TETON PETROLEUM CO
Form 10KSB/A
April 21, 2004

WASHINGTON, DC
FORM 10-KSB/A

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003.

Commission File No. 000-31170

TETON PETROLEUM COMPANY
(Name of small business issuer in its charter)

DELAWARE	1482290
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 Broadway, Suite 2400
Denver, Co. 80202 - 4921
(Address of principal executive offices)

Issuer's telephone number: 303.542.1878

Securities registered pursuant to Section 12(b) of the Exchange Act: None

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

Common Stock
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the 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 [ ]

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

The issuer's revenue for its most recent fiscal year was $11,437,802

The aggregate market value of the common stock held by non-affiliates of the issuer, 8,579,894 shares of common stock, as of March 25, 2004, was approximately $33,804,782, based on the closing bid of $3.94 for the issuer's common stock as reported on the American Stock Exchange. Shares of common stock held by each director, each officer named in Item 9, and each person who owns 10% or more of the outstanding common stock have been excluded from this calculation in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily conclusive.

As of March 25, 2004, the issuer had 8,584,068 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE - NONE

Transitional Small Business Disclosure Format (Check one): YES [ ] NO [X]

FORM 10-KSB
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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PART I

Caution Concerning Forward-Looking Statements

We have included in this report, statements which are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These include statements that are not simply a statement of historical fact but describe what we "believe," "anticipate," or "expect" will occur. We caution you not to place undue reliance on the forward-looking statements made in this report. Although we believe these statements are reasonable, there are many factors, which may affect our expectation of our operations. These factors include, among other things, the following:

o general economic conditions
o the market price of oil
o our ability to service our existing indebtedness
o our ability to raise additional capital, obtain debt financing, or generate

sufficient revenues to fund our operating and development plan
- our success in completing development and exploration activities
- political stability in Russia
- changes in Russian law, currency regulations, and taxation
- our present company structure
- our accumulated deficit
- other factors discussed elsewhere in this document
- uncertainty regarding certain disputed matters with our Russian partner RussNeft

Summary

Teton Petroleum Company, through its consolidated subsidiary, is engaged in oil and gas exploration, development, and production in Western Siberia, Russia.

In 2001, four wells were drilled and completed on the license area. This brought the total number of producing wells on the license area to 7. At the end of 2001, the field was producing approximately 2,500 barrels of oil per day, 625 barrels of oil per day net to Teton. The construction of a 40-kilometer (25-mile) pipeline was also completed. The pipeline enables us to transport and produce oil on a year-round basis.

In 2002, 6 additional wells were drilled and completed on the license area. This brought the total number of producing wells on the license area to 13.

Teton reorganized its structure in 2002. After MOT withdrew from Goltech Petroleum, LLC, Teton became the sole owner of Goltech. Goltech owns 35.295% of the shares of Goloil. Goloil holds the oil and gas license. In this report, "we" or "Teton" may include activities conducted by Teton, Goltech, and/or Goloil.

In 2002, Teton raised net proceeds of $4,143,643 from the issuance of convertible debt, which was converted into common stock and warrants on September 1, 2002, and $3,333,460 from the sales of common stock under private placement offerings. Thus, at the end of 2002, Teton had no outstanding debt obligations, exclusive of our proportionate share of notes payable owed to affiliate.

During 2003, Teton's Goloil affiliate drilled seven new wells, bringing the total number of wells that are capable of producing to 21 and completing its drilling program for the year. Of the 21 wells, one is awaiting completion, and four are off-line pending upgrades to the gathering system. Consequently, as of the end of December, there were 16 producing wells. During the month of December, the Goloil license produced an average of 7,164 barrels of oil per day, of which 1,791 was net to Teton. Goloil management expects to complete the above-mentioned gathering system upgrade during the first half of 2004, at which time it also expects to commence the operation of its co-generation plant, which has been delayed by permitting issues.

In September 2003, OAO NK RussNeft, a Russian independent oil producer became Teton's partner in Goloil, by acquiring Mediterranean Overseas Trust and its affiliates and all other Goloil shareholders. RussNeft succeeds Mediterranean Overseas Trust as Manager of Goloil, but at this point continues to operate through MOT. It is Teton's view that the agreements with MOT governing Goloil's operations remain in effect until new agreements, now being negotiated, are in place. Please refer to the Management Discussion and Analysis for an extensive discussion on various disputes with RussNeft.

In 2003, Teton raised net proceeds of $10,251,924 from the issuance of preferred and common stock. At the end of 2003, Teton had no outstanding debt obligations, exclusive of our proportionate share of notes payable owed to affiliate, Goloil.

Item 1. DESCRIPTION OF BUSINESS.

Structure of Teton

Through our wholly-owned subsidiary, Goltech Petroleum LLC, we own 35.295% of the Russian Joint Stock Company Goloil ("Goloil"). Mediterranean Overseas Trust (together with its affiliates, including McGrady, Fenlex, Petromed, and Energosoyuz-A ("ESA"), (collectively "MOT")) owns 35.295% of Goloil and serves as Manager of Goloil. InvestPetrol, another Russian Joint Stock Company, owns the remainder (29.41%) of Goloil. In September of this year, Goloil and its affiliates, along with InvestPetrol were acquired by OAO NK RussNeft, a Russian independent oil producer. RussNeft succeeds McGrady as Manager of Goloil, but at this point continues to operate through McGrady. Consequently, our discussions pertaining to Teton's structure and operations of the Goloil License will continue to refer to McGrady (and affiliates) as Goloil's Manager and the operator of the Goloil License.

Goloil holds the license to produce oil and gas in Western Siberia. MOT and Teton (via Goltech) are obligated to each fund 50% of the Capital Expenditures of Goloil under their Memorandum of Understanding. InvestPetrol is currently not funding any of this development. Based on the current structuring of Goloil and the development agreements with Teton and MOT, and until Goltech and McGrady each has been repaid its investments in Goloil, each receives a proportion of the production and revenues from Goloil (after the production payment to MOT) equal to the proportion of its investment to the total investments in Goloil. Since it is expected that this will continue for the foreseeable future, when we describe "net" amounts to Teton, these calculations are based on Teton's right (through its ownership of Goltech) to receive 50% of the production and revenues from Goloil (after the production payment to ESA). The agreements affecting the Goloil license are discussed below under "MOT Agreements."

Goltech Petroleum LLC is a limited liability company organized under the laws of Texas. For tax purposes it is treated as a partnership. We are the sole manager of Goltech and have complete authority to manage its business. Petromed (MOT) withdrew as a member and manager of Goltech in 2002. In connection with its withdrawal, Petromed received a distribution consisting of Goloil shares and return of its original $1 million contribution.

Goloil is a closed joint stock company organized under the laws of Russia. Russian joint stock companies are corporate entities with limited liability similar to corporations formed under United States laws. Shareholders of Russian joint stock companies generally are not liable for debts and obligations of the company. However, shareholders of a bankrupt joint stock company may be held liable for debts and obligations of the bankrupt company if they have exercised their authority to undertake an action knowing that bankruptcy would be a possible result of their actions. Any transfer of shares by a shareholder to a third party is subject to a right of first refusal by the other shareholders.

Under Russian law, a simple majority of voting shares is sufficient to control adoption of most resolutions. Resolutions concerning amendment of the company charter, reorganizations (including mergers), liquidation, any increase in authorized shares, or certain "large" transactions require the approval of the shareholders holding 75% of the outstanding shares.

A Russian joint stock company has no obligation to pay dividends to the holders of common shares. Any dividends paid to shareholders must be recommended by the board of directors and then approved by a majority vote at the general meeting of shareholders. The Memorandum of Understanding between McGrady and Teton (the controlling shareholders) provides that any excess cash will be used to pay back investments on a quarterly basis.

Teton History

Teton was formed by the November 1998 merger of EQ Resources Ltd. and American Tyumen Exploration Company. EQ was incorporated in Ontario, Canada, on November 13, 1962, under the name Mangesite Mines Limited. Its name was changed to EQ Resources Ltd. in August 1989. EQ was domesticated in Delaware immediately prior to the merger. In the merger, EQ, the survivor corporation, was renamed Teton Petroleum Company.

At the time of the merger, Teton's holdings consisted of licenses for the exploration of gold in Ghana, licenses for oil and gas in Dagestan, Russia, and the Goloil license. Following the merger, we decided to focus our efforts and resources on development of the Goloil license. We disposed of our interest in the Ghana gold licenses. We also wrote down the value of the Dagestan licenses to zero on our financial statements in 1998, and disposed of our subsidiary Teton Oil, Inc. which held the Dagestan licenses effective May 24, 2001. In our opinion, political instability in the Dagestan region made operations in Dagestan too risky. Due to inactivity most of our Dagestan licenses had terminated prior to our disposition of Teton Oil, Inc.

MOT Agreements

In June 2000, Teton, Goltech and Fenlex Nominee Services Limited, as sole trustee of the Mediterranean Overseas Trust, a trust organized under the laws of Malta entered into a Master Agreement. The Master Agreement contemplated the following transactions:

(a) Purchase of 50% of the interest in Goltech in exchange for $1,000,000.
(b) Additional investment by MOT, of up to $5,600,000, through an oilfield development and leasing arrangement, paid on an as needed basis to cover certain costs related to the pipeline, processing facility, and drilling of five additional wells.
(c) Payment of leasing fees and repayment of amounts advanced by MOT through a production payment in the form of crude oil.
(d) Additional work, as agreed to by the parties.

The purchase of 50% of the interests in Goltech was completed in August 2000. See, also "Structure of Teton."

As contemplated in the Master Agreement, Goloil and MOT (through Energosoyuz) entered into an oilfield development agreement and a lease agreement. These agreements provided, among other things, for the drilling and operation of five additional wells on the Goloil license lands and for Energosoyuz to fund up to $5,600,000 to cover certain costs related to development of a pipeline and processing facility and the drilling of five additional wells.

The wells and facilities constructed by Energosoyuz pursuant to the oilfield development agreement are leased to Goloil for a seven-year production payment. The production payment is equal to 50% of the crude oil produced by the new and existing Goloil wells. The production payment period will be extended if the production payment falls below an average of 80,000 tons -(583,200 barrels) of oil per year or if the market price of Ural Oil Blend falls below a weighted average of $17 per barrel, for oil sold outside of Russia, over the seven year period.

At March 2002, the full $5,600,000 contemplated in the MOT agreements was invested by MOT. The pipeline and four of the wells were completed in 2001. The fifth well was completed in early 2002. Construction of a processing plant was completed in 2003.

After the production payment is paid in full, the MOT agreements provide that one of the following shall occur:

1. Energosoyuz will merge into Goltech.

2. 100% of the capital stock of Energosoyuz will be transferred to Goltech.

3. The outstanding capital stock of Energosoyuz will be distributed equally between Teton and MOT or its nominee.

4. Any other action agreed to by the parties resulting in a division of the revenues of Energosoyuz between Teton and MOT or its nominees in proportion to their respective ownership in Goltech.

In late 2002, MOT elected to withdraw from Goltech in exchange for its 50% of the shares in Goloil held by Goltech. This has been accomplished under a Memorandum of Understanding and withdrawal agreement. As part of these agreements, the production payment agreement was clarified to state a fixed term of 7 years from inception (July 1, 2000) and that all oil received under the agreement would be sold as Russian domestic oil, thus allowing about 90% of the remainder to be sold in the export markets currently.

Production and Distribution.

A glossary of certain oil and gas terms used in this report is found at "DESCRIPTION OF PROPERTY- Glossary of Geologic Terms."

As of December, 2003, the wells on our license area were producing 7,164 barrels per day (1,791 barrels net to Teton). Completion of a 40-kilometer (25-mile) pipeline on June 4, 2001 has enabled oil to be pumped from these wells all year long. Prior to completion of the pipeline, no oil was produced during certain times of the year because of transportation difficulties. At December 31, 2001, seven wells were completed on our license area. At December 31, 2002, 13 wells were completed on our license area.

During 2003, Teton's Goloil affiliate drilled seven new wells, bringing the total number of wells that are capable of producing to 21 and completing its drilling program for the year. Of the 21 wells, one is awaiting completion, and four are off-line pending upgrades to the gathering system. Consequently, as of the end of December, there were 16 producing wells. During the month of December, the Goloil license produced an average of 7,164 barrels of oil per day, of which 1,791 was net to Teton. Goloil management expects to complete the above-mentioned gathering system upgrade during first half of 2004, at which time it also expects to commence the operation of its co-generation plant, which has been delayed by permitting issues. Pursuant to the MOT agreements, MOT is entitled to a production payment in kind. See "MOT Agreements", above. The production payment is projected to be completed in June, 2007, based on revised leases negotiated in late 2002.

Teton previously paid processing and transportation fees to a third party to process and place its oil in the Trans-Siberia pipeline. Construction of a processing facility on the license area was completed early in 2003. Consequently we no longer incur the third-party processing charge.

Teton's share of the oil production is sold in Poland, Germany, Byelorussia, Ukraine and Russia. Sales in Poland, Germany, Ukraine and Byelorussia are in United States dollars. Oil sold in Russia is in rubles. Pursuant to the terms of the Goloil license and pipeline quotas issued by Transneft, the government owned pipeline monopoly, up to a maximum of 35% of Goloil's oil production may be sold outside of the Commonwealth of Independent States (CIS) and an additional 10% can be sold to other CIS states. Currently, MOT is required to sell the oil it receives as a production payment into the Russian domestic market. Thus, until the production payment is paid in full, we are able to sell 90% of our share of the production outside of Russia. Currently there are no long-term contracts for the sale of our oil. We currently are not dependent on any principal customer.

The chart below sets forth certain production data for the last four fiscal years. Additional oil and gas disclosure can be found in Note 12 of the Financial Statements.

PRODUCTION DATA

Year Ended December 31	2003	2002	2001	
Total Gross Oil Production, barrels	2,528,260	1,884,933	425,459	17
Total Gross Gas Production, MCF	-	-	-	
Net Oil Production, barrel(1)	632,065	471,233	94,879	14
Net Gas Production, MCF		-	-	
Average Oil Sales Price, $/Bbl (2)	$18.11	$15.38	$16.43	$
Average Gas Sales Price, S/MCF	-	-	-	
Average Production Cost per Barrel (3)	$10.75(4)	$9.96(4)	$11.22	$
Gross Productive Wells Oil	21.0	13.0	7.0	
Gas	-	-	-	
Net Productive Wells Oil	10.5	6.5	3.5	
Gas	-	-	-	
Total	10.5	6.5	3.5	

(1) Net production and net well count is based on Teton's effective net interest as of the end of each year. Prior to August 2000 and after November, 2002, Teton owned 100% of the interests in Goltech.
(2) Average oil sales price is a combination of domestic (Russian) and export price.
(3) Excludes production payment to MOT.
(4) If the cost of the production payment, which requires Teton to cover all

lifting and G&A costs, is included, the cost per barrel net to Teton would be $15.51 per barrel in 2002 and $17.45 per barrel in of 2003. See also "MANAGEMENT'S DISCUSSION AND ANALYSIS - Results of Operations."

The following chart sets forth the number of productive wells and dry exploratory and productive wells drilled and completed during the last four fiscal years in the Goloil license area:

NET WELLS DRILLED

Year Ended December 31	2003		2002		2001	
	Gross	Net(1)	Gross	Net(1)	Gross	Net(1)
Number of Wells Drilled						
Exploratory (Research)						
Productive	-	-	-	-	1.0	0.5
Dry	-	-	-	-	-	-
Total	-	-	-	-	1.0	0.5
Development						
Productive	7.0	3.5	6.0	3.0	3.0	1.5
Dry	-	-	-	-	-	-
Total	7.0	3.5	6.0	3.0	3.0	1.5

(1) Net well count is based on Teton's effective net interest as of the end of each year. Prior to August 2000, Teton owned 100% of the interests in Goltech. Subsequent to August 2000 our interest was reduced to 50%. In November, 2002, it again became 100%.

United States Trade and Development Agency (TDA) Grants

In October 2001, Teton finished its study of the feasibility of oil exploration in the Novo-Aganskoye, Galinovaya and East Galinovaya license area of Siberia pursuant to an agreement with Varioganneft JSC. The study was funded by a $250,000 grant from the TDA. In 2001, we received a final payment of $37,500 from the TDA for the study. Currently, we do not expect to make any investments in the Novo-Aganskoye, Galinovaya and East Galinovaya license area. Thus, we do not expect to incur any obligation to repay the amounts paid by the TDA in connection with this study.

As of March 25, 2004 Teton has completed and submitted to TDA its feasibility study of the Eguryak license area pipeline project in 2004. This study is also funded through a $300,000 grant from the TDA. Teton has received $255,000 of the grant amount. The balance of the grant funds are to be paid upon completion of the study. Teton may be required to repay the TDA the grant amount if Teton makes certain investments in the Eguryak license area prior to December 31, 2005.

Competition

We compete in a highly competitive industry. We encounter competition in all of our operations, including property acquisition, and equipment and labor required to operate and to develop our properties. Teton competes with other major oil companies, independent oil companies, and individual producers and operators. Many competitors have financial and other resources substantially greater than ours.

Regulations Governing Russian Joint Stock Companies

Russian joint stock companies are corporate entities with limited liability similar to corporations formed under United States laws. Shareholders of Russian joint stock companies generally are not liable for debts and obligations of the company. However, shareholders of a bankrupt joint stock company may be held liable for debts and obligations of the bankrupt company if they have exercised their authority to undertake an action knowing that bankruptcy would be the result of their actions. In closed joint stock companies, i.e. companies with a limited number of shareholders, such as Goloil, any transfer of shares by a shareholder to a third party is subject to the pre-emptive right of the other shareholders to acquire such shares at the price offered to a third party.

Under Russian law, a simple majority of voting shares is sufficient to control adoption of most resolutions. Resolutions concerning amendment of the company charter, reorganizations (including mergers), liquidation, any increase in authorized shares, or certain "large" transactions require the approval of the shareholders holding 75% of the outstanding shares.

A Russian joint stock company has no obligation to pay dividends to the holders of common shares. Any dividends paid to shareholders must be recommended by the board of directors and then approved by a majority vote at the general meeting of shareholders. Dividends may be paid every quarter of a year. The Memorandum of Understanding between MOT and Teton (the controlling shareholders) provides that any excess cash will be used to pay back investments on a quarterly basis.

Environmental Regulation.

The government of the Russian Federations, Ministry of Natural Resources, and other agencies establish special rules, restrictions and standards for enterprises conducting activities affecting the environment. The general principle of Russian environmental law is that any environmental damage must be fully compensated. Under certain circumstances, top officers of the entity causing substantial environmental damage may be subject to criminal liability.

The law of the Russian Federation on subsoil requires that all users of subsoil ensure safety of works related to the use of subsoil and comply with existing rules and standards of environment protection. Failure to comply with such rules and standards may result in termination or withdrawal of the Goloil license.

Goloil Taxation.

As a Russian resident entity, Goloil is subject to all applicable Russian taxes, many of which currently impose a significant burden on profits. The most significant Russian taxes and duties affecting Goloil include:

(i) 20% value added tax (established pursuant to Chapter 21 of the Tax Code of Russia), applicable only to domestic sale of goods in Russia and the Ukraine. Starting from 1/1/2004 VAT was reduced to 18%. No value added tax is payable on goods exported to the West from Russia;

(ii) 20 to 24% profit tax which includes 6% federal profit tax, 12 to 16% regional profit tax and 2% local tax (in accordance with Chapter 25 of the

Tax Code of Russia). Russian law allows the carry forward and use of losses, subject to limitations;

(iii) Income tax on dividends payable to Goloil's shareholders. The tax must be withheld by Goloil from the amount distributed to each shareholder. The current rate of tax on dividends payable to corporate foreign shareholders is 15%. However, dividends payable to Goltech, a United States resident company, are subject to regulations contained in the United States - Russia tax treaty which limits the tax on dividends payable to Goltech to 5% (as long as Goltech holds more than a 10% interest in Goloil);

(iv) Tax on production of minerals applicable to all subsoil users producing minerals, including crude oil. For the period ending on December 31, 2004, the tax is temporarily established at 340 rubles (ca. USD 11.50) per metric ton produced by the taxpayer multiplied by a factor (F) calculated pursuant to the formula:

F = (U-8) x R/252 where:

U - means the average market price of Urals blend crude oil (in dollars per barrel) during the relevant tax period;

R - means the average ruble for dollar exchange rate quoted by the Central Bank of Russia for the relevant tax period.

After expiration of the temporary tax rate period, the tax will apply at the rate of 16.5% of the value of the oil produced by the taxpayer;

(v) Unified social tax (established pursuant to Chapter 24 of the Tax Code of Russia) at the rate of up to 35.6% of the payroll;

(vi) Transport tax (established pursuant to Chapter 28 of the Tax Code of Russia) payable by owners of motor vehicles at the rate established by regional authorities based on the type and capacity of the vehicle. The maximum amount of tax payable by an owner of a motor car per year is RUR 150 (ca. USD 5.1) per horsepower;

(vii) Oil export duty, currently in the amount of USD 33.9 per ton of crude oil being exported, increasing to USD 35.2 in 2004;

(viii) Regional property tax payable annually at 2.2% of the value of net assets of the entity.

The Russian tax system currently is undergoing a major reorganization. New tax laws including those setting forth rules for application of the value-added tax, profit tax, and tax on the production of minerals were enacted within the last four years. The cost of legal and accounting advice to keep up with changes in the Russian tax laws may be significant and penalties for violations, even inadvertent ones, may be steep. If revisions impose confiscatory taxes, our profitability will be adversely affected.

Employees.

Teton currently has eight full time and two part time employees. We also utilize the services of independent contractors on an as-needed basis. Teton also employees three people in its Moscow representative office. Goloil currently employs approximately 100 employees in Western Siberia and Moscow. Goloil also uses independent contractors on as needed basis.

Item 2. DESCRIPTION OF PROPERTY.

Glossary of Oil and Gas Terms.

Barrel: Equal to 42 U.S. gallons.

Basin: A depressed sediment-filled area, roughly circular or elliptical in shape, sometimes very elongated. Regarded as a good area to explore for oil and gas.

Field: A geographic region situated over one or more subsurface oil and gas reservoirs encompassing at least the outermost boundaries of all oil and gas accumulations known to be within those reservoirs vertically projected to the land surface.

License: Formal or legal permission to explore for oil and gas in a specified area.

Productive: Able to produce oil and/or gas.

Proved reserves: Estimated quantities of crude oil, condensate, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in the future from known reservoirs under existing conditions using established operating procedures and under current governmental regulations.

Proved undeveloped reserves: Economically recoverable reserves estimated to exist in proved reservoirs, which will be recovered from wells, drilled in the future.

Reserves: The estimated value of oil, gas and/or condensate, which is economically recoverable.

Tons: A ton of oil is equal to 7.29 barrels of oil.

Goloil License

The Goloil license encompasses 187 square kilometers (78 square miles) in the south central portion of the west Siberian basin. It is located approximately 10 miles to the north and west of Samotlor, Russia's largest oil field. Three producing fields are located within the license area: Golevaya, Eguryak, and South Eguryak. The Goloil license expires in 2022, and may be extended upon compliance with the specified program of operations and undertaking of additional operations after the end of its term. The Goloil license may be terminated prior to its term if Goloil fails to comply with the requirements of the license. We believe that we are currently in compliance with all material terms of the Goloil license.

Proved Reserves and Present Value Information

Important Note on Reserve Calculations:

- Reserve calculations require estimation of future net recoverable reserves of oil and gas and the timing and amount of future net revenues to be received therefrom. Such estimates are based on numerous factors, many of which are variable and uncertain. Accordingly, it is common for the actual production and revenues later received to vary materially from earlier estimates. Estimates made from the first few years of production from a property are not likely to be as reliable as later estimates based on longer production history. Hence, reserve estimates and estimates of future net revenues from production may vary from year to year.

- There can be no assurance that the reserves described herein will ultimately be produced or that the proved undeveloped reserves described herein will be developed within the periods anticipated. Recovery of undeveloped reserves requires significant capital expenditures and successful drilling operation. The cash flows summarized herein should not be construed as representative of the fair market value of the reserves. Actual results are likely to differ greatly from the results estimated.

o The Company has not filed reserve estimates with any federal agency.

Our estimated proved oil reserves and present value of the estimated future net revenues attributable to such reserves have been updated for this filing with an effective date of January 1, 2004. They are based on a report issued by the independent consulting firm of Gustavson Associates, Inc. ("Gustavson") located in Boulder, Colorado. The report was updated to take into account production data obtained during 2003 on some of our wells, particularly those producing from the Jurassic formation.

Reference is made to MANAGEMENT DISCUSSION AND ANALYSIS and to note 10 to the financial statements for a full discussion of the dispute with RussNeft. As the outcome of this dispute cannot be predicted at this time, the Company has instructed Gustavson to prepare two separate proved oil reserve cases: the "Base Case SEC reserves and Cash Flow Projections" and the Alternate case. The Base Case assumes that the Company is not successful in it's dispute with RussNeft, accordingly, the price received for oil is set at 2,400 rubles per ton ($11 per barrel) and the production payment is deducted assuming 19 million rubles per month. The Alternate case assumes that the Company is successful in the dispute and that RussNeft and Goloil would honor all preexisting agreements. In the Base Case, future cash flows are substantially less than in the Alternate case, however oil reserves quantities are greater as a result of payout being delayed and how the production payment is being calculated. In order to avoid misleading statement readers, Management has elected to report the lower, alternate case reserves, in both tables below.

As of January 1, 2004, our proved reserves are estimated at 8.262 million barrels, net to Teton, after deducting quantities required to be delivered under the production payment as summarized below:

Base Case SEC Reserves and Cash Flow Projections

		Before Russian Profits Tax		After Russian Profits Tax	
Reserve Category	Net Reserves, thousand barrels	Total Undiscounted Cash Flow, thousand US$	Present Value Discounted @10% thousand US$	Total Undiscounted Cash Flow, thousand US$	Present Value Discounted @10%, thousand US$
PDP	957	$1,330.6	$1,280.0	$1,087.9	$1,037.2
PDNP	2,859	$7,892.6	$5,621.6	$6,031.9	$4,239.5
Total Proved Developed	3,816	$9,232.2	$6,901.6	$7,119.8	$5,276.8
PUD	4,445	$11,697.9	$4,813.4	$6,207.2	$1,195.0
Total Proved	8,262	$20,921.2	$11,715.0	$13,327.0	$6,471.7

The Securities and Exchange Commission requires that estimates of reserves, estimates of future net revenues and the present value of estimated future net revenues be based on the assumption that oil and gas prices will remain at current levels (except for gas prices determined by fixed contracts), and that production costs will not escalate in future periods. All such estimates have been adjusted for the anticipated costs of developing proved undeveloped reserves.

The price of oil used for this analysis was 2400 rubles per ton (about $11 per bbl), net of transportation, marketing and export duties, as Goloil realized as of year-end 2003. As discussed in the Business section of this filing, McGrady and its affiliates were sold in September 2003 to OAO NK RussNeft, a Russian independent oil producer. Commencing October 1, RussNeft began selling Goloil's production to a related party 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. Since this pricing arrangement prevailed through the end of the fourth quarter of 2003 and beyond, the Company has used the price of 2,400 Rubles per ton in its reserve report with the effect of significantly reducing the present value of its reserves effective January 1, 2004.

Teton has strenuously objected to RussNeft's actions and is continuing to engage its management in discussions, while retaining counsel with the intention of vigorously pursuing it rights under previous agreements and as a significant minority shareholder in Goloil. While counsel has advised the Company that its position has merit, the outcome of this dispute cannot be predicted at the current time.

The oil and gas revenues are net to Teton and include the impact of the production payments paid as flat fee of 19 million rubles per month (including VAT), and financing and debt repayment. Cash flow amounts assume 50% economics net to Teton without payout. Teton's net share is 50% before payout and 35.295% after payout.

The present value of estimated future net revenues as of January 1, 2004, has been adjusted for Russian profits taxes, but not U.S. income taxes. Teton is not currently incurring any repatriation tax liability due to the structuring of capital input as a loan. Management believes that future repatriation tax liabilities will not be incurred if profits from this project are invested in other projects within Russia. If Teton does not incur repatriation tax liability for the life of this project, the undiscounted total before and after tax cash flow, after production payments would be $20.92 and $13.32 million or, discounted at 10%, $11.72 and $6.47 million, for total proved reserves.

Capital expenditures required to achieve the above cash flows will be incurred over the next three years and are estimated at $14.6 million net to Teton for development of proved reserves. Based on our reserve analysis, we expect that cash flow from operations will fully cover both operating expenses and capital investment starting in 2005.

Presented below is the Alternate Case discussed above which assumes that Teton is successful in its dispute with RussNeft, the resulting economic parameters, as of January 1, 2004 would be as presented below.

Alternate Case Reserves and Cash Flow Projections

			Before Russian Profits Tax		After Russian Profits Tax	
Reserve Category	Net Reserves, thousand barrels	Total Well Count	Total Undiscounted Cash Flow thousand US$	Present Value Discount @10% thous. US$	Total Undiscounted Cash Flow, thous. US$	Present Value Discounted @10% thous. US$

PDP	957	16	$5,791	$5,323	$4,335	$3,936
PDNP	2,859	3	$23,287	$15,052	$16,358	$10,455
Total Proved Developed	3,816	19	$29,078	$20,375	$20,693	$14,390
PUD	4,445	21	$27,295	$12,661	$16,894	$6,556
Total Proved	8,262	40	$56,373	$33,036	$37,588	$20,946

The prices used for this Alternative Case were as of year-end 2003. Goloil normally sells its oil into three different markets: Europe, where the price is tied to the Urals Blend benchmark which itself is closely related to the price for Brent Crude; the domestic Russian market, and to non-Russian FSU markets such as the Ukraine and Byelorussia, generally referred to as the "near abroad". Sales in the domestic and near abroad markets are made in batches, when sufficient quantities of produced oil are available to sell and there are no spot prices are published that apply to these markets. The markets are established by individual transactions, for which the buyers and sellers generally hold the prices confidential.

Consequently, at December 31, 2003 Teton used the Urals Blend benchmark with a -$2.43 basis adjustment for its export sales, while polling Moscow based oil trading firms for year-end prices for the domestic and near-abroad markets and using the lowest price returned in the polls. The prices used were $25.00/barrel for export, $18.00 per barrel for the near abroad, and $15.00/barrel for the domestic market. Sales were allocated to the three markets at 35% European, 10% FSU, and 55% Russia, which is approximately the historic allocation.

The results are net to Teton and include the impact of the production payments due MOT, and financing and debt repayment. Cash flow amounts assume 50% economics net to Teton without payout. Teton's net share is 50% before payout and 35.295% after payout.

The present value of estimated future net revenues as of January 1, 2004, has been adjusted for Russian profits taxes, but not U.S. income taxes. Teton is not currently incurring any repatriation tax liability due to the structuring of capital input as a loan. Management believes that future repatriation tax liabilities will not be incurred if profits from this project are invested in other projects within Russia. If Teton does not incur repatriation tax liability for the life of this project, the undiscounted total before and after tax cash flow, after production payments would be $56.37 and $37.59 million or, discounted at 10%, $33.03 and $20.95 million, for total proved reserves.

Capital expenditures required to achieve the above cash flows will be incurred over the next three years and are estimated at $14.6 million net to Teton for development of proved reserves. Based on our reserve analysis, we expect that cash flow from operations will fully cover both operating expenses and capital investment starting in 2005.

Teton's current agreement with MOT requires the two companies each fund half of the capital expenditures required for development. In the event we are unable to fund our portion of the capital expenditures and MOT proceeds with the planned development, our share of the oil production will be decreased. The reverse is also true.

Until cash flow from operations is sufficient to fund operating expenses and capital investment, Teton must raise additional capital or obtain debt financing to fund its portion of capital expenditures or its interest in the oil production will be reduced. There can be no assurance that Teton will be successful in raising such additional funds.

Changes to the Reserve Report from Prior Period

The following table summarizes the changes that took place when the report was updated:

Reserves and Production, in barrels, Net to Teton

	For the Years Ended December 31, 2003	2002
Proved reserves (bbls), beginning of period	13,264,000	40,174,000
Production	(632,000)	(471,000)
Extension of reservoir	--	2,000,000
Revisions of previous estimates	(4,370,000)	(28,439,000)
Proved reserves (bbls), end of period	8,262,000	13,264,000
Proved Developed reserves (bbls), beginning of period	4,567,000	5,493,000
Proved Developed reserves (bbls), end of period	3,816,000	4,567,000

In the revised reserve report, Teton's proved reserves declined from 13.26 million barrels to 8.26 million barrels of which 632 thousand barrels reflected production during 2003. Of the remaining decline, 4.37 million barrels, was due to a revision from the previous estimate. In particular, the performance of several of the Company's Jurassic formation wells led its engineers to reduce the anticipated primary (before waterflood) recovery of reserves and revise their opinion concerning the necessity of waterflooding. While the Company anticipates it will eventually recover most of the reduction in reserves through waterflooding, SEC regulations do not permit the inclusion of such reserves in the proven category in the absence of either a pilot program or formal written commitment by the operator and non-operators in a project to commence the waterflood project. The Company also removed several Jurassic locations from the proved category, either because they were deemed uneconomic for primary production alone, based on the performance of offsetting Jurassic producing wells or in two cases because the operator and Company have not yet formally agreed to drill them. The company expects to restore the reserves from the two wells to the proven category when they are drilled.

Finally, as previously reported in its Form 10-K for the year ended December 31, 2002, the Company recorded a decline in its reserves for the year 2002 of 28.4 million barrels. The majority of the reserve reduction in this period was attributable to revision of the geologic maps of the license area based on new and reprocessed seismic data and interpretations. The new interpretation led to a reduction in the number of anticipated drilling locations and with them, reserves.

Developed And Undeveloped Acreage

The following table sets forth the total gross and net developed acres and total gross and net underdeveloped acres subject to the Goloil License as of December

31, 2003:

Eguryak License Area	Gross	Net
Total Developed Acres	1,049	525
Total Proved Undeveloped Acres	1,494	747
Total Other Undeveloped Acres	6,481	3,241

Our offices are located in Denver, Colorado. We lease our offices from an unaffiliated third party. This year we also opened a representative office in Moscow, also leased from an unaffiliated third party.

Item 3. LEGAL PROCEEDINGS.

Teton currently is not a party to any material legal proceedings.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2003.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS.

Teton's common stock listed on The American Stock Exchange, under the symbol "TPE," on May 6, 2003. Prior to listing on the AMEX, our common stock was quoted on the OTC Bulletin Board under the symbol "TTPT" from November 27, 2001 to April 25, 2003 and then under the symbol "TTPE" from April 28, 2003 to May 5, 2003 as a result of a 1 for 12 reverse stock split.

Prior to that and until our voluntary delisting in January 2002, our common stock was also listed on the Canadian Venture Exchange under the symbol "YTY.U." Beginning November 30, 2001, our common stock is also listed for trading on the Frankfort Stock Exchange (Germany) under the symbol "TP9."

The following table sets forth, on a per share basis, the range of high and low bid information for the common stock on the OTC Bulletin Board, and after May 5, 2003 on the American Stock Exchange:

OTC Bulletin Board

2001 Period	High	Low
Fourth quarter	$ .50	$ .17
2002 Period		
First quarter	$ .67	$ .18
Second quarter	$ .65	$ .36
Third quarter	$ .60	$ .27
Fourth quarter	$ .42	$ .21
2003 Period		

First quarter	$ .46	$ .28
Second quarter as of May 5, 2003	$ 5.00*	$4.10*

The American Stock Exchange

Second quarter commencing May 6, 2003	$ 5.40	$4.10
Third quarter	$ 4.58	$3.71
Fourth quarter	$ 5.58	$3.80

*reflects a 12 for 1 reverse stock split effectuated on April 24, 2003.

The quotations reflect inter-dealer prices without retail markup, markdown, or a commission, and may not necessarily represent actual transactions.

Holders: As of January 23, 2004, there were approximately 195 holders of record of Teton's common stock.

Dividends: Teton has not paid any dividends on its common stock since inception. Teton does not anticipate declaration or payment of any dividends at any time in the foreseeable future.

Recent Issuances of Unregistered Securities

During the fourth quarter for the year ended December 31, 2003, the Company sold 2,263,330 shares of 8% convertible preferred shares for a total consideration of $9,845,486, less $520,856 in commissions. The preferred shares carry an 8% dividend, payable quarterly and are convertible into common stock at a price of $4.35. If converted within 60 days of closing, the investors will be entitled to receive (i) dividends payable in common stock for one year; and (ii) 2 Class B Warrants for each 10 invested, exercisable at $6.00 per share.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (c)
Equity compensation plans approved by security holders	1,578,037	$3.48	505,296
Equity compensation plans not approved by security holders	0	0	0
Total	1,578,037	$3.48	505,296

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of our plan of operation should be read in conjunction with the financial statements and the related notes. This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which are based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this document.

We have identified certain policies as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. See the section entitled "Critical Accounting Policies" at the end of this discussion.

Overview

Teton Petroleum Company is an independent oil and gas exploration company whose current focus is the Russian Federation, particularly Western Siberia. It currently is the only publicly traded US independent with all of its production in Russia.

In 2003, Teton achieved several milestones in its finances and operations, as well as some challenges. Highlights include the following:

o Annual sales increased by 42.5% from 443,268 to 631,626 barrels, net to Teton.

o Seven new wells (gross) were drilled on the Company's Goloil license bringing the total to 21 wells, 16 of which were in production at year-end. Of the 21 wells, one is awaiting completion, and four are off-line pending upgrades to the gathering system.

o Revenues increased 65.2%, from $6,923,320 to $11,437,802.

o The Company's net loss for the year narrowed from $10,973,923 to $5,634,844.

o In April, Teton's Board of Directors made several changes to the management of the Company the most important of which was the appointment of a new President and Chief Executive Officer, Karl Arleth, who assumed responsibility for the day-to-day management of the Company. Other management changes made at the time included the appointment of a Controller and an interim full-time Chief Financial Officer.

o Also in April, the Company relocated its corporate headquarters from Steamboat Springs, CO to Denver, CO and over the next several months hired several administrative and accounting personnel to support the Company's plans for growth. The Company also took steps to tighten its internal controls, enhance its ability to evaluate potential acquisitions, and improve its information systems.

o In May, the Company effected a 1:12 reverse share split and listed its shares on the American Stock Exchange.

o Also in May, the Company announced the signing of a purchase and sale agreement to acquire the 50% ownership interest in LLC Chernogorskoye held by Anderman Smith, which if completed would have added approximately 4,000 BOPD to the Company's net oil production. To date, however, the Company has been unable to close this transaction owing to differences with the seller over closing price adjustments the Company believed necessary following its due diligence, as well as changes in the valuations accorded Russian oil producers. Although the Company is continuing to pursue the acquisition of all or part of LLC Chernogorskoye, there is no assurance it will be able to close any transaction.

- In November, the Company successfully concluded the private placement of $9.8 million (later increased to $10.3 million in January of 2004) of 8% Convertible Preferred Stock to be used primarily for working capital in the Goloil license and for general corporate purposes.

- The Company opened a Moscow Representative Office in December to better monitor its operations in Russia as well as to establish a higher profile in the Russian oil industry and facilitate greater deal-flow as it pursues acquisition opportunities there and in other FSU states.

Dispute with RussNeft

Foremost among the challenges facing the Company in 2003 were those presented by its former and present partners in the Goloil license. 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 the License. During the transition in September, the Company subsequently learned, Goloil sold substantially less than its export quota into export markets where prices are substantially higher, instead selling the production into the domestic market.

Commencing October 1, RussNeft began selling Goloil's production to a third party 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. As a consequence, the Company estimates its revenues after taxes for the quarter were reduced by approximately $1.44 million. Moreover, since this pricing arrangement prevailed through the end of the fourth quarter and beyond, the Company has had to significantly reduce the present value of its reserves effective January 1, 2004.

Teton has strenuously objected to RussNeft's actions and is continuing to engage its management in discussions over the issue, while retaining counsel with the intention of vigorously pursuing it rights under previous agreements and as a significant minority shareholder in Goloil. While counsel has advised the Company that its position has merit, the outcome of this dispute cannot be predicted at the current time.

2004 Operational and Financial Objectives

In 2004, Teton intends to focus its efforts primarily in two areas:

1) Continued development of its Goloil License; and

2) The acquisition, development and exploitation of similar projects in the Russian Federation.

As a specific target, Teton intends through a combination of drilling and acquisition(s) to increase its daily net production in 2004 to at least 5,000 BOPD.

Goloil will continue to expand operations with the drilling of four horizontal wells on the Golevaya Field and carry out fracture stimulations on four existing Jurassic wells in the Egurayah Field. Also, new development plans for the South

Egurayah Field will be completed once the results of an on-going 3D seismic program are evaluated. Goloil's capital budget for 2004 is approximately $17 million. Most of this budget is expected to be provided for out of internal cash flow and borrowing by Goloil, including possible cash calls to Teton. Teton believes it has sufficient working capital on hand to meet its share of any such cash calls, but whether it will elect to do so will be contingent upon successful resolution of its dispute with RussNeft over product pricing described above. There can be no guarantee it will reach such a successful resolution, and if it is unable to, management intends to look at various options including legal action or the possible sale of its stake in Goloil. In Management's opinion the proceeds from the sale of the Company's stake in Goloil would exceed it's investment at December 31, 2003.

As for growth through acquisitions, Teton has been actively seeking to make acquisitions of properties similar to the Goloil license since the spring of 2003. Specifically, the Company is targeting properties with existing production ranging from 3,000 to 10,000 BOPD with upside potential from developmental drilling and other exploitation opportunities. The Company has a strong preference to be the operating partner in such projects in order to better control their development. In addition to the LLC Chernogorskoye transaction announced, but not consummated, in 2003, the Company has held talks with several Western and Russian owned companies that are seeking to divest properties.

Teton's plans to pursue such acquisitions means that it will incur increased due diligence and legal expenses. The Company is now devoting significant internal resources to evaluating acquisitions while also utilizing the services of outside technical and legal consultants.

An even more important factor in executing its acquisition strategy is the Company's ability to attract the capital necessary to acquire and develop its acquisition targets. Towards that end, the Company has been working to develop strong relationships with commercial, primarily European banks, which are active in Russia and the former Soviet Union. Teton has traditionally financed its operations by raising equity, but it is the opinion of its management that the acquisition of properties with significant production is best financed with a combination of debt and equity. This approach is less dilutive to existing shareholders and offers the Company greater flexibility. Based on its discussions with various lending institutions, Teton management is confident of its ability to secure bank financing for producing property acquisitions.

Insofar as most acquisitions will require Teton to provide at least some equity financing, Management anticipates that it will likely be required to raise additional equity. The Company maintains an active investor relations program and is also in frequent contact with investment banks, both in the U.S. and abroad, as well as with institutional and industry sources of private capital.

Teton management expects a rising trend in the cost of producing property acquisitions in Russia over the next several years as the export bottlenecks preventing Russian oil from leaving the country ease and as well-capitalized Western E&P companies are increasingly drawn to the country's vast reserves of oil and gas. Consequently, a key challenge facing the Company is its ability to acquire reserves on an economically attractive basis. Management believes the day is long gone when projects with the quality of Goloil could be acquired for as little as $0.25 per proven barrel in the ground. Today, the asking price for many Russian producing properties is ten times that level or $2.50 per barrel, compared to $6 - 8 per barrel currently for Texas oil and gas properties. Teton management, therefore, applies rigorous economic analysis to determine if such acquisitions can meet the Company's economic hurdle rates based on a conservative market-linked forecast of oil prices. Present indications are that such projects are available for sale today in Russia, but are less common than they used to be, necessitating that they be actively sought out.

The following table sets forth certain operating data for the periods presented:

Year ended December 31, 2003 compared to year ended December 31, 2002.

The table below summarizes some of the most important components of our revenues, operating costs and net loss. Please note that since Teton absorbs its share of the cost of producing the oil paid under the production payment (included in the cost amounts), per barrel costs are effectively doubled.

Results of Operations

Operating Highlights for the Twelve Months ended December 31
(in U.S. Dollars, unless otherwise noted)

	Fourth Quarter 2003	2003	2002	Change ($)
Sales, Barrels	150,938	631,626	443,268	188,358
Average Daily Sales, Barrels	1,654	1,730	1,214	516
Average Selling Price, $/barrel	$15.45	$ 18.11	$15.62	$ 2.49
Revenues	$ 2,332,464	$ 11,437,802	$ 6,923,320	$4,514,482
Costs of Sales and Expenses, excl. DD&A				
Production Costs	563,590	2,020,447	1,218,411	802,036
Transportation & Marketing	6,061	807,266	611,956	195,310
Taxes other than Income taxes	1,700,920	5,864,920	3,537,990	2,326,930
Export Duties	--	1,492,999	910,936	582,063
	2,270,571	10,185,632	6,279,293	3,906,339
Results from Goloil Operations, before DD&A	61,889	1,252,170	644,027	608,143
Less General & Administrative Expense, Goloil	188,229	837,134	588,774	248,360
Goloil operating (loss) income before DD&A	(126,340)	415,036	55,253	359,783
Depreciation, Depletion & Amortization, Goloil	919,744	1,582,513	451,930	1,130,583
Operating loss, Goloil	(1,046,084)	(1,167,477)	(396,677)	(770,800)
General & Administrative Expense, Teton	1,244,063	3,919,746	4,744,952	(825,206)
Operating Loss, Teton .	$ (2,290,147)	$ (5,087,223)	$ (5,141,629)	$ 54,406

Costs and Expenses Per Barrel during the Twelve Months ended December 31
(in U.S. Dollars)

Controllable Costs	Fourth Quarter 2003	2003	2002	Change ($)	% Change
Production Costs	$3.73	$ 3.20	$ 2.75	$0.45	16.4%
G&A - Goloil	1.25	1.33	1.33	(0.00)	-0.%
G&A - Teton	8.24	6.21	10.70	(4.49)	-42.0%
	13.22	10.74	14.78	(4.04)	-27.4%
Non-Controllable Costs					
Transportation & Marketing	0.04	1.28	1.38	(0.10)	-7.2%
Taxes other than Income Taxes	11.27	9.29	7.98	1.31	16.4%
Export Duties	0.00	2.36	2.06	0.30	14.6%
	$11.31	$12.93	$11.42	$1.51	13.2%

In 2003, Teton's net loss narrowed from $10,973,923 to $5,634,844, or $8,415,537 after giving effect to the imputed preferred stock dividends for inducements and beneficial conversion charges associated with the Company's 8% convertible preferred stock offering and subsequent conversion. In terms of earnings per share, Teton's loss narrowed from $3.53 to $1.23 per share. The decrease in losses was largely attributable to improved operating results at Goloil and a significant decline in non-cash charges related to financing, offset by increased salaries and other expenses related to the Company's increased staffing levels.

Oil revenues increased from $6,923,320 to $11,437,802 from 2002 to 2003. The increase was due to both a 42.5% increase in barrels sold and a 15.9% increase in the average price per barrel sold from $15.62 to $18.11 per bbl. Historically, Teton has not hedged its sales and this remained the case in 2003. However, as discussed above revenues were less than expected during the fourth quarter of 2004 by $1.44 million due to the fixed price paid by an affiliate of RussNeft when compared to blended market price Goloil received previously. If such affiliate continues to pay the fixed price in 2004, the Company anticipates that a similar reduction in revenues and operating earnings for each 2004 quarter.

Teton's share of Goloil's costs of sales and expenses (before depreciation, depletion and amortization expenses or "DD&A") increased 62.2%, which was slightly less than the increase in revenues. As seen from the table above, taxes other than income taxes and export tariffs are both important contributors to these costs and expenses accounting for more than 70% of the total costs in both 2002 and 2003. Both are tied directly to revenues, and in the case of the export tariff, to the price of oil as well. Export tariffs would have been higher had not Goloil effectively stopped exporting oil at the end of the third quarter, instead selling all of its production domestically for a flat fee of 2,400 rubles per ton.

Teton's share of Goloil's operating income before DD&A increased from $55,253 to $415,036 from 2002 to 2003, but after Goloil's DD&A its share of operating losses rose from $396,677 to $1,167,477. DD&A itself increased by 250.1%, from $451,930 to $1,582,513, reflecting the capital expenditures incurred by Goloil as it has developed its license.

General and administrative expense ("G&A") at Teton decreased from $4,774,952 to $3,919,746 or 17.4% from 2002 to 2003. The decrease was largely attributable to a $1,562,575 decline in fees paid to consultants for capital raising activities offset by increases in compensation to officers and employees ($323,951), professional fees ($109,146), travel and entertainment ($193,773), and expenses relating to marketing, advertising, and investor relations ($167,987). In addition to the increase in compensation relating to additional staffing to meet Company goals and objectives, most of the other G&A increases were the result of activities such as Teton's preferred stock offering, its listing on the American Stock Exchange, the filing of its registration statement with the SEC, and due diligence with respect to the proposed acquisition of LLC Chernogorskoye.

Liquidity and Capital Resources

Future cash flows will be influenced, among other factors, by the market price of oil and gas as well as the number of producing properties on line. To the extent that oil prices decline, the Company's revenues, cash flows and earnings could be adversely affected. The Company's management believes that even if oil prices were to decline to a level that would have a material adverse effect on cash flows, the Company would continue to meet its working capital obligations and its 2004 capital budget (as discussed below).

The Company had cash balances of $7,588,439 at December 31, 2003 and a working capital deficit of $1,159,687. Excluding the pro rata consolidation of Goloil's working capital deficit, Teton has a working capital surplus of $7,469,785. Teton is not liable for Goloil's debts.

Sources and Uses of Funds

To date the Company's primary source of liquidity is cash provided by equity offerings. Capital markets will continue to be utilized in order to maintain the Company's indebtedness at moderate levels to enable the Company to have the necessary financial flexibility to react to future opportunities. The Company's primary needs for cash are for the operation, development, production, exploration and acquisition of oil and gas properties and working capital obligations.

Cash Flows and Capital Expenditures

Cash used in operating activities for the year ended December 31, 2003 was $3,011,202 compared with cash used in operating activities for the year ended December 31, 2002 of $5,168,785, resulting in a decrease of $2,157,583. Such decrease is primarily the fact that operating assets and liabilities, which are primarily in Goloil, increased in 2003 by $823,831 while they decreased $1,129,412 in 2002.

The Company used $7,093,146 in investing activities, substantially all of which was associated with oil and gas property and equipment expenditures. The Company's pro rata share of the construction costs of a new gas-powered electrical generating plant which will be operational in the first half of 2004 totaled $1,700,696. The plant will provide substantial increases in production levels of electricity at lower cost than the diesel generators being replaced. The plant will be fueled by natural gas from our wells, reducing or eliminating the need to "flare" the gas. In addition Goloil drilled seven new wells (gross) during 2003. The Company continues to expect significant additional investments to be made in the future to drill and develop additional producing wells. Teton's share of 2004 Goloil's capital expenditure program is estimated to be $6.5 million. Goloil plans to drill in 2004 four horizontal wells, subject to the results of a 3 D seismic program and begin installation of infrastructure for the development of the South Eguriakhskoe oil field. The Company's funding of the capital expenditure program will be included in the discussions regarding resolving the dispute with RussNeft.

Cash provided by financing activities during 2003 was $16,812,518. In addition to collecting $1,939,610 from stock subscriptions receivable at December 31, 2002, the Company raised $10,251,924 from the private placement of 8% Convertible Preferred Stock to be used primarily for working capital in the Goloil license and for general corporate purposes.

The Company anticipates future operations and significant oil and gas property expenditures will be able to be funded through a combination of note payable advances from an affiliate, cash raised from raising debt and equity financing and production of oil and gas reserves.

Income Taxes, Net Operating Losses and Tax Credits

Currently, the Company is paying a profits tax in Russia equal to 24% of net profits as defined by Russian income tax law. As discussed extensively elsewhere, including Note 10 to the financial statements, 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 December 31, 2003 the Company has a U.S. net operating loss tax carry forward of approximately $18,500,000. Based on the current investments of the Company and the net operating loss combined with the Company's tax basis, the Company will not be paying U.S. income taxes in the foreseeable future.

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 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 December 31, 2003 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 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 December 31, 2003 the Company's carrying value for its Siberian cost center is less than its estimated cash flows, even though such estimated cash flow was calculated using the domestic Russian price of 2,400 rubles per ton ($11 per barrel). See discussions above, and in footnotes 10 and 11 to the financial statements. As a result of the downward revision in oil reserves recorded by the Company, the Company increased its provision for depletion, depreciation and amortization to $919,744 for the fourth quarter compared to $274,538 recorded in the third quarter of 2003.

Pro Rata Consolidation: The Company currently pro rata consolidates its 50% interest in Goloil, because, as of December 31, 2003, Management believes that to be the most meaningful presentation. If the Company is not successful in its dispute with RussNeft, then the Company may have to reconsider this accounting policy. Such consideration will include determining the degree of influence the Company exercises over its investment in Goloil.

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 dispute with RussNeft, and the Company continues with pro rata consolidation, it may be required to record as a liability the net present value in U.S. dollars of the production payment with a corresponding increase in the carrying value of its Siberian oil and gas cost center. The amount of increase in carrying value can not be determined at this time. However, based on the estimated cash flows at December 31, 2003, the Company would, most likely, have to record an impairment charge.

Asset Retirement Obligation: During the fourth quarter of 2003 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 will continually review the assumptions it used in making such estimate and revise the liability as required.

Item 7. FINANCIAL STATEMENTS

TETON PETROLEUM COMPANY

Consolidated Financial Statements
and
Independent Auditors' Report
December 31, 2003

TETON PETROLEUM COMPANY

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Teton Petroleum Company
Denver, Colorado

We have audited the accompanying consolidated balance sheet of Teton Petroleum Company and subsidiary as of December 31, 2003, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' (deficit) equity and cash flows for the years ended December 31, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Teton Petroleum Company and subsidiary as of December 31, 2003, and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/Ehrhardt Keefe Steiner & Hottman PC
Ehrhardt Keefe Steiner & Hottman PC

March 29, 2004
Denver, Colorado

TETON PETROLEUM COMPANY

Consolidated Balance Sheet
December 31, 2003

Assets

Current assets	
Cash	$ 7,588,439
Proportionate share of accounts receivable	15,739
Proportionate share of VAT receivable	1,078,369
Proportionate share of inventory	448,812
Prepaid expenses and other assets	95,693
Total current assets	9,227,052
Non-current assets	
Oil and gas properties, net (successful efforts)	9,339,786
Cogeneration plant construction in- progress	1,700,696
Other property and equipment, net	450,841
Total non-current assets	11,491,323
Total assets	$ 20,718,375

Liabilities and Stockholders' Equity

Current liabilities

Accounts payable and accrued liabilities	$ 376,429
Proportionate share of accounts payable and accrued liabilities	2,590,901
Proportionate share of notes payable owed to affiliate	7,419,409
Total current liabilities	10,386,739
Non-current liabilities	
Asset retirement obligation	126,500
Total non-current liabilities	126,500
Total liabilities	10,513,239
Commitments and contingencies	
Stockholders' equity	
Series A convertible preferred stock, $.001 par value, 25,000,000 shares authorized, 618,231 issued and outstanding. Liquidation preference at December 31, 2003 of $2,689,305	618
Common stock, $.001 par value, 250,000,000 shares authorized, 8,584,068 shares issued and outstanding at December 31, 2003	8,584
Additional paid-in capital	37,073,366
Unamortized preferred stock dividends	(118,610)
Accumulated deficit	(27,657,578)
Foreign currency translation adjustment	898,756
Total stockholders' equity	10,205,136
Total liabilities and stockholders' equity	$ 20,718,375

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Operations and Comprehensive Loss

	For the Years Ended December 31,	
	2003	2002
Sales	$ 11,437,802	$ 6,923,320
Cost of sales and expenses		
Oil and gas production	2,020,447	1,218,411
Transportation and marketing	807,266	611,956
Taxes other than income taxes	5,864,920	3,537,990
Export duties	1,492,999	910,936
General and administrative - Goloil	837,134	588,774

General and administrative - Teton	3,919,746	4,744,952
Depreciation, depletion and amortization	1,582,513	451,930
Total cost of sales and expenses	16,525,025	12,064,949
Loss from operations	(5,087,223)	(5,141,629)
Other income (expense)		
Other income	17,445	51,751
Interest expense	(347,740)	(385,939)
Financing charges	(132,818)	(5,498,106)
Total other income (expense)	(463,113)	(5,832,294)
Net loss before tax	(5,550,336)	(10,973,923)
Foreign income tax	(84,508)	--
Net loss	(5,634,844)	(10,973,923)
Imputed preferred stock dividends for inducements and beneficial conversion charges	(2,780,693)	--
Net loss applicable to common shares	(8,415,537)	(10,973,923)
Other comprehensive loss, net of tax		
Effect of exchange rates	168,256	(140,773)
Comprehensive loss	$ (8,247,281)	$(11,114,696)
Basic and diluted weighted average common shares outstanding	6,840,303	3,105,235
Basic and diluted loss per common share	$ (1.23)	$ (3.53)

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Changes in Stockholders' (Deficit) Equity
For the Years Ended December 31, 2003 and 2002

	Preferred Stock	
	Shares	Amount
Balance - December 31, 2001	--	$ --
Common stock issued for cash	--	--

Common stock subscriptions paid in 2003	--	--
Common stock and warrants issued for services	--	--
Common stock issued for conversion of convertible debentures	--	--
Warrants issued and in-the-money conversion feature on convertible debentures	--	--
Warrants issued with notes payable	--	--
Warrants issued in connection with extensions on notes payable	--	--
Net loss	--	--
Foreign currency translation adjustment	--	--
Balance - December 31, 2002	--	--
Common stock issued for cash - net of commissions of $98,100	--	--
Common stock issued for settlement of accounts payable and accrued liabilities	--	--
Options issued to advisory board and common stock issued for services	--	--
Warrants issued with notes payable	--	--
Preferred stock issued for cash, net of commissions of $473,838 (cash) and $99,168 (non-cash)	2,226,680	2,226
Preferred stock converted to common stock	(1,645,099)	(1,645)
Preferred stock issued in exchange for notes payable and accrued interest of $9,426	36,650	37
In-the-money conversion feature charges to be amortized	--	--
Amortization of in-the-money conversion feature charges	--	--
Net loss	--	--
Foreign currency translation adjustment	--	--
Balance - December 31, 2003	618,231	$ 618

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Cash Flows

For the Years Ended

	December 31, 2003	December 31, 2002
Cash flows from operating activities		
Net loss	$ (5,634,844)	$(10,973,923)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion, and amortization	1,582,513	451,930
Stock based compensation for variable plan warrants	--	--
Stock and stock options issued for services and interest	107,128	--
Warrants issued for notes payable extensions	110,170	46,582
Stock and warrants issued for services	--	837,126
Debentures issued for services	--	267,500
Amortization of debenture and note payable discounts	--	5,331,412
Changes in assets and liabilities		
Accounts receivable	462,000	(1,048,608)
Prepaid expenses and other assets	(4,247)	(57,446)
Inventory	54,177	(313,489)
Accounts payable and accrued liabilities	311,901	290,131
	2,623,642	5,805,138
Net cash used in operating activities	(3,011,202)	(5,168,785)
Cash flows from investing activities		
Oil and gas properties and equipment expenditures	(5,392,450)	(3,222,349)
Construction in progress	(1,700,696)	--
Net cash used in investing activities	(7,093,146)	(3,222,349)
Cash flows from financing activities		
Net proceeds from advances under notes payable owed to affiliates	4,470,984	2,178,525
Proceeds from stock subscription	1,939,610	--
Proceeds from issuance of stock, net of $473,838 commissions	10,251,924	--
Proceeds from issuance of convertible debentures	--	4,143,643
Proceeds from notes payable	628,750	300,000
Payments on notes payable	(478,750)	(894,210)
Issuance of common stock	--	3,333,460
Net cash provided by financing activities	16,812,518	9,061,418
Effect of exchange rates	168,256	(140,773)
Net increase in cash	6,876,426	529,511
Cash - beginning of year	712,013	182,502
Cash - end of year	$ 7,588,439	$ 712,013

See notes to consolidated financial statements.

Supplemental disclosure of cash flow information

Cash paid for:	Interest
2003	$ 18,202
2002	$ 120,008

Supplemental disclosure of non-cash activity:

During the year ended December 31, 2003, the Company had the following transactions:

128,700 warrants issued with debt and valued at $110,170 were initially recorded as a discount on the note payable. At December 31, 2003, the full amount of the discount had been amortized as financing costs.

79,793 shares of common stock were issued for settlement of accounts payable and accrued liabilities valued at $220,000.

The Company issued 30,000 non-qualified options to advisory board members valued at $94,702.

The Company issued 1,035 shares of common stock for services valued at $3,201.

The Company has accrued a liability for $46,968 related to the obligation to issue 57,420 warrants to a consultant for capital raising services.

12,000 preferred shares were issued to consultants for services valued at $52,200 related to capital raising.

Approximately $1,785,000 of capital expenditures for oil and gas properties were included in accounts payable at December 31, 2003.

During 2002, the Company had the following transactions:

In exchange for the extension of principal payments on four notes payable, the Company modified expiration dates of certain warrants previously held by the note holders and issued an additional 10,416 such warrants. The fair value of the modification of the warrants totaled $46,582 and has been recorded as financing costs.

A note payable of $250,000 was converted into a convertible debenture with 83,333 warrants also being issued under the same terms of the Company's private placement offering of convertible debentures.

1,647,881 warrants were issued with convertible debentures valued at $811,559 were initially recorded as a discount on the debentures. At December 31, 2002, the full amount of the discount had been amortized as financing costs.

In-the-money conversion features on convertible debt valued at $3,746,285 were recognized as financing costs.

The Company issued 143,678 warrants in connection with related party notes payable of $450,000 and $50,000. The warrants were valued at

$156,781 and recorded as financing costs.

$267,500 of convertible debentures with 89,167 warrants valued at $14,250 for a total amount of $281,750 were issued for consulting services.

41,667 warrants issued with a note payable valued at $150,016 were initially recorded as a discount on the note payable. At December 31, 2002 the full discount had been amortized and recorded as financing costs.

$4,661,143 of debentures and accrued interest of $227,075 were converted into 1,758,494 shares of stock with $466,771 being paid as a premium at conversion and recorded as financing costs.

221,198 shares of stock were issued to consultants for services valued at $607,790.

133,333 warrants were issued to consultants for services valued at $215,086.

Approximately $1,142,000 of capital expenditures for oil and gas properties were included in accounts payable at December 31, 2002.

During the fourth quarter of 2002, the Company received $1,939,610 of stock subscriptions receivable for 712,045 shares of stock. The cash for these subscriptions was paid during the first quarter of 2003.

TETON PETROLEUM COMPANY

Notes to Consolidated Financial Statements

Note 1 - Description of Business and Summary of Significant Accounting Policies

Teton Petroleum Company (the Company) is an oil and gas exploration and production company whose current focus is the Russian Federation. Since the Company's operations are exclusively in the Russian Federation it is subject to certain risks not typically associated with companies in North America, including, but not limited to, fluctuations in currency exchange rates, the imposition of exchange control regulations, the possibility of expropriation decree, undeveloped business practices and laws, and less liquid capital markets.

The exploration and development of oil and gas reserves involves significant financial risks. The ability of the Company to meet its obligations and commitments under the terms and conditions of its licensing agreements and carry out its planned exploration activities is dependent upon continued financial support from its stockholders, the ability to develop economically recoverable reserves, and its ability to obtain necessary financing to complete development of the reserves.

Should the Company's licenses be revoked as a result of changes in legislation, title disputes or failure to comply with license agreements, there would be a material write-down of the oil and gas properties. The accompanying consolidated financial statements do not reflect any adjustments that may be required due to these uncertainties.

The United States dollar is the principal currency of the Company's business and, accordingly, these consolidated financial statements are expressed in United States dollars.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Teton Petroleum Company and its wholly owned subsidiary, Goltech Petroleum, LLC ("Goltech"). All intercompany accounts and transactions have been eliminated in consolidation.

During 2002, the Company owned a 50% interest in Goltech, which had a 70.59% interest in ZAO Goloil. Accordingly ZAO Goloil was consolidated into Goltech and the Company reflected it's 50% share of Goltech. As of December 31, 2002, the other 50% member of Goltech relinquished their ownership interest in exchange for a 35.295% direct ownership interest in ZAO Goloil. The audited financial statements as of December 31, 2003 and 2002, as is customary in the oil and gas industry, reflect a pro-rata consolidation of the Company's interest in ZAO Goloil (a Russian Company) through its wholly owned subsidiary Goltech. Management believes this to be the most meaningful presentation as the Company's only significant asset is its investment in Goltech Petroleum, LLC. The Company is required to provide 50% of the capital expenditure requirements and is entitled to a 50% operating interest until repayment of its investment occurs ("Payout"). Under the pro-rata consolidation method the Company includes its pro-rata share of the assets (50%), liabilities (50%), revenues (50%) and expenses (50%) of the accounts of Goloil until repayment (payout) of our current and any future loans to Goloil occurs. The intercompany balances of Goltech and Teton do not fully eliminate under the pro-rata consolidation method, and the remaining receivable on Teton's accounts has been included as a component of oil and gas properties, as this balance will only be repaid through net cash flow generated from oil and gas properties.

In September OAO NK RussNeft acquired the shares held by Mediterranean Overseas Trust and InvestPetrol in Goloil and assumed responsibility for operating the License. During the transition, the Company subsequently learned in November, Goloil sold substantially less than its export quota into export markets where prices are substantially higher, instead selling the production into the domestic market.

Commencing October 1, RussNeft began selling Goloil's production to a related party for a fixed price of 2400 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. As a consequence, the Company estimates its revenues after taxes for the quarter were reduced by approximately $1.44 million. Moreover, since this pricing arrangement prevailed through the end of the fourth quarter and beyond, the Company has had to significantly reduce the present value of its reserves effective January 1, 2004. In addition, RussNeft has adjusted the amount of production payment to be paid to EnergoSoyuz-A ("ESA") to a fixed amount per month which is less than the 50% of oil produced previously agreed to, based on the current price.

Teton has strenuously objected to RussNeft's actions and is continuing to engage its management in discussions over the issue, while retaining counsel with the intention of vigorously pursuing it rights under previous agreements and as a significant minority shareholder in Goloil. While counsel has advised the Company that its position has merit, the outcome of this dispute cannot be predicted at the current time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions it invests with. As of the balance sheet date, the Company had no cash equivalents.

Revenue Recognition

The Company recognizes oil sales revenue at the point in time oil quantities have been delivered to purchasers.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is the total of net income or loss and other comprehensive income or loss. The effect of foreign currency exchange rates currently is the Company's only item which constitutes comprehensive income or loss.

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed. The Company also evaluates costs capitalized for exploratory wells, and if proved reserves cannot be determined within one year from drilling exploration wells, those costs are written-off and recorded as an expense.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drilling and average holding period. Currently the Company holds no unproved properties.

Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method. Significant development projects are excluded from the depletion calculation prior to assessment of the existence of proven reserves that are ready for commercial production. The Company had a cogeneration plant under construction at December 31, 2003, the Company's share of which totaled $1,700,696 which has been excluded from properties subject to depletion until its completion. The Company did not have any significant development projects, which have been excluded from depletion at December 31, 2003. Support equipment and other property and equipment are depreciated over their estimated useful lives.

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized in income based on the amount of proceeds.

On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

All of the Company's oil and gas assets are held in one cost center located in Siberia, Russia. The Russian Federation (RF) has performed substantial exploration efforts on properties on which the Company has received successful tenders for future exploration and development. As a result, those areas accepted under tender by the RF are known to contain proved reserves and the Company's efforts are focused on further development of such reserves.

The net carrying value of the Company's oil and gas properties is limited to an estimated net recoverable amount. The net recoverable amount is based on undiscounted future net revenues and is determined by applying factors based on historical experience and other data such as primary lease terms of properties and average holding periods. If it is determined that the net recoverable value is less than the net carrying value of the oil and gas properties, any impairment is charged to operations.

Inventories

Inventory includes extracted oil physically in the pipeline prior to delivery for sale and oil held by third parties valued at the cost of development. Inventory also includes various supplies and spare parts and is valued at cost using the weighted average method.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, ranging from 3 to 27 years.

Feasibility Study TDA Grants

Grants that are received for use on oil and gas properties are recorded as an offset to expenditures incurred under the grants.

One such study was completed in 2001. In the event that the project is implemented and a substantial economic benefit is reaped, funds previously advanced by the TDA may be required to be reimbursed. Goloil may be required to reimburse the TDA in the form of a success fee if certain events occur by December 31, 2004, which include: taking an equity position in the project, financing development of the license area, or obtaining external financing for development of the license area.

The Company has also received a $300,000 grant from the TDA for a feasibility study for field development and pipeline construction. As of March 25, 2004 the Company has completed and submitted to TDA its feasibility study of the Eguryak license area. The Company has received $255,000 as of December 31, 2003 under the grant. In the event that the project is implemented and a substantial economic benefit is reaped, funds previously advanced by the TDA may be required to be reimbursed. The Company may be required to reimburse the TDA in the form of a success fee if certain events occur based substantially on the results of the study by December 31, 2005, which include: taking an equity position in the project, financing development of the license area or obtaining external financing for development of the license area.

For the years ended December 31, 2003 and 2002, the Company received $0 under TDA grants, respectively.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment, in accordance with the provisions established under Statement of SFAS no. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", when events or changes in circumstances indicate that the related carrying amount may not be recoverable. An impairment is considered to exist if the total estimated future cash flows on an undiscounted basis is less than the carrying amount of the related assets. An impairment loss is measured and recorded based on the discounted estimated future cash flows. Changes in significant assumptions underlying future cash flow estimates or fair values of assets may have a material effect on the Company's financial position and results of operations.

Asset Retirement Obligations

During 2003 the Company applied the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company recorded $126,500 as the fair value of the Company's estimated 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 as of December 31, 2003, as the effect of adopting SFAS No. 143 on January 1, 2003 was not material. Had the Company adopted SFAS No. 143 on January 1, 2002 the net loss to common shareholders would have been increased by $13,000.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based compensation. In addition, SFAS 148 amends the disclosure provision of SFAS 123 to require more prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation on reported results of operations. 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. 124, the Company's net loss and basic loss per common share would have been changed to the pro forma amounts indicated below:

	For the Years Ended December 31,	
	2003	2002
Net loss applicable to common shareholders - as reported	$ (8,415,537)	$(10,973,923)
Net loss applicable to common shareholders - pro forma	$(13,389,678)	$(11,945,964)

Basic loss per common share - as reported	$ (1.23)	$ (3.53)
Basic loss per common share - pro forma	$ (1.96)	$ (3.84)

The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

	For the Years Ended December 31,	
	2003	2002
Approximate risk free rate	4.00%	4.50%
Average expected life	10 years	2 years
Dividend yield	-%	-%
Volatility	100%	87.20%
Estimated fair value of total options granted	$4,974,141	$972,041

Foreign Currency Translation

All assets and liabilities of the Company's subsidiary are translated into U.S. dollars using the prevailing exchange rates as of the balance sheet date. Income and expenses are translated using the weighted average exchange rates for the period. Stockholders' investments are translated at the historical exchange rates prevailing at the time of such investments. Any gains or losses from foreign currency translation are included as a separate component of stockholders' equity. The prevailing exchange rates at December 31, 2003 and 2002 were approximately 1 U.S. dollar to 29.45 and 31.78, Russian rubles, respectively. For the years ended 2003 and 2002, the average exchange rate for 1 U.S. dollar was 30.66 and 31.39, Russian rubles, respectively.

Basic Loss Per Share

The Company applies the provisions of Statement of Financial Accounting Standard No. 128, "Earnings Per Share" (FAS 128). All dilutive potential common shares have an antidilutive effect on diluted per share amounts and therefore have been excluded in determining net loss per share. The Company's basic and diluted loss per share are equivalent and accordingly only basic loss per share has been presented.

The following table reflects the effects of dilutive securities as of December 31, 2003.

Dilutive effects of stock options	1,578,037
Dilutive effects of warrants	7,389,981
Dilutive effects of convertible preferred shares	2,381,351
Weighted average common shares outstanding including the effects of dilutive securities	11,349,369

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, accounts receivable, sundry receivables, accounts payable, accrued liabilities, notes payable and convertible debentures approximated fair value as of December 31, 2003 because of the relatively short maturity of these instruments.

The carrying amounts of notes payable and debt issued approximate fair value as of December 31, 2003 because interest rates on these instruments approximate market interest rates. The Company has no derivative financial instruments.

The Company is exposed to foreign currency risks to the extent that transactions and balances are denominated in currencies other than the United States dollar. This risk could be significant for those transactions and balances denominated in rubles, as the ruble has experienced significant devaluation in the past.

Reclassifications

Certain amounts in the 2002 consolidated financial statements have been reclassified to conform to the 2003 presentation.

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer measures certain financial instruments with characteristics of both liabilities and equity and requires that an issuer classify a financial instrument within its scope as a liability (or asset in some circumstances). SFAS No. 150 was effective for financial instruments entered into or modified after May 31, 2003 and otherwise was effective and adopted by the Company on July 1, 2003. As the Company has no such instruments, the adoption of this statement did not have an impact on the Company's consolidated financial statements. During December 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46"), which requires the consolidation of certain entities that are determined to be variable interest entities ("VIE's"). An entity is considered to be a VIE when either (i) the entity lacks sufficient equity to carry on its principal operations, (ii) the equity owners of the entity cannot make decisions about the entity's activities or (iii) the entity's equity neither absorbs losses or benefits from gains. Teton Petroleum owns no interests in variable interest entities, and therefore this new interpretation will not affect the Company's consolidated financial statements.

Note 2 - Investments in Goltech Petroleum, LLC

Effective in August 2000, the Company entered into a transaction agreement selling a 50% equity interest in Goltech in exchange for $1,000,000 cash and a $5.6 million investment in the license area for drilling additional wells on the license area, completion of a pipeline and the construction of a processing facility (the oilfield development program). The $1,000,000 received was also invested in the license area to complete the oilfield development program. The party to the agreement obtained the right to name 50% of the board of managers and became the general manager of Goltech. No gain or loss was recognized on the transaction as the proceeds were immediately reinvested into the field development and pipeline completion project. ZAO Goloil was also required to make a production payment to compensate the other party for its investment in the license area. The production payment requires ZAO Goloil to deliver 50% of the production from existing and future wells through July 2007. The other party is obligated under an agreement to only sell their share of the production in the Russian domestic market. Effective December 31, 2002, the other party withdrew as a member of Goltech and in exchange for relinquishment of 50% of its membership interests in Goltech, it received 35.295% of the ZAO Goloil shares and the return of its $1,000,000 initial contribution. ZAO Goloil is still obligated under the production payment.

The other membership holder (the "affiliate") to Goltech Petroleum, LLC (Goltech) had invested approximately $7,000,000 under the oilfield development agreement outside of Goltech and Goloil as of December 31, 2003. These costs are reflected in the accounts of another entity controlled by the affiliate and are not reflected anywhere in the financial statements of the Company. These expenditures were used to drill and complete four additional wells and complete a pipeline on the Company's license area that provides the ability to transport oil directly through this pipeline year-round to other larger pipelines for ultimate sale. The Company has compensated the affiliate in the form of a production payment of approximately 2,262,343 barrels of oil through December 31, 2003. The Company also has the obligation to compensate the affiliate for a minimum of 4,088,000 barrels of oil (1,825,657 barrels remaining at December 31, 2003) over a seven-year period for its investments under the oilfield development agreement. See Note 10 for a discussion of the changes made to the production payment being proposed by OAO NK RussNeft, a newly formed Russian independent oil producer ("RussNeft").

Additionally, the affiliate has net direct loans to Goloil of approximately $14,839,000, which have been used to help fund capital expenditures for completion of a processing facility and to help fund other related expenses. The Company has reflected a 50% of these loans in its financial statements under the pro-rata consolidation method (Note 6).

Note 3 - Property and Equipment

Property and equipment consist of the following at December 31, 2003:

Building	$ 123,942
Vehicles	178,598
Computers and equipment	30,053
Other equipment	175,707
Furniture and fixtures	27,689
	535,989
Less: Accumulated depreciation	(85,148)
	$ 450,841

Note 4 - Oil and Gas Properties

Goloil License

The Company holds an interest in the license for the Eguryak license area for exploration and production of oil and gas through its investment in Goloil (which is held through its 100% owned subsidiary, Goltech). This license grants Goloil the exclusive right to explore and develop an area in Siberia covering 186.8 square kilometers and includes the Eguriakhskoe, South Eguriakhskoe and Golevoye oil fields situated in the Nizhnevartovsk Region. The license expires on May 21, 2022, subject to additional extensions as approved by applicable bodies of the Russian Federation. The license may also be canceled by the Company with a 90-day written notice.

The license requires Goloil to drill a minimum of five wells over four years, conduct an additional seismic survey aggregating 30 square kilometers, and evaluate geological data from the 186.8 square kilometers of the license. Goloil was also required to conduct production tests on six wells between 1997 and 2000. In addition to performing its duties under the license, Goloil must comply with Russian environmental and archeological laws. Currently, the Company has fulfilled its requirements under the license. Management is continuing to pursue completion of future required performance criteria and believes that there will be no adverse effects on the Company's license for failure to comply with any past license requirements.

The license requires Goloil to pay all taxes including mining tax, property tax and certain ecological taxes. All geological information obtained at Goloil's expense is the property of Goloil, while all geological information obtained at the expense of the Russian government may be used by Goloil. Oil and gas produced from the licensed property, subject to certain royalty payments, is the property of Goloil.

During 2003, Goloil began the construction of a gas-powered electrical generating plant which will be operational in the first quarter of 2004.

See note 10 for a discussion of a dispute with RussNeft, the operator of Goloil.

Note 5 - Notes Payable

During 2003:

The Company received proceeds of $628,750 from the issuance of promissory notes to three shareholders. In connection with these notes, 128,700 warrants valued at $110,170 were issued. At December 31, 2003, the full amount of the discount had been amortized and recorded as a non-cash financing charge. The Company has recorded the value of these warrants using the Black-Scholes option-pricing model using the following assumptions: volatility of 73%, a risk-free rate of 3.5%, zero dividend payments, and a life of one year.

The Company paid $478,750 of the promissory notes issued during the year. The remaining $150,000 along with accrued interest of $9,426 was exchanged for Teton's 8% convertible preferred shares.

During 2002:

The scheduled March 1, 2002 principal payments on two notes payable totaling $250,000 to stockholders were extended to April 15, 2002. In exchange for this extension, the holders were issued 10,417 stock purchase warrants, with an exercise price of $6.00 that expired February 2004, which had been valued at $14,469 using the Black Scholes option pricing model with assumptions of volatility of 100%, risk free rate of 5.5% and no dividend yield. These extensions were recorded in the first quarter of 2002 as financing costs. These notes were fully paid off in 2002.

The Company issued 143,678 warrants in connection with related party notes payable of $450,000 and $50,000. The warrants were valued at $156,781 and recorded as financing costs. Additionally, in the first quarter of 2002, the due dates of the two notes payable totaling $500,000 were extended by the holders to April 15, 2002. As consideration for this extension the Company agreed to modify the expiration dates of certain warrants previously held by the note holders from October 31, 2002 to January 31, 2003. These extensions were valued based upon the incremental fair value of the warrants on the date of modification, which totaled approximately $32,000. The values were calculated using the Black Scholes option-pricing model under the assumptions described in the previous paragraph, and were recorded in the first quarter of 2002, the quarter the modifications occurred.

During 2002, the Company paid $200,000 of a $450,000 note payable outstanding at December 31, 2001. The remaining $250,000 was converted into a convertible debenture with 83,333 warrants also being issued in connection with the Company's private placement offering of convertible debentures.

The Company also paid off a $50,000 note payable to a stockholder and the $94,210 note payable to an officer during 2002, which were outstanding at December 31, 2001.

During 2002, the Company received proceeds of $300,000 on a note payable from a stockholder. In connection with the note, 41,667 warrants valued at $150,016 were issued and recorded as financing charges. The Company paid off this note in November 2002. The Company has recorded the value of these warrants using the Black Scholes option-pricing model using the following assumptions: volatility of 138%, a risk-free rate of 4.5%, zero dividend payments, and a life of 2 years.

Total expense recorded associated with the above warrant issuances and modifications totaled $353,379 and have been recorded as non-cash financing charges during the year ended December 31, 2002.

Note 6 - Proportionate Share of Liabilities

The proportionate share of accounts payable and accrued liabilities of $2,590,901 at December 31, 2003 are obligations of Goloil and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

The following notes reflect the Company's 50% pro-rata share of notes payable advances made by and owed to Goloil owed to an affiliate. These advances are obligations of Goloil at December 31, 2003 and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

Pro-rata share of Goloil notes payable owed to an affiliate. The proceeds were used to pay certain operating expenses and capital expenditures of Goloil. These notes provide for interest rates of 8%, with interest payable either quarterly or on maturity, maturing through December 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.	$7,419,409
Less: current portion	$(7,419,409)

Note 7 - Stockholders' Equity

Changes in Stockholders' Equity during 2003

On March 19, 2003, the stockholders authorized an increase in the Company's common shares from 100,000,000 to 250,000,000 and authorized 25,000,000 shares of preferred stock for future issuance.

Private Placements of Common Stock

During the year ended December 31, 2003 the Company received the following proceeds from the issuance of privately placed common stock:

- $1,091,900 (net of costs of $98,100) from the issuance of 437,012 shares of common stock. In connection with the private placement, the Company also issued a warrant for each $3.00 stock investment. The warrants have a term of two years and an exercise price of $6.00,

- $1,939,610 during the year ended December 31, 2003 related to outstanding stock subscriptions receivable at December 31, 2002,

- 80,828 common shares valued at $317,902 were issued for (i) settlement of accounts payable and accrued liabilities of $220,000; and (ii) services provided by the advisory board of $97,902.

Private Placements of Series A Convertible Preferred Stock

During the year ended December 31, 2003 the Company received the following proceeds from the issuance of privately placed preferred stock issued at an offering price of $4.35 per share.

- Proceeds of $9,145,450 (net of cash costs of $473,888 and net of $46,968 related to the obligation to issue warrants for capital raising) from the issuance of 2,266,680 shares of 8% convertible preferred stock.

- $14,574 from the issuance of 40,000 preferred shares in exchange for a $150,000 note payable outstanding and accrued interest of $9,426.

We also issued 12,000 preferred shares to a consultant for capital raising services valued at $52,200.

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 placement for Tranches 1 and 2, 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 of 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 were recorded during the fourth quarter of 2003, and $118,610 will be amortized and recorded as preferred dividends in January of 2004.

The Company also sent each preferred shareholder an inducement offer to convert their shares of preferred into common shares. If converted within 60 days of closing, the investors will be entitled to receive (i) dividends payable in common stock equivalent to one years worth of dividends; and (ii) 2 Class B Warrants for each $10 invested, exercisable at $6.00 per share.

In connection with the preferred share private placement for Tranche 1, shareholders converted 1,645,099 of 8% convertible preferred shares to common stock at a price of $4.35 per share. Common share dividends of 8% for a full year were paid totaling $546,173 and 1,431,237 warrants were issued valued at $1,170,678, for a total inducement charge of $1,716,851 recognized as a preferred dividend during the fourth quarter for those investors which accepted the inducement offer. The warrants issued were valued using the black-scholes option pricing model using the following assumptions: volatility of 55%, a risk-free rate of 1.875%, zero dividend payments, and a life of two years.

In connection with the preferred share private placement for Tranche 2, a common share dividend of 8% for a full year was paid totaling $157,601 and warrants were issued valued at $337,805 , for a total inducement charge of $495,406 which will be recognized as a preferred dividend in the first quarter of 2004, associated with the preferred stock inducement offer ending on March 27, 2004. The warrants issued were valued using the black-scholes option pricing model using the following assumptions: volatility of 55%, a risk-free rate of 1.875%, zero dividend payments, and a life of two years.

Warrants to Purchase Common Shares

During 2003, the Company issued 440,140 warrants to entities for their services directly related to raising capital under private placements. The Company also issued 128,700 warrants in conjunction with debt valued at $110,170.

During 2003, the Company issued 1,019,883 warrants in connection with common stock private placement offerings, with an exercise price of $6.00 that expire December 30, 2004.

Changes in Stockholder Equity during 2002

Private Placements of Common Stock

During the year ended December 31, 2002 the Company received the following proceeds from the issuance of privately placed common stock:

- $3,333,460 from the issuance of 1,223,737 shares of common stock. In connection with the private placement offerings, the Company also issued a warrant for each $3.00 stock investment. The warrants have a term of two years and an exercise price of $6.00.

- $605,136 from the issuance of 221,198 common shares issued for consulting services.

- $23,200 from the issuance of 7,407 common shares for services provided in 2001. The Company accrued a liability for this amount at December 31, 2002.

Convertible Debentures

During 2002, the Company received proceeds of $4,163,143 from the private placement of convertible debentures. The debentures had a term of three years from April 1, 2002 and provided for interest at 10% per annum payable annually. The debentures provided that the holder may convert the debenture and accrued interest into shares of common stock at a $3 conversion rate.

The debentures also included warrants to purchase common stock and have an exercise price of $6 and a term of two years. Each debenture holder received one warrant for each $.25 (pre-split) of investment made in debentures.

On September 1, 2002, the Company redeemed all debentures outstanding for shares of its common stock. The debentures were redeemed at 110% of their face value by issuing one share of common stock for each $3 of redemption value, which also incorporates any accrued interest through September 1, 2002. Financing charges were recorded for the difference between the cumulative 10% contractual interest accrued through September 1, 2002 and the 10% premium paid upon redemption, which totaled $466,771.

As a result of the warrants issued with the debentures and in-the-money conversion features present at issuance, non-cash financing charges of $4,714,625 were expensed. While the stock to which the conversion rights and warrants apply is restricted stock, the valuation with respect to this stock in calculating the discount was "as if" the stock was immediately salable. The effect of this is to make the amount of discount and its related amortization higher than it would otherwise have been. Management believes these costs are non-recurring and will manage future capital raising programs to minimize or eliminate these costs.

Warrants to Purchase Common Shares

During 2002, the Company issued 133,333 warrants to consultants for services valued at $215,086. The Company also issued 616,793 to employees and directors for services performed.

The following table presents the activity for warrants outstanding:

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2001	544,098	$ 5.28
Granted	4,068,682	5.52
Forfeited/canceled	(25,000)	2.04
Outstanding - December 31, 2002	4,587,780	5.52
Granted	3,210,249	2.49
Forfeited/canceled	(408,048)	0.30
Outstanding - December 31, 2003	7,389,981	$ 5.63

The following table presents the composition of warrants outstanding and exercisable:

Range of Exercise Prices	Shares Outstanding Number	Price*	Life*
$2.72 - $4.80	997,800	$ 0.41	.27
$6.00 - $12.00	6,392,181	5.22	.93
Total - December 31, 2003	7,389,981	$ 5.63	1.20

*Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

Note 8 - 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 second quarter of 2003, the Company issued 30,000 non-qualified options to outside advisory board members which has been recorded as compensation expense during the three-months ended June 30, 2003 valued at $94,701, using the Black-Scholes option-pricing model with the following assumptions: volatility of 100%, a risk-free rate of 4%, zero dividend payments, and a life of ten years. The Company also issued 1,448,037 incentive options to employees, officers and directors valued at $4,571,026 using the Black-Scholes option-pricing model under the same assumptions described above. In the third quarter, 100,000 options valued at $308,414 were issued to a director under the Company Plan.

As of December 31, 2003, 1,478,037 options with an exercise price of $3.48 were outstanding as well as 100,000 options with an exercise price of $3.71. The weighted average price and contractual life of both issues were $3.26 and $3.71 and 8.59 and .61 years, respectively.

The following table presents the activity for stock options outstanding:

Range of Exercise Prices	Shares Outstanding Number	Price*	Life*
Outstanding - December 31, 2002	-	$ -	-
Issued	1,578,037	3.49	9.20
Outstanding - December 31, 2003	1,578,037	$ 3.49	9.20

*Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

Note 9 - Income and Other Taxes

The Company has incurred losses since inception and, as a result of uncertainty surrounding the use of those net operating loss carry-forwards, no provision for income taxes has been recorded.

The Company has net operating loss carry-forwards for U.S. tax purposes of approximately $18,500,000, which expire between 2012 and 2023, if unused, and have been fully reserved by a valuation allowance.

Taxes payable are tax liabilities of its Russian subsidiary, Goloil (held through its wholly owned subsidiary Goltech). Tax payments made by Goloil to the Russian government include profits taxes, value-added taxes ("VAT"), unified social taxes, transport taxes and property taxes.

The Company had no income tax liabilities for the years ended December 31, 2003. ZAO Goloil has net operating loss carry-forwards, which are available to offset future taxable income, which will expire in 2013. The foreign income tax carry-forwards for Russian tax purposes are limited to a maximum of 30% of taxable income in any year. As of December 31, 2003, Goloil had $210,662 in deferred tax assets ($105,331 net to Teton) and $34,906 ($17,453 net to Teton) in deferred tax liabilities. These amounts can be applied against future income taxes.

Note 10 - Commitments and Contingencies

Contingencies

Dispute with Current operator of Goloil

In September, RussNeft acquired the shares held by Mediterranean Overseas Trust and InvestPetrol in Goloil and assumed responsibility for operating the License. During the fourth quarter, the Company subsequently learned, Goloil sold substantially less than its export quota into export markets where prices are substantially higher, instead selling the production into the domestic market.

Commencing October 1, RussNeft began selling Goloil's production to a related party of RussNeft (RussTrade) 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. As a consequence, the Company estimates its revenues after taxes for the quarter were reduced by approximately $1.44 million. Moreover, since this pricing arrangement prevailed through the end of the fourth quarter and beyond, the Company has had to significantly reduce the present value of its reserves effective January 1, 2004. In addition, RussNeft has adjusted the amount of production payment to be paid to EnergoSoyuz-A ("ESA") to a fixed amount per month which is less than the 50% of oil produced previously agreed to, based on the current price.

Teton has strenuously objected to RussNeft's actions and is continuing to engage its management in discussions over the issue, while retaining counsel with the intention of vigorously pursuing it rights under previous agreements and as a significant minority shareholder in Goloil. While counsel has advised the Company that its position has merit, the outcome of this dispute cannot be predicted at the current time.

Taxation

The taxation system in Russia is evolving as the central government transforms itself from a command to a market-oriented economy. There were many new Russian Federation and Republic taxes and royalty laws and related regulations introduced over the last few years. Many of these were not clearly written and their application is subject to the interpretation of the local tax inspectors, Central Bank officials and the Ministry of Finance. Instances of inconsistent interpretation between local, regional and federal tax authorities and between the Central Bank and Ministry of Finance are not unusual. The current regime of penalties and interest related to reported and discovered violations of Russian laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for tax law violations), as well as fines of up to 40% of the unpaid taxes. Interest is assessable at rates of up to 0.1% per day. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes.

The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Russian tax and legal systems, the ultimate taxes as well as penalties and interest, if any, assessed may be in excess of the amounts paid to date as of December 31, 2003.

Management believes based upon its best estimates that the Company has paid or accrued all taxes that are applicable for the current and prior years, and compiled with all essential provisions of laws and regulations of the Russian Federation.

Environmental

The Company may be subject to loss contingencies pursuant to Russian national and regional environmental claims that may arise for the past operations of the related fields, which it operates. As Russian laws and regulations evolve concerning environmental assessments and cleanups, the Company may incur future costs, the amount of which is currently indeterminable due to such factors as the current state of the Russian regulatory process, the ultimate determination of responsible parties associated with these costs and the Russian government's assessment of respective parties' ability to pay for those costs related to environmental reclamation.

Political

The Company's operations and financial position will continue to be affected by Russian political developments including the application of existing and future legislation, regulations and claims pertaining to production, imports, exports, oil and gas regulations and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's current activity and its overall ability to continue operations. Management does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Russia.

Commitments

Mr. Howard Cooper, Chairman, signed an agreement on May 1, 2002. The employment agreement is for a three-year term, whereby Mr. Cooper's salary is $13,333 per month. Under the terms of the agreement, Mr. Cooper is entitled to 24 months of severance pay, payable in monthly installments over 24 months, from the date of termination. The Company may discontinue the severance payments if Mr. Cooper violates the confidentiality, noncompetition, or nonsolicitation provisions of his employment agreement.

Mr. Karl Arleth, President and Chief Executive Officer, signed an agreement on May 1, 2003. The employment agreement is for a three-year term, with a salary of $10,000 per month. Under the terms of the agreement, Mr. Arleth is entitled to 24 months severance pay in the event of change of position or control of the company.

Ms. Anya Cooper, Secretary, signed an agreement on May 1, 2002. The employment agreement is for a three-year term, whereby Ms. Cooper's salary is $6,500 per month. Under the terms of the agreement, Ms. Cooper is entitled to 12 months of severance pay, payable in monthly installments over 12 months from the date of termination. The Company may discontinue the severance payments if Ms. Cooper violates the confidentiality provision of her employment agreement.

Note 11 - Supplemental Oil and Gas Disclosures

The following is a summary of costs incurred in oil and gas producing activities:

Included below is the Company's investment and activity in oil and gas producing activities, which includes a proportionate share of ZAO Goloil's oil and gas properties, revenues, and costs.

	For the Years Ended December 31, 2003	2002
Property acquisition costs............................	$ --	$ --
Construction in progress	1,700,696	
Development costs	5,207,931	4,150,742
Total	$6,908,627	$4,150,742

The following reflects the Company's capitalized costs associated with oil and gas producing activities:

	For the Years Ended December 31, 2003	2002
Property acquisition costs	$ 595,558	$ 595,558
Construction in progress	1,700,696	
Development costs	10,808,813	4,830,421
	13,105,067	5,425,979
Accumulated depreciation, depletion, amortization and valuation allowances	(2,064,585)	(529,671)
Net capitalized costs	$ 11,040,482	$ 4,896,308

Results of Operations from Oil and Gas Producing Activities

Results of operations from oil and gas producing activities (excluding general and administrative expense, and interest expense) are presented as follows:

For the Years Ended
December 31,

	2003	2002
Oil and gas sales	$ 11,437,802	$ 6,923,320
Oil and gas production	(2,020,447)	(1,218,411)
Transportation and marketing	(807,266)	(611,956)
Export duties	(1,492,999)	(910,936)
Taxes other than income taxes	(5,864,920)	(3,537,990)
Depletion, depreciation and amortization	(1,534,914)	(451,930)
Results of operations from oil and gas producing activities	$ (282,744)	$ 192,097

Reserves (Unaudited) - Base Case

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved development oil and gas reserves are those reserves expected to be recovered through existing wells with existing equipment and operating methods. The reserve data is based on studies prepared by an independent engineer. All proved reserves of oil and gas are located in Russia.

See Note 10 to the financial statements for a full discussion of the dispute with RussNeft. As the outcome of this dispute cannot be predicted at this time, the Company has prepared two separate proved oil reserve cases: the "Base Case SEC reserves and Cash Flow Projections" and the "Alternate Case". The Base Case assumes that the Company is not successful in it's dispute with RussNeft, accordingly, the price received for oil is set at 2,400 rubles per ton ($11 per barrel) and the production payment is deducted assuming 19 million rubles per month ($645,000 per month less VAT). The Alternate Case assumes that the Company is successful in the dispute and that RussNeft and Goloil would honor all pre-existing agreements. In the Base Case, future cash flows are substantially less than in the Alternate Case, however oil reserves quantities are greater as a result of payout being delayed and how the production payment is being calculated. Management has elected to report the lower, alternate case reserves as it's oil reserves.

	For the Years Ended December 31,	
	2003	2002
Proved reserves (bbls), beginning of period	13,264,000	40,174,000
Production	(632,000)	(471,000)
Extension of reservoir	--	2,000,000
Revisions of previous estimates	(4,370,000)	(28,439,000)

Proved reserves (bbls), end of period	8,262,000	13,264,000
Proved developed reserves (bbls, beginning of period	4,567,000	5,493,000
Proved developed reserves (bbls), end of period	3,816,000	4,567,000

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

SFAS No. 69 prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines, which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying year-end prices and costs to the estimated quantities of oil and gas to be produced. Estimated future income taxes are computed using current statutory income tax rates for those countries where production occurs. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect the Company's expectations for actual revenues to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process.

The following summarizes the Base Case standardized measure and sets forth the Company's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in Statement of Financial Accounting Standards No. 69 assuming the Company is not successful in it's dispute with RussNeft.

	For the Years Ended December 31, 2003	2002
Future cash inflows	$ 114,992,000	$ 230,581,000
Future production costs	(80,812,000)	(151,167,000)
Future development costs	(14,595,000)	(18,556,000)
Future income tax expense	(7,360,000)	(16,365,000)
Future net cash flows (undiscounted)	12,225,000	44,493,000
Annual discount of 10% for estimated timing of cash flows	(6,232,000)	(19,069,000)
Standardized measure of future net discounted cash flows	$ 5,993,000	$ 25,424,000

Changes in Standardized Measure Base Case (Unaudited)

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	For the Years Ended December 31, 2003	2002
Standardized measure, beginning of period, ...	$ 25,424,000	$ 40,362,000
Net changes in prices and production costs	(11,483,000)	189,975,000
Future development costs	(3,098,000)	22,344,000
Revisions of previous quantity estimates	(11,806,000	(274,605,000)
Extension of reservoir	--	19,867,000
Accretion of discount	2,542,000	4,036,000
Changes in income taxes, net	4,414,000	23,445,000
Standardized measure, end of period, 2003 and 2002	$ 5,993,000	$ 25,424,000

Reserves (Unaudited) - Alternate Case

The following summary sets forth the Company's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in Statement of Financial Accounting Standards No. 69 and assuming that the Company is successful in resolving its dispute with RussNeft, the Alternate Case.

	For the Years Ended December 31, 2003	2002
Future cash inflows	$ 175,631,000	$ 230,581,000
Future production costs	(104,257,000)	(151,167,000)
Future development costs	(14,595,000)	(18,556,000)
Future income tax expense	(15,567,000)	(16,365,000)
Future net cash flows (undiscounted)	41,212,000	44,493,000
Annual discount of 10% for estimated timing of cash flows	(17,560,000)	(19,069,000)
Standardized measure of future net discounted cash flows	$ 23,652,000	$ 25,424,000

Changes in Standardized Measure (Unaudited)

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	For the Years Ended December 31, 2003	2002
Standardized measure, beginning of period, December 31, 2002 and 2001	$ 25,424,000	40,362,000
Net changes in prices and production costs	50,949,000	189,975,000
Future development costs	(3,098,000)	22,344,000
Revisions of previous quantity estimates	(52,623,000)	(274,605,000)
Extension of reservoir	--	19,867,000
Accretion of discount	2,542,000	4,036,000
Changes in income taxes, net	458,000	23,445,000
Standardized measure, end of period, 2003 and 2002	$ 23,652,000	$ 25,424,000

Note 12 - Fourth Quarter Adjustments

The following significant adjustments were recorded by the Company during the fourth quarter of 2003:

Depletion, amortization and amortization	$ 919,744
Exploration expenses	275,416
Imputed preferred stock dividends for inducements and beneficial conversion charges	2,762,137
Total impact on loss applicable to common stockholders	$3,957,297

As described in Note 10 to these financial statements, the operations of Goloil have had some significant management changes that have affected the operating results of Goloil during the fourth quarter. The effects of these changes can be seen in the accompanying table reflecting the fourth quarter results of operations.

Fourth Quarter

	2003
Sales, Barrels	150,938
Average Daily Sales, Barrels	1,654
Average Selling Price, $/barrel	$15.45
Revenues	$2,332,464
Costs of Sales and Expenses, excl. DD&A	
Production Costs	563,590
Transportation & Marketing	6,061
Taxes other than Income taxes	1,700,920
Export Duties	-
	-
Results from Goloil Operations, before DD&A	61,889
Less General & Administrative Expense, Goloil	188,229
Goloil operating (loss) income before DD&A	(126,340)
Depreciation, Depletion &	919,744
Amortization, Goloil	
Operating loss, Goloil	(1,046,084)
General & Administrative Expense, Teton	1,244,063
Operating Loss, Teton	$(2,290,147)

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES

As of December 31, 2003, 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 December

31, 2003.

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. The Registrant has since December 31, 2003 addressed this concern and has hired a controller and added a new chief financial officer, and added formalized 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 the bulk of the company's operating results. The Registrant continues to work with management and its new partner OAO NK RussNeft in an effort to improve financial reporting in this area.

PART III

Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

DIRECTORS AND EXECUTIVE OFFICERS

Directors, executive officers, and significant employees of Teton, their respective ages and positions with Teton are as follows:

Name	Age	Position
H. Howard Cooper	47	Chairman and Founder, Director
Karl F. Arleth	55	President and CEO, Director
Igor Effimoff	58	Chief Operating Officer
John I. Mahar	50	Executive VP of Finance
James J. Woodcock	65	Director
Thomas F. Conroy	65	Director
John T. Connor, Jr.	63	Director
Patrick A. Quinn	50	Chief Financial Officer
Ilia Gurevich	40	Controller

H. HOWARD COOPER, has been our chairman and founder since 1996. Mr. Cooper was our president and CEO from 1996 until May 2003. Mr. Cooper founded American Tyumen in November 1996. He served as a director and president of American Tyumen until the merger with EQ. Since the merger, he has held these same positions with Teton. From 1992 to 1994 Mr. Cooper served with AIG, an insurance group. In 1994, he was a principal with Central Asian Petroleum, an oil and gas company with its primary operations in Kazakhstan, located in Denver, Colorado. Mr. Cooper has a bachelor's degree from the University of Colorado in business and a master's degree from Columbia University, NYC in international affairs.

KARL F. ARLETH, has been our president and CEO since May 2003 and our director since 2002. Mr. Arleth was the Chief Operating Officer and a Board member of Sefton Resources, Inc. Ending in 1999, Mr. Arleth spent 21 years with Amoco and

BP-Amoco. In 1998 he chaired the Board of the Azerbaijan International Operating Company (AIOC) for BP-Amoco in Baku, Azerbaijan. Concurrently in 1997-98, he was also President of Amoco Caspian Sea Petroleum Ltd. in Azerbaijan and Director of Strategic Planning for Amoco Corporations Worldwide Exploration and Production Sector in Chicago. From 1992 to 1996 Mr. Arleth was President of Amoco Poland Ltd. in Warsaw, Poland.

IGOR EFFIMOFF. Mr. Effimoff was most recently President of Pennzoil Caspian Corporation, managing the company's interests in the Caspian Region. This included the Azerbaijan International Oil Consortium (AIOC), formed to develop the 4.5 BBO Azeri-Chirag-Guneshli (ACG) Fields. He started his career in 1972 as a geologist with Shell and since 1981 has worked with several US domestic and international oil and gas companies in a senior management capacity.

THOMAS F. CONROY, was our chief financial officer from March 2002, until May 2003 secretary since April 2002, and director since 2002. Mr. Conroy is a Certified Public Accountant with an MBA from the University of Chicago. Since 2002, Mr. Conroy has been a principal member of Mann-Conroy-Eisenberg & Assoc. LLC, a life insurance and reinsurance consulting firm. Since 2001, Mr. Conroy has been a managing principal of Strategic Reinsurance Consultants International LLC, a life reinsurance consulting and brokerage firm. Ending in 2001, Mr. Conroy, spent 27 years with ING and its predecessor organizations, serving in various financial positions and leading two of its strategic business units as President. As President of ING Reinsurance, he established their international presence, setting up facilities in The Netherlands, Bermuda, Ireland and Japan. He also served as an Officer and Board Member of Security Life of Denver Insurance Company and its subsidiaries.

JAMES J. WOODCOCK has been a director since 2002. Since 1981, Mr. Woodcock has been the owner and CEO of Hy-Bon Engineering Company, based in Midland, Texas. Hy-Bon is an engineering firm and manufacturer of vapor recovery, gas boosters, and casing pressure reduction systems for the oil industry. Since 1996, Mr. Woodcock has been a board member of Renovar Energy, a private firm located in Midland Texas. From 1997 to 2002, Mr. Woodcock was the chairman of Transrepublic Resources, a private firm located in Midland Texas.

JOHN T. CONNOR, Jr. became a director in 2003 and chairs the Board's audit committee. He is the Founder and Portfolio Manager of the Third Millennium Russia Fund, a US based mutual fund specializing in the equities of Russian public companies. A former attorney at Cravath, Swaine & Moore in New York City, he has been a partner in leading law firms in New York, Washington and New Jersey. Mr. Connor is a member of the Council on Foreign Relations and the American Law Institute.

JOHN I. MAHAR. Since 1995, Mr. Mahar has been a Managing Director of Gladstone Capital, LLC, an oil-and-gas financial advisory firm based in New York he co-founded. Prior to forming Gladstone Capital, Mr. Mahar worked in the New York office of Schroder Capital Management International, Inc. where he was responsible for the firm's domestic U.S. investment operations. He started his career at the Federal Reserve Bank of New York, where he served as an analyst and foreign exchange trader. He has a B.A. from Union College ('76) and an MBA from the Simon School of Business at the University of Rochester ('78).

ILIA GUREVICH. Mr. Gurevich attended both University of Saratov and University of Colorado graduating with Masters in Science and Economy of the Machine Construction Industry and a Masters of Science in Finance respectively. His US-Russia business relations date back to his work at Technoforce Saratov where he was responsible for database of oil fields, budgeting, and financial support for the projects. Most recently, Mr. Gurevich performed security analysis for mid and large-cap publicly traded companies until he became full time Controller of Teton.

PATRICK A. QUINN, CPA, CVA. Mr. Quinn joined Teton in February, 2004 to serve as the Company's Chief Financial Officer on a part-time basis. For the past fifteen years Mr. Quinn has been the CEO of Quinn & Associates, P.C. (Q&A). Q&A provides accounting, tax and auditing services primarily to the oil and gas industry. Q&A has provided accounting and tax services to Teton since its inception. Mr. Quinn has extensive experience in international oil and gas operations including serving as the Controller of Hamilton Oil Corporation, which was the first company to produce oil in the U.K. sector of the North Sea.

All directors serve as directors for a term of one year or until his successor is elected and qualified. All officers hold office until the first meeting of the board of directors after the annual meeting of stockholders next following his election or until his successor is elected and qualified. A director or officer may also resign at any time.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has a Compensation Committee and an Audit Committee. The Compensation Committee and Audit Committee currently consists of two directors John Connor and James J. Woodcock. Mr. Woodcock is an independent director based on Rule 4200(a)(15) of the NASD's listing standards. The Nominating Committee is made up of Mr. Woodcock and Mr. Conroy.

The purpose of the Compensation Committee is to review the Company's compensation of its executives, to make determinations relative thereto and to submit recommendations to the Board of Directors with respect thereto in order to ensure that such officers and directors receive adequate and fair compensation. The Compensation Committee met three times by teleconference during the last fiscal year.

During the fiscal year ending 2003, the Audit Committee will be responsible for the general oversight of audit, legal compliance and potential conflict of interest matters, including (a) recommending the engagement and termination of the independent public accountants to audit the financial statements of the Company, (b) overseeing the scope of the external audit services, (c) reviewing adjustments recommended by the independent public accountant and addressing disagreements between the independent public accountants and management, (d) reviewing the adequacy of internal controls and management's handling of identified material inadequacies and reportable conditions in the internal controls over financial reporting and compliance with laws and regulations, and (e) supervising the internal audit function, which may include approving the selection, compensation and termination of internal auditors.

The Audit Committee met more than once by teleconference during 2003

For the fiscal year ended 2003, the Board of Directors conducted discussions with management and the independent auditor regarding the acceptability and the quality of the accounting principles used in the reports in accordance with Statements on Accounting Standards (SAS) No. 61. These discussions included the clarity of the disclosures made therein, the underlying estimates and assumptions used in the financial reporting and the reasonableness of the significant judgments and management decisions made in developing the financial statements. In addition, the Board of Directors discussed with the independent auditor the matters in the written disclosures required by Independence Standards Board Standard No. 1.

For the fiscal year ended 2003, the Board of Directors have also discussed with management and its independent auditors issues related to the overall scope and objectives of the audits conducted, the internal controls used by the Company, and the selection of the Company's independent auditor. Additional meetings were held with the independent auditor, with financial management present, to discuss the specific results of audit investigations and examinations and the auditor's judgments regarding any and all of the above issues.

Pursuant to the reviews and discussions described above, the Board of Directors recommended that the audited financial statements be included in the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003 and 2002 for filing with the Securities and Exchange Commission.

Code of Ethics

The Company has adopted its Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of the officers, directors and employees of the Company. Please see the appendices for a copy.

Compliance with Section 16(b) of the Exchange Act

Based solely on our review of Forms 3, 4, and 5, and amendments thereto which have been furnished to us, we believe that during the year ended December 31, 2003 all of our officers, directors, and beneficial owners of more than 10% of any class of equity securities, timely filed, reports required by Section 16(a) of the Exchange Act of 1934, as amended.

Item 10. EXECUTIVE COMPENSATION. [to be updated by Teton]

The following table sets forth information concerning the compensation received by Mr. Howard Cooper, the Chairman of Teton, and Mr. Karl Arleth who served as its president and chief executive officer during 2003:

Summary Compensation Table

Name & Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen- sation ($)	Restricted Stock awards	Options SARs (#)(1)	LTIP Payouts ($)	All Other Compensation
H. Howard	2003	160,000	0	0	0	603,289	0	0
Cooper,	2002	160,000	50,000	0	0	375,000	0	0
President	2001	210,000	0	0	0	0	0	0
Karl F. Arleth CEO	2003	85,000	0	0	0	410,338	0	0

1. In consideration of services rendered, Mr. Cooper received 603,289 warrants during 2003 to purchase shares of our common stock at an exercise price of $3.48 which was the market price of our common stock on the date of the grant.

2. In consideration of services rendered, Mr. Arleth received 410,338 warrants during 2003 to purchase shares of our common stock at an exercise price of $3.48 which was the market price of our common stock on the date of the grant.

Stock Options

Options/SARs Grants During Last Fiscal Year

The following table provides information related to options granted to our named executive officers during the fiscal year ended December 31, 2003.

Name	Number of Securities Underlying Options Granted	% of Total Options Granted in Fiscal 2003 (1)	Exercise Price Per Share	Expiration Date
Howard Cooper	603,289	38.2%	$3.48	04/08/13
Karl F. Arleth	410,338	26.0%	$3.48	04/08/13
Jim Woodcock	210,148	13.3%	$3.48	04/08/13
John Connor	100,000	6.3%	$3.71	08/03/13
Igor Effimoff	89,815	5.7%	$3.48	04/08/13
John Mahar	83,333	5.3%	$3.48	04/08/13
Tom Conroy	28,658	1.8%	$3.48	04/08/13

(1) The exercise price of the stock options was based on the fair market value of the stock on the day of the grant.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Value

There were no options exercised during 2003.

Employee Pension, Profit Sharing or Other Retirement Plans.

The Company does not have a defined benefit, pension plan, profit sharing, or other retirement plan.

Compensation of Directors

The Company pays it's outside Director's an annual retainer of $26,000, payable quarterly. In addition, at the Company's sole discretion, the Company may issue stock options or warrants to its directors.

Employment Contracts.

Teton and Mr. Cooper entered into a new employment agreement, effective May 1, 2002. The employment agreement is for a three year term. Mr. Cooper's initial salary under the agreement is $13,333 per month. In the board's discretion, he may receive additional bonus compensation. Mr. Cooper's employment is terminated immediately upon his death or permanent disability. Teton may also terminate Mr. Cooper's employment immediately for cause, as defined in the agreement. Mr. Cooper may terminate his employment immediately for good reason, as defined in the agreement. Additionally, either Teton or Mr. Cooper may terminate Mr. Cooper's employment upon 60 days prior written notice to the other. Upon termination of Mr. Cooper's employment without cause by Teton or for good reason by Mr. Cooper, Mr. Cooper is entitled to severance pay. The severance pay is equal to Mr. Cooper's salary for the preceding 24 months. Such severance may be paid in monthly installments over 24 months from the date of termination. Teton may discontinue the severance payments if Mr. Cooper violates the confidentiality, noncompetition, or nonsolicitation provisions of his employment agreement. After the third year, the agreement is automatically renewed from year to year, unless it is terminated as provided above.

Mr. Cooper's new agreement will replace the employment agreement dated effective December 1, 2000 (the "2000 Employment Agreement"). The 2000 Employment

Agreement provided for an initial term of two years and an initial salary of $17,500 per month. The 2000 Employment Agreement also provided that upon the termination of Mr. Cooper without his consent, except for terminations related to a criminal conviction, death, disability, incapacity, bankruptcy, insolvency, gross negligence, gross dereliction of duty, or gross misconduct, that Mr. Cooper was entitled to a lump sum payment equal to three months salary, based on the salary being paid to Mr. Cooper at the date of termination.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. The following tables sets forth, as of January 23, 2004, the number of and percent of our common stock beneficially owned by (a) all directors and nominees, naming them, (b) our executive officers, (c) our directors and executive officers as a group, without naming them, and (d) persons or groups known by us to own beneficially 5% or more of our common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
H. Howard Cooper 1600 Broadway, Suite 2400 Denver, Colorado 80202-4921	1,214,667 (1)	12.6%
Karl Arleth P.O. Box 23507 0467 Lariat Loop Silverthorne, CO 80498	608,334 (3)	7.3%
James J. Woodcock 2404 Commerce Drive Midland, TX 79702	608,334 (2)	6.7%
John Connor 1600 Broadway, Suite 2400 Denver, Colorado 80202-4921	467,108 (8)	5.3%
Igor Effimoff 13134 Hermitage Lane Houston, TX 77079	92,101 (4)	1.1%
John Mahar 7 West 73rd St. New York, NY 10023	83,334 (5)	1.0%
Thomas F. Conroy 3825 S. Colorado Blvd. Denver, CO 80110	83,334 (6)	1.0%
Ilia Gurevich 1804 South Ironton Street Aurora, CO 80012	34,770 (7)	0.4%
All executive officers and Directors as a group (7 persons)	3,193,982	28.19%

(1) Includes (i) 145,857 shares of common stock, (ii) 465,521 shares underlying warrants and (iii) 603,289 shares underlying warrants exercisable at $3.48 per share.

(2) Includes (i) 100,963 shares of common stock, (ii) 297,223 shares underlying warrants and (iii) 210,148 shares underlying warrants exercisable at $3.48 per share.

(3) Includes (i) 75,772 shares of common stock, (ii) 197,995 shares underlying warrants and (iii) 410,339 shares underlying warrants exercisable at $3.48 per share.

(4) Includes (i) 89,815 shares underlying warrants exercisable at $3.48 per share, (ii) 1,905 shares underlying Series A Convertible Preferred Stock, and (iii) 381 shares underlying Class B Common Stock Purchase Warrants.

(5) Represents 83,334 shares of underlying warrants exercisable at $3.48 per share.

(6) Includes (i) 15,972 shares of common stock, (ii) 38,704 shares underlying warrants and (iii) 28,658 shares underlying warrants exercisable at $3.48 per share.

(7) Represents 24,456 shares of underlying warrants exercisable at $3.48 per share

(8) Includes (i) 183,554 shares of common stock owned indirectly, (ii) 183,554 shares of common stock underlying warrants, which owned indirectly, and (iii)100,000 shares of common stock underlying options exercisable at $3.71 per share.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Transactions Involving Mr. Howard Cooper and Ms. Anna Cooper.

Mr. Cooper and Teton have entered into an employment agreement. Mr. Cooper's employment agreement with Teton is discussed at "EXECUTIVE COMPENSATION - Employment Contracts."

Ms. Anna R. Cooper, Mr. Cooper's wife, is in the second year of a two year employment agreement with Teton. The employment agreement provides that Ms. Cooper's initial salary is $6,500 per month. After the initial term, the agreement is automatically renewed from year to year, with such changes agreed by the parties, unless terminated by either party upon 90 days prior notice. The agreement provides that upon the termination of Ms. Cooper's employment without her consent, except for terminations related to a criminal conviction, death, disability, incapacity, bankruptcy, insolvency, gross negligence, gross dereliction of duty, or gross misconduct, that Ms. Cooper is entitled to a lump sum payment equal to three months salary, based on the salary being paid to Ms. Cooper at the date of termination.

Prior to December 1, 2000, Teton had a consulting arrangement with Taimen Corporation, to provide Teton with consulting and management services. Mr. Cooper was the director and president of Taimen Corporation. Mr. Cooper and Ms. Cooper were the sole employees of Taimen. Teton paid Taimen a total of $247,000 during the fiscal year ended December 31, 2000 and a total of $128,560 for the fiscal year ended December 31, 1999.

In 2001, Mr. Cooper loaned $137,000 to Teton. Such loan, together with interest at 8.28% per annum was due on February 1, 2002. The due date was subsequent extended to April 15, 2002, and was paid in full in April 2002.

Management believes that the terms of these transactions with its management were at least as favorable to the Company as those terms which the Company could have obtained from unrelated third parties through arms-length negotiations.

ITEM 13. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit and Non-Audit Fees

Aggregate fees for professional services rendered for the Company by Ehrhardt Keefe Steiner & Hottman P.C. as of or for the two fiscal years ended December 31, 2003 are set forth below:

	Fiscal Year 2003	Fiscal Year 2002
Audit Fees	$ 141,917	$ 142,296
Audit-Related Fees	51,047	33,778
Tax Fees	6,500	12,805
Total	$ 199,464	$ 188,879

Audit Fees

Aggregate fees for professional services rendered by Ehrhardt Keefe Steiner & Hottmen P.C. in connection with its audit of our consolidated financial statements for the fiscal years 2003 and 2002 and the quarterly reviews of our financial statements included in Forms 10-QSB.

Audit-Related Fees

These were primarily related to SB-2 and SB-2/A filings for the registration of our stock, assistance with the AMEX application process, and reviews and discussions regarding accounting treatment of debt and equity transactions.

Tax Fees

These were related to tax compliance and related tax services.

Ehrhardt Keefe Steiner & Hottman P.C. rendered no professional services to us in connection with the design and implementation of financial information systems in fiscal year 2003 or 2002.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and non-audit services provided by the independent auditors prior to the engagement of the independent auditors with respect to such services. The Chairman of the Audit Committee has been delegated the authority by the Committee to pre-approve interim services by the independent auditors other than the annual exam. The Chairman must report all such pre-approvals to the entire Audit Committee at the next committee meeting.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

Exhibits.

Exhibit No.	Description
3.1.1	Certificate of Incorporation of EQ Resources Ltd incorporated by reference to Exhibit 2.1.1 of Teton's Form 10-SB, filed July 3, 2001.
3.1.2	Certificate of Domestication of EQ Resources Ltd incorporated by reference to Exhibit 2.1.2 of Teton's Form 10-SB, filed July 3, 2001.
3.1.3	Articles of Merger of EQ Resources Ltd. and American-Tyumen Exploration Company incorporated by reference to Exhibit 2.1.3 of Teton's Form 10-SB, filed July 3, 2001.
3.1.4	Certificate of Amendment of Teton Petroleum Company incorporated by reference to Exhibit 2.1.4 of Teton's Form 10-SB, filed July 3, 2001.
3.1.5	Certificate of Amendment of Teton Petroleum Company incorporated by reference to Exhibit 2.1.5 of Teton's Form 10-SB, filed July 3, 2001.
3.1.6	Certificate of Amendment of Teton Petroleum Company increasing the authorized capital stock.
3.2	Bylaws, as amended, of Teton Petroleum Company incorporated by reference to our Form 10KSB for the year ended December 31, 2001.
10.1	Employment Agreement, dated May 1, 2002, between Teton Petroleum Company and H. Howard Cooper incorporated by reference to our Form 10KSB for the year ended December 31, 2001.
10.2	Memorandum of Understanding dated November 26, 2002
21.1	List of Subsidiaries.
31.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Sarbanes-Oxley Section 302.
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S. C. Section 1350
99.3	Code of Ethics and Business Conduct of Officers, Directors and Employees of Teton Petroleum Company
99.4	Audit Committee Charter

Reports on Form 8-K.

We did not file any reports on Form 8-K during our fourth quarter of 2003.

SIGNATURES

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

TETON PETROLEUM COMPANY, INC.

Signature	Title	Date
/s/ H. Howard Cooper H. Howard Cooper	Chairman and Founder	April 21, 2004
/s/ Karl Arleth Karl Arleth	President and CEO	April 21, 2004
/s/ Thomas F. Conroy Thomas F. Conroy	Director	April 21, 2004
/s/ James J. Woodcock James J. Woodcock	Director	April 21, 2004
/s/ John Connor John Connor	Director	April 21, 2004
/s/ Patrick A. Quinn Patrick A. Quinn	Chief Financial Officer	April 21, 2004