subject to the customary conditions and is subject to the approval of the shareholders of the Company.

If approved, the gross proceeds from the two transactions, totaling $15,000,000 less the estimated $885,000 in costs combined with the elimination of approximately $9,900,000 in liabilities, net of current assets, will result in the Company recording an estimated gain of $12,601,000 during 2004.

The following unaudited pro forma condensed balance sheet gives effect to the sale of shares assuming the sale of Goloil shares occurred on March 31, 2004:

Current assets	$ 20,685,000
Non-current assets	26,000
Total assets	$ 20,711,000
Current liabilities	$ 710,000
Stockholders' equity	20,001,000
Total liabilities and stockholders' equity	$ 20,711,000

The condensed pro forma balance sheet reflects the historical balance sheet included in this Form 10-Q adjusted for the following:

a. The proceeds of $8,960,000 from the sale of Goloil shares plus the remaining $4,975,000 advances to be received, subsequent to March 31, 2004, less estimated expenses of $885,000 and alternative minimum taxes of $181,000.

b. Elimination of Goloil's assets and liabilities which have been historically consolidated on a pro rata basis.

c. Recording a gain from the disposition of a discontinued operation, net of tax, of approximately $12,601,000.

Assuming the sale occurred on January 1, 2004 Teton would have had, on a pro forma basis, an estimated net loss from operations applicable to common shares of $2,462,000 and as a result of the sale, net income of approximately $9,703,000. On a pro forma basis, the loss per share from continuing operations would be $.28 per common share and net income per common share would be $1.11.

Note 6-Proposed Acquisition

On April 5, 2004 the Company entered into an agreement with Samson International Resources ("Samson") for the purchase of Samson's 52% interest in ZAO Pechoraneftegas ("PNG") in the Komi region of Siberia. Teton paid Samson a $3.85 million deposit. Since then, Samson's partner in PNG, Vitol Cypress ("Vitol"), has exercised its preferential right to acquire Samson's interest in the property. Teton's deposit has been fully refunded, but the contract remains in effect. In the event that Vitol does not close on Samson's 52% interest, Teton and Samson may continue with the transaction with closing subject to Teton's due diligence and other customary conditions.

Teton continues to negotiate the acquisition of new fields in Russia, although currently no definitive agreements have been reached. We will provide further information on the above transactions, as well as others, through additional press releases and the soon-to-be released proxy statement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

With the exception of historical matters, the matters discussed herein are forward looking statements that involve risks and uncertainties. Forward looking statements include, but are not limited to statements concerning anticipated trends in revenues. Our actual results could differ materially from the results discussed in such forward-looking statements. There is absolutely no assurance that we will achieve the results expressed or implied in forward-looking statements.

Management Discussion & Analysis

Overview

Teton Petroleum Company is an independent oil and gas exploration and production company whose focus is the Russian Federation, primarily Western Siberia.

During the first quarter, Teton's activities focused first on discussions with its partner OAO NK RussNeft over the management of its Goloil subsidiary, then negotiating the proposed sale of Goloil to RussNeft, and on the execution of Teton's strategy of acquiring other producing oil properties in the Russian Federation.

Financial highlights for the first quarter include the following:

- Teton's share of production from Goloil increased by 10.5% to 167,162 barrels year over year in the first quarter.

- First quarter production revenues declined year over year by13.1% to $2,962,500 primarily as a consequence of the low oil prices received related to new product marketing arrangements put in place for Goloil by RussNeft starting in the fourth quarter of 2003.

- Teton's net loss for the first quarter widened from $781,085 to $2,522,113 from the same period in 2003.

Sale of Goloil Interest to RussNeft

In September, OAO NK RussNeft, a newly formed Russian independent oil producer acquired the shares held by Mediterranean Overseas Trust and InvestPetrol in Goloil and assumed responsibility for operating Goloil's Eguryak License.

Commencing October 1, RussNeft began selling Goloil's production to an entity believed by the Company to be an affiliate of RussNeft for a fixed price of 2,400 rubles per ton (roughly $11 per barrel), a price substantially below the blended market price Goloil formerly received selling its production into the export, near abroad and domestic markets and significantly below current market prices. As a consequence, the Company estimates its revenues after taxes for the quarter were reduced by approximately $1.44 million in fourth quarter of 2003 and by $2.02 million in the first quarter of 2004 from what it would have received under its previous arrangements. Moreover, since this pricing arrangement prevailed through the end of the fourth quarter and beyond, the Company had to significantly reduce the present value of its reserves effective January 1, 2004, as detailed in its Form 10-KSB/A for the year ended December 31, 2003.

Efforts to resolve these and other issues with RussNeft culminated in a series of meetings in Russia starting in November 2003 between Teton executives and representatives of RussNeft, which failed to yield an acceptable resolution. Shortly thereafter, the Company and RussNeft agreed to disagree on the joint operating strategy for Goloil and instead began to discuss the terms of an exit via a sale of Teton's interest in Goloil to RussNeft.

The proposed sale of the Company's interest was announced on April 11, 2004 and on May 12, 2004 the Company provided additional detail in a press release including the sales price, which including outstanding loans to be repaid by Goloil to Teton was $15,000,000. At that time the Company also disclosed that the transaction would result in the elimination of approximately $9.9 million in Goloil's net liabilities from Teton's balance sheet and that the sale would result in a second quarter gain of approximately $12 million.

The sale is subject to shareholder approval and will be discussed in detail in the Company's definitive proxy statement that will be sent to shareholders in connection with the sale. Copies of the Proxy Statement will also be available on both the SEC and Teton websites (www.sec.gov and www.tetonpetroleum.com).

2004 Operational and Financial Objectives - Update

As described in Teton's 2003 10-KSB/A, the Company's original plans called for it to focus its efforts in two areas: 1) the continued development of the Goloil License and 2) the acquisition, development and exploitation of similar projects in the Russian Federation. With the Company's agreement to sell Goloil subject to share holder approval, the first objective is no longer operative and the second objective will become paramount.

Teton has been actively seeking to make acquisitions of producing properties in Russia, but where Teton itself will have the opportunity to jointly or fully operate the property. Specifically the Company has determined to target properties with existing production in the range of 3,000 to 6,000 barrels of oil per day with upside potential from developmental drilling and other exploitation opportunities. Among the financial criteria for such acquisitions is that they generate positive cash flow and be accretive to Teton earnings in a reasonable period of time.

Teton's plans to pursue such acquisitions means that it will incur increased due diligence and legal expenses, that will be reflected in its G&A expenses. The company is now devoting significant internal resources to evaluating acquisitions while also utilizing the services of outside technical, legal and accounting consultants.

As reported in "Subsequent Events" below, Teton reached an agreement to acquire a field producing 3,400 BOPD (net) in the Komi region of Siberia from Samson International Resources ("Samson"), in early April. As part of the agreement, Teton made a $3.85 million down payment to Samson. Subsequently, Samson's partner in the field elected to exercise a preferential right of first refusal with Samson to acquire their interest in the field on the same terms offered by Teton. Samson subsequently returned Teton's down payment, though the purchase and sale agreement between Samson and Teton remains in effect. Teton is also engaged in preliminary negotiations regarding the acquisition of other producing properties.

Results of Operations

The table below summarizes some of the most important components of our revenues, operating costs and net loss. Please note that since Teton has been absorbing 50% of the cost of producing the oil paid under the Goloil production payment (included in the cost amounts), Teton's per barrel production costs are effectively doubled.

Operating Highlights for the Quarter ended March 31
(in U.S. Dollars, unless otherwise noted)

	2004	2003	Change	% Change
Sales, Barrels	167,162	151,304	15,858	10.5%
Average Daily Sales, Barrrels	1,837	1,663	174	10.5%
Average Selling Price, $/barrel	17.72	22.53	(4.81)	-21.3%
Revenues	2,962,500	3,408,718	(446,218)	-13.1%
Costs of Sales and Expenses, excl. DD&A				
Production Costs	622,277	326,305	295,972	90.7%
Transportation & Marketing	-	280,965	(280,965)	-100.0%
Taxes other than Income taxes	1,973,275	1,427,572	545,703	38.2%
Exploration cost (Geology & Geophysics)	154,776	93,148	61,628	66.2%
Export Duties	-	559,240	(559,240)	-100.0%
	2,750,328	2,687,230	63,098	2.3%
Results from Goloil Operations, before DD&A	212,172	721,488	(509,315)	-
Less General & Administrative Expense, Goloil	184,086	219,557	(35,471)	-16.2%
	28,086	501,931	(473,844)	-
Depreciation, Depletion & Amortization, Goloil	390,386	332,738	57,648	17.3%
Operating Income (Loss), Goloil	(362,300)	169,193	(531,493)	-

General & Administrative Expense, Teton	2,102,638	772,899	1,329,739	172.0%
Depreciation, Depletion & Amortization, Teton	19,284	-	-	-
Operating Income (Loss), Teton	(2,484,222)	(603,706)	(1,880,516)	-

Costs and Expenses during the Quarter ended March 31
(in U.S. $ per barrel)

Controllable Costs	2004	2003	Change	% Change
Production Costs	3.72	2.16	1.57	72.7%
G&A - Goloil	1.10	1.45	(0.35)	-24.1%
G&A - Teton	12.58	5.11	7.47	146.2%
	17.40	8.72	8.69	99.5%
Non-Controllable Costs				
Transportation & Marketing	-	1.86	(1.86)	-100.0%
Taxes other than Income Taxes	11.80	9.44	2.37	25.1%
Export Duties	-	3.70	(3.70)	-100.0%
	11.80	14.99	(3.18)	-21.2%

During the first quarter, Teton's net loss, applicable to Common stock, widened from $781,085 in the first quarter of 2003 to $3,075,083 or $2,293,998 after taking into account non-cash inducement charges of $521,482 for beneficial conversion of the preferred stock and preferred dividends of $31,488 in the first quarter of 2004. On a per share basis, Teton's loss widened from $0.12 per share to $0.35. The increased loss was largely due to a shift in its share of Goloil's operating income from a gain of $169,193 in the first quarter of 2003 to a loss of $362,300 in the first quarter of 2004, along with an increase in Teton domestic general and administrative ("G&A") expenses from $772,899 to $2,102,638 during the same periods, both of which are discussed in the paragraphs below.

Teton's share of Goloil revenues fell year over year from $3,408,718 to $2,962,500 in the first quarter. The decrease reflected a 21.3% decrease in average selling price from $22.53 to $17.72 per barrel, partially offset by a 10.5% increase in production volume from 151,304 to 167,162 barrels. Production costs increased by $295,972, or 90.7%, while taxes other than income taxes increased by $545,703 or 38.2%. The increase in production costs was tied increased workover activity and higher diesel fuel expenditures. Taxes other than income taxes include the Russian Minerals Extraction Tax and Value Added Tax (VAT) and represent significant expenses for all Russian oil producers. The Mineral Extraction Tax is a tax on revenues tied to the price of Urals blend crude, a benchmark for exports. Goloil no longer incurs export tariffs or transportation charges under the marketing arrangement now in place; all sales take place at the wellhead. Teton's share of Goloil's depreciation, depletion, and amortization expenses increased by $57,648.

First quarter domestic G&A expense at Teton increased from $772,899 to $2,102,638 year over year, an increase of 172.0%. The key factors contributing to this increase were an increase in compensation costs of $522,723 including management bonuses paid in January, as well as increases in advertising and public relations expenses of $307,262, legal and accounting expenses of $150,248, franchise taxes of $128,000, consulting fees of $97,467, and geological and engineering expenses of $73,922. In addition to the increase in compensation relating to additional staffing to meet Company goals and objectives, many of the other increases in G&A expenses were the result of Teton's due diligence and financing costs incurred in connection with preliminary negotiations to acquire and develop new oil and gas properties in

Russia, including with Samson.

Liquidity and Capital Resources

The Company had a cash balance of $7,856,899 on March 31, 2004 and a working capital deficit of $2,685,676. Excluding the pro rata consolidation of Goloil's working capital deficit, Teton has a working capital surplus of $7,011,577.

When the sale of Goloil closes, which is expected to take place in the latter half of July subject to shareholder approval of the transaction, the Company anticipates it will have approximately $20 million in cash. In addition, its $9.9 million share of Goloil's net liabilities will be extinguished leaving it with a working capital position essentially equal to its cash.

In order to complete the acquisitions the Company is currently pursuing, the Company will invest the cash from the sale of Goloil combined with an estimated $5 to $10 million in additional financing. The additional $5 to $10 million will be a combination of debt and equity.

Sources and Uses of Funds

Historically, Teton's primary source of liquidity has been cash provided by equity offerings. Such offerings will continue to play an important role in financing Teton's business and the Company anticipates seeking approval to raise additional equity capital from its shareholders at its annual meeting. In addition, the Company is working to establish a borrowing facility with one or more international banks, most likely in the form of a revolving line of credit that will be used primarily for the acquisition of producing properties and for developmental drilling and other capital expenditures.

Cash Flows and Capital Expenditures

Cash used in operating activities for the three months ended March 31, 2004 was $1,563,180 compared to cash provided by operating activities of $191,787 for the three months ended March 31, 2003. As described above the Company's net loss increased to $2,522,113 from $781,085 at March 31, 2003.

RussNeft, the operator of Goloil continues to proceed in the development of Goloil's oil and gas resulting in the Company investing $190,444 in the Goloil oil and gas properties in the first quarter. Resulting from the Company's first quarter negotiations with RussNeft, the company received $1,065,000 from Goloil as repayment of advances made to Goloil prior to December 31, 2003. The Company received an additional $2,600,000 on April 1, 2004.

During the first quarter of 2004, the Company received $449,997 from the sale of Preferred stock. The increase in proceeds from advances represents amounts advanced by RussNeft to Goloil. As discussed above, such advances will be eliminated upon completion of the Company's proposed sale of its interest in Goloil.

Income Taxes, Net Operating Losses and Tax Credits

Currently, Goloil pays a profits tax in Russia equal to 24% of net profits as defined by Russian income tax law. As discussed in our 10-KSB the taxation system in Russia is evolving as the central government transforms itself from a command to a market-oriented economy. Based on current tax law and the U.S. Russian Income Tax Treaty the profits tax paid to Russia will be a creditable tax when determining the Company's U.S. income taxes payable, if any. At March 31, 2004 the Company has a U.S. net operating loss tax carry forward of approximately $20,000,000, utilization of which is limited under IRC section 382.

While Teton expects to realize a profit of approximately $12.6 million from the sale of Goloil, Teton's tax advisors anticipate that it will incur only a relatively small Alternative Minimum Tax liability of approximately $180,000. Based on the remaining net operating loss, the Company is unlikely to pay U.S. income taxes in the near to medium term future.

Subsequent Events

- On April 5, 2004 Teton announced that it has signed a purchase and sale agreement to acquire a majority (52%) interest in a producing field in Russia. The agreement provided for the payment of a deposit of $3.85 million which was made by Teton to the seller, Samson International Resources during April . At the time, Teton estimated that the field's production was approximately 3,400 barrels of oil per day net to the 52% interest being purchased by Teton. The proposed acquisition also included two additional exploration licenses. The closing of the acquisition was subject to several conditions, including a preferential right of first refusal held by Samson's partner, Vitol Cypress, to acquire Samson's interest in the field on the same terms offered by Teton. Vitol Cypress elected to exercise this right in early May and Samson refunded Teton's deposit though the contract between Samson and Teton remains in effect. In the event that Vitol does not close on Samson's 52% interest, Teton and Samson may proceed with the contemplated transaction subject to Teton's due diligence.

- On April 11, 2004 Teton announced it was selling its 35.3% interest in the Goloil license to a private Russian independent, subsequently identified as RussNeft. The sales price of $15,000,000, includes repayment of all outstanding loans and accrued interest owed to Teton by Goloil. Sale of the interest in Goloil is subject to shareholder approval and will be voted on at Teton's upcoming annual shareholder meeting. See note 5 to financial statements.

Critical Accounting Policies

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Reserve Estimates: The information regarding the Company's share of oil and gas reserves, the changes thereto and the resulting net cash flows are all dependent upon assumptions used in preparing the Company's annual reserve study. A qualified independent petroleum engineer, in accordance with standards of applicable regulatory agencies and the Securities and Exchange Commission definitions, prepares the Company's reserve study. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, the exchange rate between the Russian ruble and the U.S. dollar, future operating costs, severance, ad valorem, export, excise and other taxes, development costs and workover and remedial costs, all of which may, in fact, vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Company's oil and gas properties and the rate of depletion of the oil and gas properties. Management believes that the current assumptions used in preparation of the reserve study are reasonable. The Company's revised downward its estimate of oil and gas reserves by 4.4 million barrels in the fourth quarter of 2003 primarily due to the reclassification of certain waterflood reserves and reserves associated with undrilled locations to probable. Only reserves associated with two wells planned and budgeted for 2004 have been classified as proved undeveloped. The Company's estimated proved reserves at December 31, 2003 and 2002 were prepared by independent petroleum engineering consultants Gustavson and Associates.

Property, Equipment and Depreciation: The Company follows the successful efforts method of accounting for oil and gas properties. As of March 31, 2004 all of the Company's oil and gas assets are held in one cost center located in Siberia, Russia. As the Company makes additional acquisitions it will have additional cost centers. Under the successful efforts method of accounting the costs of development wells are capitalized, but exploratory wells are capitalized only if they are successful. The Company plans to increase its oil and gas reserves by acquisition and the development of reserves in place. Accordingly, acquisition and drilling costs on successful wells will be capitalized. Capitalized costs will be depleted and depreciated using the units of production method based on estimated proved oil reserves as determined by independent engineers, currently Gustavson and Associates. If the estimates of oil and gas reserves are changed materially then the amount of depreciation and depletion recorded by the Company could increase or decrease materially. In addition the carrying costs of the oil and gas properties are subject to the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company is required to impair the net book value for a cost center when such net book value is greater than the estimated future cash flows for such cost center. At March 31, 2004 the Company's estimated cash flow for its Siberian cost center, using the domestic Russian price of 2,400 rubles per ton ($11 per barrel) exceed the carrying value.

Pro Rata Consolidation: The Company currently pro rata consolidates its 50% interest in Goloil, because, as of March 31, 2004, Management believes that to be the most meaningful presentation. If the Company completes the proposed sale of its interest in Goloil then the assets and liabilities of Goloil will be eliminated in recording the gain on sale. See the note 5 to the financial statements.

Production Payment: During June, 2000 the Company entered into a Master Agreement that requires, among other things, a seven year production payment to Energosoyuz equal to 50% of the oil produced from new and existing Goloil wells in exchange for wells and facilities constructed by Energosoyuz. Because the production payment was for a specified amount of production and not for a fixed and determinable dollar amount, the Company did not record such transaction as a loan. Currently, Goloil is paying Energosoyuz a flat amount of 19,000,000 rubles per month, which, at current prices, is less than 50% of the oil produced. If the Company is not successful in its efforts to sell Goloil to RussNeft, we would continue our interest in Goloil reserves which would continue to be subject to a production payment through June 2007, which may cause future impairment of our investment in such properties.

Asset Retirement Obligation: During the fourth quarter of 2004 the Company applied the provisions of SFAS 143 "Accounting for Asset Retirement Obligations" and recorded the estimated December 31, 2003 liability for the retirement of its

Russian oil and gas assets along with a corresponding increase in the carrying value of the related oil and gas properties. The liability was estimated based on the estimated, discounted future cost to plug the oil and gas wells existing at December 31, 2003 plus the costs of clean up based on the Company's current understanding of the standards that will be applied at the time of retirement. The Company recorded an increase in the asset retirement obligation during the first quarter of 2004 solely due to the accretion of the discount. If the Company does not sell Goloil, the Company will continually review the assumptions it used in making such estimate and revise the liability as required.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. To the extent we borrow or finance our activities we will be exposed to interest rate risk, which is sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond the Company's control.

The Company is exposed to interest rate risk primarily through any borrowing activities it may undertake. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and the Company's future financing requirements.

The Company has no current borrowings other than it's pro rata share of Goloil's.

The Company has not and does not plan to, enter into any derivative financial instruments for trading or speculative purposes.

The Company conducts business primarily in Russia. Therefore, changes in the value of Russia's currency affect the Company's financial position and cash flows when translated into U.S. Dollars. The Company has generally accepted the exposure to exchange rate movements relative to its investment in foreign operations.

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2004, an evaluation was performed by our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not completely effective as of March 31, 2004.

In connection with the audit of the year ended December 31, 2003, there were no "reportable events" except that the Company's auditors reported to the Registrant's Audit Committee that the auditors' considered two matters involving internal controls and their operation to be material weaknesses. Specifically, in connection with its audit of the consolidated financial statements of Registrant and its subsidiary for the year ended December 31, 2003, the auditors reported that a material weakness existed related to the lack of formalized policies and procedures to permit timely recording and processing of financial information to permit the timely preparation of financial statements and recommended implementation of formal policies and procedures and significantly enhancing the accounting staff. Since December 31, 2003 the Registrant is addressing this concern and has hired additional accounting staff and restructured certain accounting and reporting responsibilities and is in the process of preparing formal procedures to permit timely recording and processing of financial information. The second matter related to oversight of its Russian subsidiary and reporting of its financial results on a timely basis which impact and represents substantially all of the company's operating results. As discussed above, the Registrant is in the process of selling its Russian subsidiary. The Registrant is also in preliminary negotiations with respect to potential acquisitions. The Registrant intends to pursue acquisitions where the Registrant will jointly or fully operate which will allow the Registrant to put in place those procedures and controls necessary to ensure proper and timely reporting of financial results.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The securities described below represent our securities sold by us for the period starting Jan 1, 2004 and ending March 31, 2004 that were not registered under the Securities Act of 1933, as amended, all of which were issued by us pursuant to exemptions under the Securities Act. Underwriters were involved in none of these transactions.

PRIVATE PLACEMENTS OF STOCK AND WARRANTS FOR CASH

None.

SALES OF DEBT AND WARRANTS FOR CASH

None.

OPTION GRANTS

On March 31, 2004, Teton issued 1,415,000 options to officers and directors pursuant to the 2003 Stock Option Plan. The options have an exercise price of $3.60 per share and expire on March 31, 2014. This offering and sale was deemed to be exempt under Rule 701 and Section 4(2) of the Securities Act of 1933. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to an accredited investor and transfer was restricted in accordance with the requirements of the Securities Act of 1933.

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

On January 15, 2004, Teton issued 3,750 shares of common stock in satisfaction of a December 31, 2003 obligation valued at $17,900. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to an accredited investor and transfer was restricted in accordance with the requirements of the Securities Act of 1933.

On February 20, 2004, Teton issued 10,000 shares of common stock in satisfaction of a December 31, 2003 obligation valued at $40,800. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to an accredited investor and transfer was restricted in accordance with the requirements of the Securities Act of 1933.

On March 12, 2004, Teton issued 3,750 shares of common stock to a consultant in exchange for investor relation services valued at $15,000. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to an accredited investor and transfer was restricted in accordance with the requirements of the Securities Act of 1933.

On January 22, 2004, Teton issued 100,000 warrants exercisable at $5.00 per share expiring January 21, 2005. The warrants were issued in connection investor relation services. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to an accredited investor and transfer was restricted in accordance with the requirements of the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

A majority of the Company's stockholders approved, pursuant to rules established by the American Stock Exchange, the issuance of the Company's preferred stock at a Special Meeting of Stockholders on January 27, 2004.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON 8-K:

Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on From 8-K: None

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 17, 2004

By: /s/ Karl F. Arleth

Karl F. Arleth,
President and CEO

Date: May 17, 2004

By: /s/ Patrick A. Quinn

Patrick A. Quinn, CFO