TETON PETROLEUM CO
Form 10QSB
November 19, 2002

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

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002
[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ________________ TO ________________

Commission file number: 000-31170

TETON PETROLEUM COMPANY
(Exact Name of Small Business Issuer as Specified in its Charter)

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

(970) 870-1417
(Issuer's Telephone Number)

P.O. Box 774327
Steamboat Springs, Colorado 80477
(Address of Principal Executive Offices)

March 31
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Yes X No _____

Applicable only to corporate issuers:

As of November 15, 2002, 58,550,302 shares of the issuer's common stock were outstanding.

Transitional Small Business Disclosure Format: Yes ___ No X

TETON PETROLEUM COMPANY

PART I. FINANCIAL INFORMATION

Table of Contents

Unaudited Consolidated Financial Statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Balance Sheets

	September 30, 2002	December 3 2001
Assets		
Current assets		
Cash	$ 421,566	$ 182,50
Accounts receivable	590,016	55,00
Accounts receivable - affiliate	131,280	387,00
Accounts receivable - other	574,060	65,50
Inventory	377,346	189,50
Prepaid expenses and other assets	443,743	34,00
Total current assets	2,538,011	913,50
Non-current assets		
Oil and gas properties, net (successful efforts)	3,953,793	1,169,10
Fixed assets, net	302,418	128,71
Total non-current assets	4,256,211	1,297,81
Total assets	$ 6,794,222	$ 2,211,31
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,388,897	$ 979,64
Current portion of Goloil notes payable advances from affiliate	1,770,055	769,90
Current portion of stockholders notes payable, net of discount of $50,005 (2002)	249,995	500,00
Current portion of officer note payable	--	94,21
Total current liabilities	3,408,947	2,343,75
Non-current liabilities		

Stockholders notes payable, less current portion	--	250,00
Goloil notes payable advances from affiliate, less current portion	740,000	--
Total non-current liabilities	740,000	250,00
Total liabilities	4,148,947	2,593,75
Commitments and contingencies		
Minority interest		
Stockholders' equity (deficit)		
Common stock, .001 par value, 100,000,000 shares authorized, 52,661,171 and 28,488,557 shares issued and outstanding at September 30, 2002 and December 31, 2001	52,661	28,48
Additional paid-in capital	20,809,934	9,766,60
Accumulated deficit	(18,976,593)	(11,048,81
Foreign currency translation adjustment	759,273	871,27
Total stockholders' equity (deficit)	2,645,275	(382,44
Total liabilities and stockholders' equity (deficit)	$ 6,794,222	$ 2,211,31

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Loss

	For the Nine Months Ended September 30,	
	2002	2001
Sales	$ 4,305,274	$ 1,071,556
Cost of sales and expenses		
Oil and gas production	3,978,242	515,531
General and administrative	2,333,677	1,170,899
Depreciation, depletion and amortization	149,806	61,029
Total cost of sales and expenses	6,461,725	1,747,459
(Loss) income from operations	(2,156,451)	(675,903)
Other income (expense)		
Other income	2,508	53,985
Financing charges (principally amortization of discount related to Convertible Bonds - See Note 4)	(5,444,901)	--

Interest expense	(328,938)	(135,381)
	(5,771,331)	(81,396)
Net (loss) income	(7,927,782)	(757,299)
Other comprehensive (loss) income, net of tax		
Effect of exchange rates	(112,000)	(40,598)
Other comprehensive (loss) income	(112,000)	(40,598)
Comprehensive (loss) income	$ (8,039,782)	$ (797,897)
Basic and diluted weighted average common shares outstanding	30,000,691	25,467,261
Basic and diluted (loss) income per common share	$ (.26)	$ (.03)

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Loss

	For the Three Months Ended September 30,	
	2002	2001
Sales	$ 2,204,613	$ 401,790
Cost of sales and expenses		
Oil and gas production	2,321,285	225,302
General and administrative	588,152	393,394
Depreciation, depletion and amortization	68,419	10,075
Total cost of sales and expenses	2,977,856	628,771
(Loss) income from operations	(773,243)	(226,981)
Other income (expense)		
Other income	700	4,853
Financing charges (principally amortization of discount related to Convertible Bonds - See Note 4)	(1,390,951)	--
Interest expense	(52,675)	(36,231)
	(1,442,926)	(31,378)

Net (loss) income	(2,216,169)	(258,359)
Other comprehensive (loss) income, net of tax		
Effect of exchange rates	20,000	(20,696)
Other comprehensive (loss) income	20,000	(20,696)
Comprehensive (loss) income	$ (2,196,169)	$ (279,055)
Basic and diluted weighted average common shares outstanding	32,647,203	25,681,033
Basic and diluted (loss) income per common share	$ (.07)	$ (.01)

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

	For the Nine Months Ended September 30,	
	2002	2001
Cash flows from operating activities		
Net (loss) income	$(7,927,782)	$ (757,299)
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Depreciation, depletion, and amortization	149,806	61,029
Warrants issued for notes payable extensions	46,582	--
Warrants subject to variable plan accounting	--	(30,000)
Warrants issued for services	4,227	--
Stock issued for services	10,000	16,500
Debentures issued for services	211,313	--
Amortization of Debenture and note payable discounts (See Note - 4)	5,281,407	--
Changes in assets and liabilities		
Accounts receivable	(787,856)	4,831
Prepaid expenses and other assets	(259,001)	446
Inventory	(187,846)	1,546
Accounts payable and accrued liabilities	121,328	86,311
	4,589,960	140,663
Net cash used in operating activities	(3,337,822)	(616,636)
Cash flows from investing activities		

Oil and gas properties and equipment expenditures ...	(2,593,207)	(746,665)
Net cash used in investing activities	(2,593,207)	(746,665)
Cash flows from financing activities		
Net proceeds from advances under notes payable from affiliate	1,740,155	702,500
Proceeds from convertible debentures	4,143,643	--
Payments on notes payable	(594,210)	(650,000)
Proceeds from notes payable	300,000	--
Issuance of common stock (net of issue costs of $2,600 (2001))	692,505	1,298,440
Net cash provided by financing activities	6,282,093	1,350,940
Effect of exchange rates	(112,000)	(40,598)
Net (decrease) increase in cash	239,064	(52,959)
Cash - beginning of period	182,502	471,883
Cash - end of period	$ 421,566	$ 418,924

Continued on the following page.

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

Continued from the previous page.

Supplemental disclosure of non-cash investing and financing activity:

During the nine months ended September 30, 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 125,000 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 1,000,000 warrants also being issued under the same terms of the Company's private placement offering of convertible debentures.

19,774,572 of warrants issued with convertible debentures valued at $811,559 were initially recorded as a discount on the debentures. At September 30, 2002, the full amount of the discount had been amortized and recorded as financing costs.

In-the money conversion features on convertible debt valued at $3,880,035 were recognized as financing costs ($3,746,285) and consulting expenses ($133,750).

The Company issued 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.

The Company issued $267,500 of convertible debentures with 1,070,000 warrants valued at $14,250 for a total amount of $281,750. Prepaid consulting services of $70,437 remained at September 30, 2002.

400,000 warrants were issued to a consultant for services valued at $84,532. Prepaid consulting of $80,305 related to future quarters in 2003 and 2004.

20,000 shares of stock were issued to a consultant for services valued at $10,000.

500,000 warrants issued with a note payable valued at $150,616 were initially recorded as a discount on the debentures. At September 30, 2002, $100,011 of the discount had been amortized and recorded as financing costs.

$4,661,143 of debentures and accrued interest of $227,075 were converted into 21,101,929 shares of stock with $466,771 being paid as a premium at conversion and recorded as financing costs.

Approximately $515,000 of capital expenditures for oil and gas properties was included in accounts payable at September 30, 2002.

During the nine months ended September 30, 2001, the Company had the following transactions:

44,000 shares of common stock valued at $16,500 were issued for consulting services.

A $1,050,000 note payable to was assigned from Teton Petroleum to its subsidiary Goltech. Goltech paid off the note from the repayment of intercompany notes payable by Goloil, which received the funds through advances under notes payable from affiliate. The Company recorded the net reduction of debt of $525,000 ($1,050,000 note payable less 50% share of the $1,050,000 advances from affiliate) as a reduction to oil and gas properties.

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation and Significant Accounting Policies

The September 30, 2002 financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The unaudited financial statements as of September 30, 2002, as is customary in the oil and gas industry, reflect a pro rata consolidation of the Company's 50% interest in Goltech Petroleum, LLC. The unaudited financial statements contained herein should be read in conjunction with the financial statements and notes thereto contained in the Company's financial statements for the year ended March 31, 2002. The results of operations for the period ended September 30, 2002 are not necessarily indicative of the results for the entire fiscal year.

Change in Year-End

As reported in the Company's Form 8-K dated October 22, 2002, after considering the difficulties of consolidating and reporting results with a foreign subsidiary with a legally mandated December 31 fiscal year, the Company has decided to change Teton Petroleum's fiscal year-end back to December 31 for consistency and in the interests of best reporting practices.

Foreign Currency Exchange Rates

The consolidated financial statements reflect the Company's pro-rata share of its subsidiary Goltech Petroleum that is consolidated with Goloil. The conversion of the functional currency of Goloil (a Russian Company) in rubles to the reporting currency of U.S. dollars is based upon the exchange rates in effect. The exchange rates in effect at September 30, 2002 and 2001 were 31.71 and 29.44 rubles to the U.S. dollar, respectively. The average rates in effect during the three-month periods ended September 30, 2002 and 2001, were 31.60 and 29.35 rubles to the U.S. dollar, respectively.

Earnings Per Share

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

Note 2 - Goloil Notes Payable Advances from Affiliate

Advances from affiliates are advances under notes payable to Goloil from another memberholder of Goltech. Teton has not guaranteed any of these notes. Amounts recorded are Teton's proportionate share of Goloil's liability under pro-rata consolidation accounting procedures.

The Company's share of advances on notes payable from an affiliate, which were made to Goloil during the nine months ended September 30, 2002 were $1,740,155.

The Company's share of Goloil's outstanding borrowings at September 30, 2002 under notes payable from an affiliate consist of $2,510,055, under twelve separate notes with interest rates of 8.0%, maturities of December 2002 to December 2003, all notes being secured by substantially all Goloil assets.

Note 3 - Notes Payable

The Company paid-off notes payable during the nine months ended September 30, 2002, consisting of a note payable to an officer and stockholder for $94,210 and a related party notes payable to stockholders totaling $500,000.

The Company also received proceeds of $300,000 on a note payable from a stockholder. In connection with the note, 500,000 warrants valued at $150,016 were issued. At September 30, 2002, $100,011 of the discount had been amortized and recorded as financing costs. 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. The note was paid-off by the Company in November of 2002.

Note 4 - Convertible Debentures

During the nine months ended September 30, 2002, the Company received proceeds of $4,163,143 from the private placement of convertible debentures. The debentures have a term of three years from April 1, 2002 and provide for interest at 10% per annum payable annually. The debentures provide that the holder may convert the debenture and accrued interest into shares of common stock (a $.25 conversion rate).

The debentures also include warrants to purchase common stock and have an exercise price of $.50 and a term of two years. Each debenture holder received one warrant for each $.25 of investment made in the 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 $.25 of redemption value, which also incorporates any accrued interest through September 1, 2002. Financing charges were recorded during the nine months ended September 30, 2002 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 recorded. 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.

Note 5 - Stockholders' Equity

During the three months ended September 30, 2002, the Company issued 3,050,685 shares of common stock under private placement offerings receiving proceeds of approximately $692,505. In connection with the private placement offerings, the Company also issued a warrant for each $0.25 stock investment. The warrants have a term of two years and an exercise price of $0.50.

Additional funds from private placement offerings after September 30, 2002 were also received.

FORWARD LOOKING STATEMENTS

To the extent that financial information and management's discussion and analysis or plan of operation contain forward looking statements, such statements involve risks and uncertainties which could cause Teton's actual result to differ materially from the anticipated results discussed herein. Factors that might cause such a difference are set forth in the "Significant Factors in Company Operations" section of Teton's Registration Statement on Form

10-SB/A filed with the Securities and Exchange Commission ("SEC") on July 11, 2001 (SEC File Number: 000-31170) and in Teton's Annual Report on Form 10-KSB filed with the SEC on April 15, 2002. You are cautioned not to place undue reliance on the forward-looking statements made herein.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Results of Operations

Three Months Ended September 30, 2002 compared to September 30, 2001

The Company had revenues from oil and gas production of $2,204,613 for the three months ended September 30, 2002 as compared to $401,790 for the three months ended September 30, 2001. The change in sales is related to the increase in production from 32,800 bbls to 137,500 bbls, net to Teton. The increase in production is due primarily to greater production, and to a lesser extent, the fact that our pipeline was operational in 2002 and not in 2001, which restricted shipments in 2001. The increase in production is due primarily to greater production from additional wells. The number of producing wells increased from 4 to 12 as a result of our more aggressive drilling program and an increase in our and our partner's capital investments in the field. Average price per bbl. increased from $12.36 to $16.03 from 2001 to 2002, as a result of an average increase in oil prices compared to the same period in the prior year.

Cost of oil and gas production increased to $2,321,285 for the three months ended September 30, 2002 from $225,302 for the three months ended September 30, 2001 due to the Company's increased production capacities. The average cost per bbl. increased from an average of $6.86 per bbl. to $16.88 per bbl. due to the Company bearing all of the lifting costs including those on the Company's share of approximately 137,500 bbls which were sold by Goloil, with the proceeds transmitted as a production payment to an affiliate of our Russian partner, who drilled four wells and completed the pipeline in 2001 at no cost to Teton in exchange for the production payment.

On a per bbl basis the Company costs per bbl. increased due to additional infrastructure costs to support the additional production, an increase in the Russian extraction tax, which is indexed to the world price of URALS blend oil and is charged on both domestic and export sales where the domestic oil price did not increase proportionately, and the restructuring of the production payment from a payment in kind to a payment as a percentage of revenues from both domestic and export sales, effective April 1, 2002. The production payment restructuring can result in a positive or negative impact to the payment amount, depending on the relative values of the prices of domestic and export oil. The impact for the three months ended September 30, 2002 was an increase in Teton's cost of approximately $496,000. This restructuring change has yet to be approved by Teton, and discussions with Goloil management and the Russian partner regarding the change have been initiated in conjunction with all of the contract renegotiations discussed in the last paragraph below.

General and administrative expenses of $588,152 were incurred for the three months ended September 30, 2002 as compared to $393,394 for the three months ended September 30, 2001. The increase of general and administrative expenses of $194,758 reflects an increase in consulting costs of approximately $150,000 as a result of additional oil and gas consultants used to assist with Company's Russian operations and financial consultants involved in creating additional market awareness of the Company as well as identifying additional sources for future capital raising. Of the consulting costs incurred $74,000 were non-cash compared to $0 for the prior period. Increases in travel and entertainment of approximately $100,000 due to increased travel and international trips, offset by a decrease in legal and accounting costs of approximately $74,000.

Interest expense for the three months ended September 30, 2002 was $52,675 as compared to $36,231 for the three months ended September 30, 2001. This increase is due to the increase in loans from affiliate to finance further oil field development in Russia which was partially offset be a decrease in interest rates on the affiliate debt of Goloil of approximately 2%. Additional interest was also incurred on convertible debentures which were outstanding for part of the period in 2002 compared to no debentures outstanding during 2001.

The Company also incurred financing costs of $1,390,951 during the three months ended September 30, 2002 for the amortization of discount related to warrants issued in connection with certain related party notes payable of approximately $100,000 (non-cash), amortization of the discount on warrants issued with the convertible debentures of approximately $81,000 (non-cash) and in-the-money conversion feature discounts of approximately $754,000 (non-cash) immediately recognized, and $456,000 of expenses paid related to the 10% premium paid in common stock upon the conversion of the debentures on September 1, 2002. 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.

The company reported a loss of $2,216,169 or $(0.07) per share, however, excluding non-cash financing charges of approximately $1,391,000, the Company's loss would be adjusted to approximately $825,000 or $(.03) per share.

Nine Months Ended September 30, 2002 compared to September 30, 2001

The Company had revenues from oil and gas production of $4,305,274 for the nine months ended September 30, 2002 as compared to $1,116,664 for the nine months ended September 30, 2001. The change in sales is related to the increase in production from 58,500 bbls to 298,000 bbls, net to Teton. The increase in production is due primarily to greater production, and to a lesser extent, the fact that our pipeline was operational in 2002 and not in 2001, which restricted shipments in 2001. Average price per bbl. decreased from $19.11 to $14.45 from 2001 to 2002, as a result of the mix in oil sales, which in 2002 included export sales of approximately 37% with a higher average price per bbl. compared to 56% export sales in 2001.

Cost of oil and gas production increased to $3,978,242 for the nine months ended September 30, 2002 from $515,531 for the nine months ended September 30, 2001 due to the Company's increased production capacities.

The average cost per bbl. increased from an average of $8.82 per bbl. to $13.35 per bbl. due to the Company bearing all of the lifting costs including those on the Company's share of approximately 282,000 bbls in 2002 compared to 32,800 bbls in 2001, which were sold by Goloil, with the proceeds transmitted as a production payment to an affiliate of our Russian partner, who drilled four wells and completed the pipeline in 2001 at no cost to Teton in exchange for the production payment.

On a per bbl basis the Company costs per bbl. increased due to additional infrastructure costs to support the additional production, an increase in the Russian extraction tax, which is indexed to the world price of URALS blend oil and is charged on both domestic and export sales where the domestic oil price did not increase proportionately and the restructuring of the production payment from a payment in kind to a payment as a percentage of revenues from both domestic and export sales, effective April 1, 2002. The production payment restructuring can result in a positive or negative impact to the payment amount, depending on the relative values of the prices of domestic and export oil. The impact for the nine months ended September 30, 2002 was an increase in Teton's cost of approximately $789,000. This restructuring change has yet to be -

approved by Teton, and discussions with Goloil management and the Russian partner regarding the change have been initiated in conjunction with all of the contract renegotiations discussed in the last paragraph below.

General and administrative expenses of $2,333,677 were incurred for the nine months ended September 30, 2002 as compared to $1,170,899 for the nine months ended September 30, 2001. The increase of general and administrative expenses of $1,162,778 reflects an increase in consulting costs of approximately $738,000 as a result of additional oil and gas consultants used to assist with Company's Russian operations and financial consultants involved in creating additional market awareness of the Company as well as identifying additional sources for future capital raising. Of the consulting costs incurred $226,000 were non-cash compared to $16,500 for the prior period. Increases in legal and accounting costs of approximately $60,000 related to increased general corporate activity and the private placement of convertible debentures, marketing costs of approximately $200,000 due to increased public relations, travel and entertainment of approximately $150,000 due to increased travel and international trips, and increased overhead of Goloil of approximately $200,000 due to the increase in operations and production volume. These increases were offset by a decrease in officer compensation of approximately $75,000.

Interest expense for the nine months ended September 30, 2002 was $386,176 as compared to $135,381 for the nine months ended September 30, 2001. This increase is due to the increase in loans from affiliate to finance further oil field development in Russia which was partially offset be an average decrease in rates on these advances of 2%, additional interest on higher balances of notes payable outstanding in 2002 and convertible debentures outstanding in 2002 which were not present in 2001.

Other income decreased due to approximately $50,000 being received for oil processing reimbursement in 2001, which did not occur in 2002.

The Company also incurred financing costs of $5,444,901 during the nine months ended September 30, 2002 for the amortization of discount related to warrants issued in connection with certain related party notes payable of $304,000 (non-cash), amortization of the discount on warrants issued with the convertible debentures and in-the-money conversion feature discounts of $4,558,000 (non-cash) immediately recognized, and $467,000 of expenses paid related to the 10% premium paid in common stock upon the conversion of the debentures on September 1, 2002. The remainder of these costs were expenses paid related to a debenture purchase agreement with a potential investor that was not consummated. 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.

The company reported a loss of $7,927,782 or $(.26) per share, however, excluding non-cash financing charges of approximately $5,328,000, the Company's loss would be adjusted to approximately $2,600,000 or $(.09) per share.

Liquidity and Capital Resources

The Company has cash balances of $ 421,566 at September 30, 2002, with a working capital deficit of $870,936. Cash used from operations totaled $3,337,822, with non-cash adjustments to cash used in operations including depreciation and depletion of $149,806, $225,540 of stock issued for services and debentures and warrants issued for services recognized in the current period, and amortization of discounts on notes payable and debentures and other financing charges of $5,327,989.

The Company used $2,593,207 of cash in investing activities, which was all associated with oil and gas property and equipment expenditures. The Company also financed capital expenditures on oil and gas properties of approximately $515,000 through accounts payable. The Company financed the cash portion of capital expenditures through advances from affiliates and proceeds from convertible debentures. The Company continues to expect significant additional investments to be made in the future to drill and develop additional producing wells.

The Company had cash provided by financing activities of $6,280,093, which consisted of proceeds received from debentures, stock issuances and notes payable from shareholders of $5,136,148 and note payable advances from affiliates of $1,740,155, which were partially offset by payment on notes payable of $594,210. The cash received through financing activities allowed the Company to pay down accounts payable existing accounts payable balances in both the U.S. and Russia.

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. There can be no assurance the Company will be able to fund its share of cash calls for capital expenditures to further develop the Goloil license area as well as potential development of other license areas. Should the Company be unable to remain current on its share of capital expenditure cash calls, Teton's portion of future revenues could be reduced.

The Company anticipates obtaining 100% control over its subsidiary Goltech Petroleum, with the other owner exchanging its interest for direct ownership in Goloil. Contract renegotiations and restructuring are not complete. The Company does not anticipate that this change in ownership structure will impact Goloil's operations in the immediate future.

Item 3. CONTROLS AND PROCEDURES

Within 90 days of filing this report, Teton's principal executive officer and principal financial officer reviewed the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on their evaluation, we have implemented a new disclosure procedure commencing with the preparation of this report. Under this new procedure, Teton, in connection with the preparation of reports under the Exchange Act, will make a written inquiry directed to management of its operating subsidiary, Goloil, a Russian closed joint stock company. Such inquiry will request that Goloil disclose in writing any reportable events, which have occurred at the Goloil level during the period covered by the report, which have not been previously reported to Teton's management. In addition, in November 2002, Teton intends to meet with Goloil's management. One of the topics for discussion is the timely disclosure by Goloil of any events which might trigger Teton's reporting obligations under the Exchange Act. This meeting may result in our adoption of additional disclosure controls and procedures.

Except as set forth above, there have been no significant changes in our internal controls and procedures or in other factors that could significantly affect these controls subsequent to the date of the principal executive officer's and principal financial officer's evaluation of our disclosure controls and procedures.

PART II. OTHER INFORMATION

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities.

Teton raised $1,302,505 through the sale of its securities during the quarter ended September 30, 2002. Of that amount, $610,000 was from the sale of our subordinated convertible debentures and $692,505 was from the sale of 3,050,685 shares of our common stock. Such sales were not registered under the Securities Act of 1933, as amended (the "Act"). These sales were part of our private offering, which began during the quarter ended March 31, 2002.

Additionally, purchasers in the offering received a stock purchase warrant to purchase four additional shares of common stock of Teton for each dollar of principal amount of debentures purchased or each dollar of common stock purchased. The exercise price of the warrants is $.50 per share. The warrants expire two years from the date of issuance. The debentures, common stock, and warrants sold in the offering are referred to in this report as the "securities."

During the quarter ended September 30, 2002, all outstanding debentures issued in the offering were redeemed. As provided in the debentures, the redemption price for the debentures was equal to 110% of the principal amount of the debentures, plus accrued interest. The redemption price was paid in shares of common stock of Teton, valued at $.25 per share. A total of 21,101,929 shares of our common stock were issued in connection with the redemption of debentures issued in the offering and to consultants for services rendered to Teton.

In September 2002, the offering was restructured to sell shares of common stock in lieu of debentures. The purchase price per share was $.227 per share.

The total amount of securities sold in the offering since the offering began through September 30, 2002, was $5,086,148. Of that amount, $2,428,331 was sold to US persons, as such term is defined in Rule 902 of the Act ("US Investors") and $2,657,817 was sold to non-US Investors. Such amounts include the issuance of a $250,000 debenture in consideration of the purchaser's cancellation of Teton's $250,000 promissory note.

The securities were sold to current shareholders of Teton, officers of Teton, other persons known to our management through prior business transactions or personal relationships, and to certain institutional purchasers. We did not use any public solicitation or advertisements in connection with the sale of the securities. Furthermore, we did not use the services of an underwriter in connection with the sale of the securities.

In connection with sales of securities made to US Investors, Teton relied on exemptions from registration set forth in Section 4(2) of the Act and Regulation D, Rule 505 of the Act. Teton and each US Investor entered into a purchase agreement with respect to the acquisition of the securities. The agreement included representations concerning the investor's intent to acquire the securities for investment only and not with a view towards distribution. The agreement also disclosed that the securities being acquired have not been registered under the Act. The purchase agreement, debenture, stock certificate, and warrant provide that future disposition of the securities is restricted except in compliance with the Act and state securities laws.

In connection with sales made to non-US Investors, Teton relied on an exemption from registration provided under Regulation S promulgated under the Act. Teton and each non-US Investor entered into a purchase agreement with respect to the purchase of the securities. The agreement included representations concerning the investor's intent to acquire the securities for investment only and not with a view towards distribution. Transfers of the securities held by non-US Investors are also restricted in accordance with Regulation S.

During the quarter ended September 30, 2002, we also issued 20,000 shares of our common stock to a former consultant. The shares were issued in connection with the consultant's release of any claims against Teton, its president, and Teton Oil (USA) Limited. Teton issued such shares in reliance on the exemption from registration set forth in Section 4(2) of the Act. Teton also issued stop transfer instructions to its transfer agent with respect to such shares to ensure that any transfer of the shares complies with federal and state securities laws.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.

99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K: NONE

SIGNATURES

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

Date: November 19, 2002 TETON PETROLEUM COMPANY

By: /s/ H. Howard Cooper
H. Howard Cooper,
Chief Executive Officer

Date: November 19, 2002 By: /s/ Thomas F. Conroy
Thomas F. Conroy,
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATIONS

I, H. Howard Cooper, certify that:

1.I have reviewed this quarterly report on Form 10-QSB of Teton Petroleum Company;

2.Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this quarterly report;

4.The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a.) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b.) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c.) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a.) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 19, 2002 /s/ H. Howard Cooper
H. Howard Cooper,
Chief Executive Officer

I, Thomas F. Conroy, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Teton Petroleum Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make

the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a.) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b.) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c.) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a.) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 19, 2002

/s/ Thomas F. Conroy
Thomas F. Conroy,
Chief (Principal) Financial Officer